



EVALUATION OF THE COMMUNITY FUTURES PROGRAM IN QUEBEC

2015



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LIST OF ACRONYMS

The acronyms used in this report are listed below in alphabetical order.

ACLDQ	Association of Local Development Centres of Quebec
ACOA	Atlantic Canada Opportunities Agency
ALU	average labour unit
BDC	Business Development Bank of Canada
BDC	Business Development Centre
BOD	board of directors
CED	Canada Economic Development for Quebec Regions
CEDC	Community Economic Development Corporation
CFC	Community Futures Committee
CFDC	Community Futures Development Corporation
CFNC	Community Futures Network of Canada
CFP	Community Futures Program
CLD	local development centre
FedDev	Federal Economic Development Agency for Southern Ontario
FedNor	Federal Economic Development Initiative for Northern Ontario
IC	Industry Canada
Network	CFDC and BDC Network
NPO	non-profit organization
RCM	regional county municipality
SME	small and medium-sized enterprise
WD	Western Economic Diversification Canada

EXECUTIVE SUMMARY

This evaluation of the Community Futures Program (CFP) is based on the program funding administered by Canada Economic Development for Quebec Regions (hereinafter called “CED”) between April 2007 and March 2013. The conclusions and recommendations are presented by evaluation issue and question.

Relevance

Is there a continued need for the CFP? Have needs changed?

According to the results of a survey of CFDC and BDC clients, and the analysis of macroeconomic indicators, there is still a great need for the program.

The CFDC and BDC clients and representatives surveyed believe that there is still a need for the services provided by these organizations. For the SME clients surveyed, the greatest need is for financial assistance. The local economic development clients surveyed believe that assistance in preparing development plans is the greatest need. Approximately 89% of client businesses stated that they would not have been able to carry out their project within the same time frame or to the same extent without the assistance they received. As for the local economic development clients surveyed, 90% stated that they would not have been able to carry out their project within the same time frame or to the same extent without the assistance they received.

To analyze needs, the evaluation was also based on the macroeconomic indicators that CED used in 2000 to determine the expansion of the CFP’s coverage. These macroeconomic indicators support the need for the program in most of the regions served by CFDCs and BDCs. However, according to this data, the economic health of some of the regions served was better than that of regions without service. Moreover, some of these served regions with better economic health are located within metropolitan areas, even though the CFP specifies that eligible communities are usually those located outside metropolitan areas. It is therefore difficult to identify a rationale for geographical location based on the indicators used to determine the expansion of the CFP’s coverage.

Recommendation: 1. CED should document the needs that explain which regions are covered by CFDCs and BDCs. It should justify the use of the CFP in urban areas with over 100,000 inhabitants.

Management response: To optimize and modernize the delivery of the CFP in Quebec, CED will work in collaboration with the Réseau des SADC et CAE to analyze and document the needs that explain the regions covered by CFP organizations and the use of the CFP in urban areas with over 100,000 inhabitants. This will support the work that will be undertaken for recommendation 7.

To what extent do the CFP's objectives align with departmental strategic outcomes, and federal government roles, responsibilities and priorities?

The CFP's objectives align with CED's strategic outcome and federal government priorities.

Does the CFP complement, overlap or duplicate other government programs or private-sector services?

CFDCs and BDCs provide services that are similar to those provided by other organizations and they target the same clients. However, the organizations generally collaborate to minimize the possibility of actual overlap. Moreover, community needs in terms of business assistance and local economic development exceed the current offering.

Performance

To what extent are the CFP's performance measurement and reporting structures effective in reporting its outcomes?

Performance measurement context of CFDCs and BDCs

As part of the efforts carried out by regional development agencies to align performance measurement, a common performance measurement strategy was developed in 2012 and implemented in Quebec in 2013–2014. The purpose was to ensure that the outcomes reported were based on common indicators, such as those documented by Statistics Canada. As the period studied in this evaluation precedes the implementation of the new performance measurement, the following analysis is based on the performance measurement used between 2008–2009 and 2012–2013.

Summary answer:

The CFP's performance measurement and accountability mechanism used during the period studied in this evaluation were not effective in reporting the program's outcomes. There were no outcome targets included in the agreements with the CFDCs and BDCs. Moreover, given the large amount of performance data that were missing from the database or extreme in nature—that is, very high or very low—these data do not seem to have been systematically quality controlled by CED. The lists of projects requested as part of the new CFDC performance measurement could make the validation step easier. However, these lists are not requested at BDCs.

Recommendation: 2. Agreements with CFDCs and BDCs should include performance targets.

Management response: CED will work with the CFDCs, CBDCs and the Réseau des SADC et CAE to determine the performance targets in the agreements.

Recommendation: 3. The information provided by CFDCs and BDCs should be in a consistent format and there should be a sufficient level of detail to allow CED business offices to validate and monitor the outcomes.

Management response: Since 2013-2014, CED has already launched a number of actions to respond to this recommendation. CED will work with the CBDCs and the Réseau des SADC et CAE to obtain the list of businesses that benefited from the technical assistance.

Recommendation: 4. CED should validate performance information and enter it into the Hermès system.

Management response: Together with the Network of CFDCs and CBDCs, CED implemented directives on performance measurement to help ensure a common and consistent interpretation of the information.

To what extent have CFP activities helped to achieve the desired immediate outcomes?

According to CFDC and BDC clients, the services that were used the most were business consulting, business intelligence and information, as well as assistance preparing development plans. The level of satisfaction with services was over 90% and clients said that the quality of the services had improved or been maintained.

Performance measurement data collected by CED indicate that:

- The number of accompanied start-up businesses and entrepreneurs has remained stable, but the number of already existing businesses being accompanied is declining (1,342 in 2008–2009 versus 959 in 2012–2013).
- CFDCs and BDCs lent nearly \$350M between 2008–2009 and 2012–2013, and the total value of projects funded during this period was \$1,237M. Approximately 12% of the value of these loans was allocated to business start-ups.
- A growing portion of CFDC investment funds is lent to businesses (66% in 2007–2008 versus 73% in 2012–2013).

- Most CFDCs and BDCs carried out between one and five local economic development plans between 2008–2009 and 2012–2013, and they still collaborate in the preparation of several plans; the number of communities with a plan has decreased (111 in 2008–2009 versus 31 in 2012–2013).
- CFDCs worked with approximately 670 partners annually between 2008–2009 and 2012–2013 to support development planning, and they carried out 1,762 local economic development projects.

Although the CFP achieved the outcomes above, this question cannot be answered, as there were no targets for the program’s performance indicators.

Recommendation: 5. Targets that are specific to Quebec should be set for the program’s performance measurement strategy indicators.

Management response: The determination of targets that are specific to Quebec for the program’s performance measurement strategy indicators will start in the 2015-2016 fiscal year. CED has already added CFP performance measurement strategy indicators to its own performance measurement framework. CED determined targets for those indicators in its 2015-2016 Report on Plans and Priorities.

To what extent have CFP activities and immediate outcomes helped to achieve intermediate outcomes?

The perceptions of the clients surveyed and of the CED, CFDC and BDC representatives interviewed were very positive in terms of the impact that CFDCs and BDCs have on improving their clients’ business practices, and supporting business start-ups, business survival and business growth. During the 2008–2009 to 2012–2013 period, assistance from these organizations helped to start up 972 SMEs and to purchase 1,137 SMEs. This assistance also contributed to the improvement, modernization and expansion of 4,225 SMEs.

Statistics Canada data indicate that businesses funded by CFDCs and BDCs saw a greater increase in their revenues than did comparable businesses that did not receive funding from these organizations. This gap tended to increase over time, growing from 3.8 percentage points for the period from 2003 to 2008 to 8.1 percentage points for the period from 2005 to 2010.

In terms of local economic development, according to the CFDC representatives, their organizations initiated projects aimed at resolving emergency situations for the community. The CFDC clients’ perception was also very positive in terms of their impact on their communities.

Although the CFP achieved the outcomes above, this question cannot be answered, as the program had no targets in terms of performance.

To what extent have CFP activities and immediate and intermediate outcomes helped to achieve ultimate outcomes?

Desired outcome: Economic stability, growth and job creation

According to Statistics Canada data, employment growth was proportionally higher in businesses that received funding from a CFDC or a BDC than it was in businesses in the comparable group. However, the performance gap seemed to decrease over time, going from 4.6 percentage points for the period from 2003 to 2008 to 1.8 percentage points for the period from 2005 to 2010. Proportionally, businesses with fewer than 20 employees saw stronger employment growth than did businesses with 20 to 100 employees. In this category, businesses in the comparable group saw stronger employment growth than did those that were funded by CFDCs and BDCs during two of the three periods studied. It was not possible to qualify economic stability.

Desired outcome: Diversified and competitive local rural economies

Statistics Canada data indicate bigger productivity gains in businesses that were funded by the CFP. This gap was wider in businesses with 20 to 100 employees than it is in businesses with fewer than 20 employees. It was not possible to qualify diversification.

Desired outcome: Economically sustainable communities

Statistics Canada data indicate that businesses' survival rate was proportionally higher in businesses that had received funding from a CFDC or a BDC than it was in businesses in the comparable group. In fact, the survival rate after five years is between 18 and 20 percentage points higher for businesses that received a loan from a CFDC or BDC. Although the CFP achieved the outcomes above, this question cannot be answered, as there were no targets in terms of the program's performance indicators. Moreover, the indicators used to answer this question focused only on assistance to SMEs. The anticipated contribution of local economic development activities to the achievement of the three ultimate outcomes desired is not defined in the performance measurement.

Recommendation: 6. Local economic development needs and outcomes should be clearly defined.

Management response: In 2014-2015, CED updated the definition of local economic development to ensure that the needs of communities are met according to the agreements.

To improve performance measurement related to the CFP's local economic development at the national level, CED will consult and work with the other regional development agencies to develop one or more indicators.

What are the barriers to achieving the CFP's immediate, intermediate and ultimate outcomes, and to what extent are they being mitigated?

According to the sources consulted, the main factor that had an impact on the CFP's outcomes was the lack of funding for business operations. With a few exceptions, each CFDC and BDC receives an almost identical contribution from CED, despite the fact that demographic weight varies greatly from one CFDC or BDC to the next.

Recommendation: 7. The resource allocation model for the operating costs of CFDCs and BDCs should be revised to ensure that this allocation is adapted to the communities' needs.

Management response: To optimize and modernize the delivery of the CFP in Quebec, CED will work with the Réseau des SADC et CAE to study the resource allocation model for the operating costs of CFP organizations and make recommendations that may be implemented under new agreements. This will be based on the needs analysis conducted for recommendation 1.

To what extent is the CFP efficient?

It was not possible to identify the part of CED funding that was used for assistance to businesses versus the part used for local economic development. The evaluation team was therefore not able to determine the cost of the outcomes achieved. With regard to coordination activities, representatives from CED, the CFDCs and the BDCs were generally of the opinion that the Network played its role well by ensuring the development and sharing of common tools for all of its members, as well as consistent communication.

Recommendation: 8. Agreements with CFDCs must specify which part of CED's contribution will be used for assistance to businesses and which part will be used for local economic development.

Management response: CED will work with the CFDCs and the Réseau des SADC et CAE to evaluate the portion of CED's contribution that will be used for assistance to businesses and the portion that will be used for local economic development.

Is there a most cost-effective way of achieving expected outcomes, taking into consideration alternative delivery mechanisms, best practices and lessons learned?

According to the CED, CFDC and BDC representatives, the current program model was the most cost-effective for achieving the desired outcomes. The Network and the Business Development and Infrastructure Branch were the coordination mechanisms needed to ensure the consistent use of the CFP across CED business offices, CFDCs and BDCs.

Are the investment funds well managed by the CFDCs? Are the loan loss rate and level of risk acceptable?

According to CFDC and Capital Réseau's financial statements, and to the CFDC and CED representatives interviewed, the investment funds were well managed by the CFDCs. In light of the low loss rate, the level of risk seemed low. However, CED had not ruled on what it meant by an acceptable level of risk.

1 INTRODUCTION

This report presents the outcomes of the evaluation of the Community Futures Program (CFP) administered in Quebec by Canada Economic Development for Quebec Regions (hereinafter called “CED”). The evaluation is based on the program’s relevance and performance over the period from April 2007 to March 2013. The various phases of the evaluation were conducted between September 2013 and April 2015.

This report is arranged in the following manner:

- Section 1 provides a description of the CFP;
- Section 2 sets out the methodology used for the evaluation; and
- Section 3 sets out the analysis completed as part of the evaluation.

1.1 Description of the CFP

Program rationale, mandate and objectives

The CFP provides rural communities¹ with the resources needed to identify and apply local solutions to their problems. The program specifies that eligible communities are usually those that are located outside of metropolitan areas. The following program objectives support this mandate:

- 1) To promote stability, economic growth and job creation;
- 2) To establish diversified, competitive local economies in rural areas; and
- 3) To build economically sustainable communities.

National context

The CFP is a national program that supports communities throughout the country to help them take charge of their region’s economic development. Implemented in 1986 as part of the Canadian Jobs Strategy program and administered by Human Resources Development Canada, the program’s foundations are:

- emphasis on strategic planning by the community; and
- greater emphasis on the community taking charge of local issues through such means as allocating CFP resources to local communities to foster a bottom-up development approach rather than the traditional top-down approach.

¹ According to the CFP, a community is a group of individuals and/or organizations (local government, associations, etc.) that share common economic and/or social development interests and can normally be identified by geographical or demographical boundaries.

In 1995, CFP management was transferred to the regional development agencies. Since then, the program has been administered in the Atlantic provinces by the Atlantic Canada Opportunities Agency (ACOA), in Quebec by CED, in the Western provinces by Western Economic Diversification Canada (WD), in southern Ontario by the Federal Economic Development Agency for Southern Ontario (FedDev), and in northern Ontario by the Federal Economic Development Initiative for Northern Ontario (FedNor) under Industry Canada (IC).

The CFP was enhanced in 2000 to ensure universal rural coverage. Territorial changes and an increased budget led to the creation of new community development organizations in Quebec and Ontario. A national network, the Community Futures Network of Canada (CFNC), was also created in 2000 to allow CFP-funded organizations to share resources and best practices.

In the 2005 Budget, the CFP received a budget increase over five years in order to strengthen the support provided to all community development organizations, including improvements for regions that are far away and those with official language-related needs. The program also received permanent additional funding in the 2010 Budget. Since the transfer to CED, the Quebec component of the CFP was evaluated in 2003, 2009 and 2014.

Quebec context

The implementation of the CFP differs from one region of the country to the next so that it can be adapted to various regional realities. Between 2007–2008 and 2012–2013, over \$220 million was invested in Quebec through the CFP. CED funds two types of development organization under the CFP: Communities Futures Development Corporations (CFDCs) and Business Development Centres (BDCs). According to CFP agreements between CED and the CFDCs and BDCs, the organizations serve territories that are mutually exclusive. Community Economic Development Corporations (CEDCs) were funded by the CFP until 2011–2012. They are now funded by CED's Quebec Economic Development Program.

CFDCs There are 57 CFDCs in Quebec.² These organizations serve normally rural communities with populations between 1,526 and 105,201 people.³ Most existing CFDCs were created in 1994 following the merging of the BDCs, which provide assistance to businesses, with the Community Futures Committees (CFCs), which focus on local economic development. Since then, a few CFDCs have been created to respond to new socio-economic realities, among other things. Areas served by CFDCs may contain either one or more municipalities, or one or more regional county municipality.

² At the time the evaluation was conducted, CED funded 56 CFDCs. Funding for the latest CFP agreements ended on March 31, 2011, and CED did not renew its agreement with one CFDC as a result of its failure to meet conditions set out in its agreement.

³ According to Statistics Canada's 2011 Census data.

CFDCs are a local capital investment source for small and medium-sized enterprises (SMEs)⁴ of local or regional scope. Through their regular investment fund and their youth investment fund, CFDCs provide financial services that may include loans, equity investment agreements and loan guarantees to SMEs for start-up, expansion, modernization, acquisition or turnaround. The funding provided by CFDCs often complements funding from traditional sources, such as that offered by financial institutions or the Business Development Bank of Canada (BDC). They also provide technical assistance, particularly advice, information services and consultations. Lastly, by providing technical or financial assistance, they support the creation of local economic development plans and initiatives.

Youth Strategy:

Through their agreement with CED, CFDCs can access funding to implement the Youth Strategy. The purpose of this initiative is to counter the exodus of young people to large urban centres through financial assistance or awareness-raising with regard to entrepreneurship. Through this funding, a resource can be hired to implement various measures to stimulate youth entrepreneurship and to provide technical and financial assistance to youth who want to acquire, start, modernize or develop a business. The youth investment fund provides financial assistance only in the form of personal loans to entrepreneurs between the ages of 18 and 35.⁵ The evaluation of the CFP includes the Youth Strategy.

CAE

There are 10 BDCs in Quebec; their territories are usually semi-urban, with populations between 29,654 and 645,027 people. With the merging of the CFCs and BDCs in 1994, there were only nine BDCs in the province. A tenth organization has since been added. Areas served by BDCs may cover a number of municipalities, a regional county municipality, or more than one regional county municipality.

The CFP's contributions to BDCs cover only the technical assistance that they provide to the businesses they fund in their territory. Local economic development activities and costs associated with the management of funds are not covered.

⁴ For the purposes of the CFP, SMEs are defined as businesses with 200 employees or fewer and may include NPOs and cooperatives.

⁵ Assistance from the youth investment fund must be between \$5,000 and \$25,000 according to agreements that began April 1, 2011 (the maximum amount was \$15,000 in agreements that ended March 31, 2011). An interest relief period is granted for the first 24 month. The minimum interest rate must never be lower than the current preferential rate +2%.

Table 1 presents the number of CFDCs and BDCs per administrative region. With the exception of Laval and Montréal, each region has several organizations.

Table 1 Number of CFDCs and BDCs per region on March 31, 2013

Administrative region	Number of CFDCs	Number of BDCs
Abitibi-Témiscamingue	6	-
Bas-Saint-Laurent	8	-
Capitale-Nationale	2	-
Centre-du-Québec	2	1
Chaudière-Appalaches	3	2
Côte-Nord	3	-
Estrie	4	2
Gaspésie-Iles-de-la-Madeleine	5	-
Lanaudière	3	-
Laurentides	2	1
Laval	-	-
Mauricie	4	1
Montérégie	3	3
Montréal	-	-
Nord-du-Québec	4	-
Outaouais	3	-
Saguenay-Lac-Saint-Jean	5	-
Total	57⁶	10

Source: CED's Hermès financial management system and program.

⁶ CED funds 56 CFDCs. CED has not renewed its agreement with one of the CFDCs as a result of its failure to meet important conditions set out in its agreement. CFP funding to this CFDC ended on March 31, 2011.

Table 2 shows the size of the area covered by the CFDCs and BDCs in each region, as well as the size of the area not covered by these types of organizations. Some regions enjoy complete coverage by CFDCs and BDCs, while others are partially covered or have no CFDCs and BDCs.

Table 2 Size of territories covered by CFDCs and BDCs by region

Region	Area in km ²			Population (2011)		
	Total	CFDC/ BDC	Not covered	Total	CFDC/ BDC	Not covered
Abitibi-Témiscamingue	38,669	3,8669	0	138,764	138,764	0
Bas-St-Laurent	22,235	2,2235	0	199,977	199,977	0
Capitale-Nationale	18,800	18,250	550	700,616	148,714	551,902
Centre-du-Québec	6,928	6,928	0	234,163	234,163	0
Chaudière-Appalaches	15,077	14,628	449	410,829	272,060	138,769
Côte-Nord	247,637	247,637	0	94,766	94,766	0
Estrie	10,217	9,864	353	310,733	156,132	154,601
Gaspésie-île-de-la-Madeleine	20,304	20,304	0	94,079	94,079	0
Lanaudière	12,425	12,361	64	471,748	383,895	87,853
Laurentides	20,771	20,771	0	559,700	559,700	0
Laval	247	0	247	401,553	0	401,553
Mauricie	35,867	35,867	0	263,603	263,603	0
Montérégie	11,137	10,279	858	1,442,433	1,303,080	139,353
Montréal	499	0	499	1,886,481	0	1,886,481
Nord-du-Québec	766,232	328,563	437,669	49,505	49,474	31
Outaouais	30,800	30,539	261	386,004	128,274	257,730
Saguenay-Lac-St-Jean	98,714	98,142	572	274,880	162,222	112,658
Global	1,356,559	915,037	441,522	7,919,834	4,188,934	3,730,900

Source: Statistics Canada.

CFDCs and BDCs are all non-profit organizations (NPOs) incorporated and governed by local volunteer boards of directors made up of representatives from civil society and the business community. At the annual meetings, board members are elected by the constituency or by other means as defined in the organization's charter. The boards of directors exercise decision-making authority over all of the organizations' activities, including the investment fund, and the organizations' management and staff implement the regular activities.

The CFP is also used to fund two organizations that carry out coordination activities with the CFDCs and BDCs: the CFDC and BDC Network (hereinafter called the "Network") and Capital Réseau SADC et CAE (formerly the CFDC and BDC Common Fund, hereinafter called "Capital Réseau").

CFDC and BDC Network The Network is an association of all CFDCs and BDCs in Quebec that supports the consolidation efforts of CFDCs and BDCs and looks after their interests. To facilitate the development of its members, the Network procures services and tools such as a continuing education program and an intranet communication system.

There is no reporting relationship between CFDCs, BDCs and the Network. The Network is administered by a board of directors made up of representatives from its members and is funded primarily by CED. It receives funding from other sources, notably from Industry Canada under the Youth Internship Program and from membership dues.

Under its agreement with CED, the Network coordinates three initiatives for its members: (1) student employment; (2) shared-cost communications; and (3) local economic development projects carried out by a CFDC.⁷

Capital Réseau Created in 1999, Capital Réseau is an NPO that manages the liquid assets of the CFDCs and BDCs' investment funds to improve their access to capital. This organization helps CFDCs and BDCs that are receiving a higher volume of requests for financial assistance to access funds that are not being used by others. Capital Réseau's administrative activities are handled by the Network's team through a service agreement.

Table 3 presents CFP spending by organization type. Spending includes the Start-up and Succession Initiative and the Business Support Initiative, which were evaluated in 2014.⁸

Table 3 CFP spending

	2007– 2008 Spending	2008– 2009 Spending	2009– 2010 Spending	2010– 2011 Spending	2011– 2012 Spending	2012– 2013 Spending	Total
CFDC	\$21.78M	\$22.73M	\$22.45M	\$23.77M	\$23.14M	\$23.20M	\$137.07M
BDC	\$1.93M	\$1.88M	\$1,902,011	\$1.93M	\$1.91M	\$1.86M	\$11.41M
CEDC	\$2.53M	\$2.58M	\$2,687,932	\$2.67M	\$0.01M	-	\$10.47M
Network and Capital Réseau	\$12.55M	\$3.68M	\$4,273,985	\$13.87M	\$3.49M	\$3.55M	\$41.44M
Start-up and Success, and Business Support initiatives	-	\$9.60M	\$11.28M	\$1.72M	-	-	\$22.60M
Total	\$38.48M	\$40.47M	\$42.59M	\$43.96M	\$28.55M	\$28.61M	\$222.98M

Source: CED's Hermès financial management system and program.

CFDC and BDC activities focus on helping SMEs through financial and/or technical assistance and support for local economic development.

⁷ CFDCs and BDCs are all eligible for the first two initiatives. Only CFDCs are eligible for the third initiative on local economic development projects.

⁸ CED. Summative Evaluation of Initiatives: Start-up and Succession and Business Support (2014).

Financial assistance

In the context of their contribution agreements with CED, CFDCs provide loans to SMEs. According to the terms and conditions of the CFP, these loans can normally reach up to \$150,000 in the form of a loan or capital. The interest rate on loans is the current prime rate, plus at least 2%, which can be increased based on the risk analysis. According to their agreements with CED, the CFDCs must obtain an exemption from CED before approving a loan over \$150,000.

The organizations must administer their funds carefully and methodically, and provide financial assistance only when it makes good business sense to do so in order to ensure growth and sustainability. The CFDCs must not grant a loan before ensuring that it is needed for the completion of the project and that it complements other funding sources. Loans from CFDCs are intended to fill a market gap in areas where access to funding is difficult to obtain and risk tolerance is lower. These loans are often coupled with loans from other lenders for the same project.

Technical assistance

CFDCs and BDCs also provide technical assistance in the form of personalized consulting services on starting businesses, identifying solutions, supporting financial forecasting, locating funding and analyzing situations. Financial assistance is often accompanied by technical assistance to minimize loan-related risks and improve a project's chances for success. BDCs provide technical assistance only to their financial assistance clients.

Local economic development

Local economic development is an overall development approach that promotes community autonomy and independence. In the context of the CFP, CFDCs support the creation and implementation of local economic development plans and projects in partnership with other community stakeholders. This support can be in the form of financial or technical assistance. The nature of the activities supported varies widely and activities often involve the creation of development plans or the implementation of these plans.

2 EVALUATION METHODOLOGY

2.1 Evaluation questions

The 2012 CFP Performance Measurement Strategy includes questions and indicators that are common to all regions of Canada. Table 4 presents these evaluation questions.

Table 4 Evaluation questions

Issues	Evaluation Questions
Relevance	<ul style="list-style-type: none">• Is there a continued need for the CFP? Have needs changed?• To what extent do CFP objectives align with departmental strategic outcomes, roles and responsibilities, and federal government priorities?• Does the CFP complement, overlap or duplicate other government programs or private-sector services?
Performance	<ul style="list-style-type: none">• To what extent are the CFP's performance measurement and reporting structures effective in reporting its outcomes?• To what extent have CFP activities helped to achieve the desired immediate outcomes?• To what extent have CFP activities and immediate outcomes helped to achieve intermediate outcomes?• To what extent have CFP activities and immediate and intermediate outcomes helped to achieve ultimate outcomes?• What are the barriers to achieving the CFP's immediate, intermediate and ultimate outcomes, and to what extent are they being mitigated?• To what extent is the CFP efficient?• Is there a more cost effective way of achieving expected outcomes, taking into consideration alternative delivery mechanisms, best practices and lesson learned?• Are the investment funds well managed by the CFDCs? Are the loan loss rate and level of risk acceptable?

2.2 Information sources

This evaluation is based on multiple sources of information in order to ensure the reliability and validity of the information collected. The following research methods were used:

- stakeholder interviews;
- surveys;
- document and literature review;
- performance and financial data;
- impact data;
- analysis of secondary data; and
- case studies.

The following sections provide more information on each of these methods.

Stakeholder interviews

A total of 43 interviews were conducted with representatives from CED's executive branch, DEC business offices, CFDCs and BDCs, the Network, and other organizations in the communities. The interview results were aggregated by evaluation question in order to identify recurring themes. The interviews were conducted in April and May 2014 by an external consultant.

Web survey of CFDCs and BDCs

The general managers of the CFDCs and BDCs were asked to complete a Web survey on the relevance of the program and their organizations' outcomes. The questionnaire was based on the one used for the 2009 evaluation. Administered in March and April 2014, a single questionnaire was completed per organization. Of the 66 CFDCs and BDCs, 59 completed the survey, for a response rate of over 89%. During data analysis for this survey, the "not applicable" answers were removed from the calculations.

Telephone survey of CFDC and BDC clients

In March 2014, a polling firm surveyed 602 businesses and organizations that had been clients of CFDCs and BDCs between April 1, 2007, and March 31, 2013. Among the respondents, 402 were financial assistance clients, 100 were technical assistance clients and 100 were local economic development clients. Each client sampled (financial assistance, technical assistance and local economic development) had to answer specific questions based on the type of assistance received. The questionnaire was based on the one used for the 2009 evaluation.

Document and literature review

The evaluation team reviewed the strategic documents (for example, Treasury Board Submissions and other documentation on the program's history), operational documents (for example, terms of reference and guidelines) and previous evaluations. CFDC, Network and Capital Réseau annual reports were also consulted.

Performance and financial data (CED databases)

Performance data were used to document CFDC and BDC performance. Each CFDC and BDC provides these data on an annual basis to their CED advisor, who validates them and sends them to the Policy, Research and Programs Branch for consolidation. The evaluation team based the financial data on audited CFDC financial statements and CED's Hermès financial management system and program, which centralizes all of the financial information from contribution agreements.

Impact data provided by Statistics Canada

The Regional Development Agencies and Industry Canada signed an agreement with Statistics Canada to obtain regional data on the employment variation, sales, payroll and survival rates of businesses that receive assistance from CFDCs and BDCs. Every year, CED sends Statistics Canada a consolidated list of businesses that have received assistance so the department can match them with the information in its databases. The performance of the matched businesses is then compared with the performance of a comparable group made up of all the other businesses in Quebec with fewer than 100 average labour units (ALUs). The ALU represents the number of employees and is calculated by dividing the payroll by the average salary in each industry.

The evaluation used three studies conducted by Statistics Canada for the years 2009, 2009 and 2010. The data are broken down by business size (fewer than 20 employees and 20 to 100 employees) and by industrial sector using the codes from the North American Industry Classification System (NAICS).

Results of Network satisfaction surveys

Every four years, the Network coordinates a satisfaction survey of the clients of each CFDC and BDC.⁹ The survey is conducted by an independent firm and is in the form of a census of all clients of the selected CFDCs and BDCs.

Data from Statistics Canada censuses

Data from the 2001, 2006 and 2011 censuses was used to measure:

- the population rate;
- the unemployment rate;
- the average household income; and
- the percentage of revenues from government transfers.

The four indicators were used in 2000 to form a severity rate on Quebec municipalities that were not served by a CFDC or a BDC. Under the Geographical Coverage Initiative, this index was used to create two new CFDCs¹⁰ and expand the territories of certain CFP organizations to include municipalities that were facing difficult economic conditions.

In the context of this evaluation, the census data were used to document the evolution of economic health in the territories. They were not used to measure the impact of the CFP on this evolution.

⁹ The BDCs were excluded from this exercise until 2007–2008.

¹⁰ The Lotbinière and Suroît-Sud CFDCs.

Case studies

Three case studies were carried out to provide a closer study of the activities and outcomes of two CFDCs and one BDC. The three organizations examined were the same as those looked at in 2009 in order to document their work over a longer period of time. They were selected for their variety of geographical, economic and demographic realities. The organizations are:

- the Vallée-de-la-Gatineau CFDC;
- the Rivière-du-Loup RCM CFDC; and
- the Capital BDC.

These case studies are based on a study of the administrative and macroeconomic data and interviews with community representatives (for example, from the local development centre (CLD), the municipality or the chamber of commerce).

2.3 Limitations of the methodology

This evaluation is based on several sources of information, which reduces the potential impact of the limitations of each source on the validity of the overall conclusions.

Scope of the evaluation

The evaluation focuses on the period from 2007–2008 to 2012–2013. Although funded through the CFP until March 31, 2011, the CEDCs were excluded from the scope of this evaluation. These organizations are now funded by CED's Quebec Economic Development Program. Moreover, the Start-up and Succession Initiative and the Business Support Initiative were also excluded from the evaluation of the CFP because they were evaluated separately in 2014.

At the time this evaluation of the CFP was completed, the Quebec government was reviewing its expenditures. One of the savings it identified was the reduction or elimination of the CLDs. However, the analysis in this report was conducted on the basis of the role these organizations played during the period studied in this evaluation.

Stakeholder interviews and case studies

The information obtained through interviews and case studies was not collected on a representative statistical basis. Moreover, the interviews were semi-directive, which limits the possibilities for comparison. It is therefore difficult to draw general conclusions about the program solely on the basis of this information. However, this information is useful in supporting other data sources.

Web survey of CFDCs and BDCs

The results of this survey are considered reliable, given the high response rate. As the survey was anonymous, it is impossible to draw conclusions that are specific to the CFDCs or the BDCs, or to identify the respondents' reporting level. Moreover, the CFDCs and BDCs were asked questions regarding SME funding. These organizations' CFP agreements do not cover their loan activities.

Telephone survey of CFDC and BDC clients

The sample of businesses that received financial assistance was large enough to reach a confidence level of 95%. The confidence level is lower for technical assistance and local economic development. Given that the number of projects supported varies from one CFDC or BDC to the next, the sample used for this survey includes several clients from some organizations and few clients from others. Consequently, it is possible that the results of this survey are more reflective of the performance of organizations with the highest volume of projects. It is also harder to reach former clients whose businesses are no longer operating. Moreover, CFDC and BDC clients were asked questions regarding SME funding. These organizations' CFP agreements do not cover their loan activities.

Performance data and financial data (CED databases)

As the performance measurement for CFDCs and BDCs changed in 2008–2009, performance data for 2007–2008 were excluded to facilitate analysis.

The multiple performance data manipulations increase the risk of error. The evaluation team noted that the performance data was not compiled for all of the organizations and that data was missing for certain years. It is also possible that the same outcome was reported more than once (for example, two CFDCs could collaborate on a project or a project could take place over more than one year). Moreover, certain performance indicators used in the agreements with BDCs are based on their loan activities, but these activities are not covered in these agreements.

The financial data in CED's Hermès system and the CFDCs' audited financial statements are considered reliable, but they are not presented in constant dollars.

Impact data provided by Statistics Canada

The comparable group for businesses funded by CFDCs and BDCs is made up of all of the businesses with fewer than 100 ALUs in the areas served by CFDCs and BDCs that did not receive any loans from these organizations. It is impossible to verify the extent to which these two groups of businesses are comparable and therefore, without conducting a regression analysis, it is impossible to conclude with certainty whether the performance gap between the two groups can be attributed to the assistance received or to other factors. Moreover, the Statistics Canada data include information on the performance of businesses that received loans from BDCs. These organizations' CFP agreements do not cover their loan activities.

Results of Network satisfaction surveys

Differences between the survey used in the context of this evaluation and the Network survey limit certain result comparisons. Moreover, given that the number of projects varies from one CFDC to the next, these surveys cover several clients from some organizations and few clients from others. Moreover, CFDC and BDC clients were asked questions regarding SME funding. These organizations' CFP agreements do not cover their loan activities

Data from Statistics Canada censuses

Given the large number of stakeholders, the low financial cost of the CFP in relation to the economy of the areas served and the other funding sources used by CFP organizations, the impact of the CFP could not be measured at the macroeconomic level. Furthermore, the mix of macroeconomic indicators used provides only a partial picture of the economic health of Quebec regions.

3 ANALYSIS

This section of the report presents the answers to the evaluation questions and the findings. It is arranged by evaluation issue, evaluation question and indicator. The subsections below address the program's relevance and its performance.

3.1 Relevance

3.1.1 Is there a continued need for the CFP? Have needs changed?

Summary answer:

According to the results of a survey of CFDC and BDC clients, and the analysis of macroeconomic indicators, there is still a great need for the program.

The CFDC and BDC clients and representatives surveyed believe that there is still a need for the services provided by these organizations. For the SME clients surveyed, the greatest need is for financial assistance. The local economic development clients surveyed believe that assistance in preparing development plans is the greatest need. Approximately 89% of client businesses stated that they would not have been able to carry out their project within the same time frame or to the same extent without the assistance they received. As for the local economic development clients surveyed, 90% stated that they would not have been able to carry out their project within the same time frame or to the same extent without the assistance they received.

To analyze needs, the evaluation was also based on the macroeconomic indicators used by CED to determine the expansion of the CFP's coverage in 2000. These macroeconomic indicators confirm the need for the program in most of the regions served by CFDCs and BDCs. However, according to this data, the economic health of some of the regions served was better than that of regions without service. Moreover, some of these served regions with better economic health are located within metropolitan areas, even though the CFP specifies that eligible communities are usually those located outside metropolitan areas. It is therefore difficult to explain the geographical coverage of the CFDCs and BDCs based on the macroeconomic indicators used to expand this coverage in 2000.

Recommendation: 1. CED should document the needs that explain which regions are covered by CFDCs and BDCs. It should justify the use of the CFP in urban areas with over 100,000 inhabitants.

Macroeconomic trends

The CFP gives rural communities the means of identifying and applying local solutions to their problems, addressing the socio-economic issues facing their economies and maximizing their development opportunities. The objectives of the CFP are to: (1) foster economic stability, growth and job creation; (2) create diversified and competitive local rural economies; and (3) build economically sustainable communities. Therefore, not all regions of Quebec are affected by the program; eligible communities are usually those located outside metropolitan areas.¹¹ Moreover, the nature of the assistance provided under the CFP varies depending on the type of organization. All CFDCs and BDCs provide technical assistance to businesses as part of the CFP, but only CFDCs receive funds from this program for financial assistance and local economic development activities.

The analysis examines the extent to which the program targeted regions experiencing economic conditions that aligned with the program's three objectives by building on population variation, the unemployment rate, the average household income and the percentage of revenues from government transfers. CED used these same macroeconomic indicators in 2000 to determine the expansion of the CFP's coverage under the Geographical Coverage initiative.¹²

In general, these macroeconomic indicators support the need for the program in the regions served by CFDCs and BDCs (for example, Gaspésie-Îles-de-la-Madeleine, Côte-Nord, Bas-St-Laurent, etc.). However, the economic health of some of the regions covered by the CFP was better than that of regions without service. Moreover, some of the regions served that had better economic health are located within the Montréal CMA, even though the program specifies that eligible communities are usually those located outside metropolitan areas with fewer than 100,000 people. It is therefore difficult to identify a rationale for geographical location based on the indicators used to determine the expansion of the CFP's coverage in 2000.

Demonstrated need for community strategic planning and development, business development, and access to capital in rural Canada

As shown in the analysis that follows, there is still a need for business assistance and local economic development activities funded under the CFP.

Business assistance

¹¹ As a result of a recommendation in the 2009 evaluation, CED stopped funding CEDCs under the CFP. These urban organizations have been funded under another CED program since April 2011.

¹² CED. Evaluation of the Geographical Coverage Initiative. (2003).

In the survey of CFDC and BDC clients, businesses identified funding as their greatest need (98%). Ranked in order of importance, the following needs were also identified: the need for information and business intelligence (93%) and the need for business counselling (93%). The vast majority of respondents also said that there was a great need or some need for training courses and seminars (83%), referral services (84%) and awareness of and activities to promote sustainable development (77%).

When interviewed, representatives from CED, the CFDCs and BDCs, and external stakeholders also confirmed that business financing was also an important need. Furthermore, the case study of the Rivière-du-Loup CFDC illustrates the relevance of the activities carried out by the CFDC in response to the needs of the businesses in its region. The organization is very much solicited and has a relationship of proximity with the businesses, which allows it to work with them through its counselling services.

For the external stakeholders interviewed, the CFDCs and BDCs remain essential partners for the businesses. They said that the businesses' need for funding is great and that the other organizations that provide funding cannot meet all of the demand; the support provided by the CFDCs and BDCs is essential to overall funding. Their support is not as significant in terms of technical assistance, given their limited staff and the services provided by other organizations. Some of those interviewed noted that the businesses develop ties with the organizations, so some will prefer to deal with a CFDC and others with other organizations.

According to the Statistics Canada data, Quebec's rural areas compare favourably with the province's urban regions in terms of the number of SMEs. Rural Quebec has a slightly higher proportion of SMEs in relation to its demographic weight (21% of SMEs versus 19% of the population), while the proportion of SMEs in rural Canada¹³ is slightly lower than the population in these regions¹⁴ (18% of SMEs versus 19% of the population).

Again according to Statistics Canada, 5% of businesses in Canada's rural areas and small towns are in the manufacturing sector,¹⁵ a slightly lower proportion than in the large urban centres (6%). This study concludes that the further the community is from a large urban centre, the larger is the rate of decline of the number of manufacturing firms and that the number of manufacturing firms declines more rapidly in resource-reliant communities than it does in non-resource-reliant communities.

¹³ Statistics Canada, <http://www.ic.gc.ca/eic/site/061.nsf/eng/02804.html>.

¹⁴ Statistics Canada, http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-310-x/2011003/fig/fig3_2-3-eng.cfm.

¹⁵ Statistics Canada. Manufacturing Firms in Rural and Small Town Canada, Analysis Bulletin—Rural and Small Town Canada, Vol. 8, No. 6, No. 21-006-X in the catalogue.

Local economic development

According to a 2012 OECD study,¹⁶ community mobilization is essential to community development. This study concludes that one of the components of the regions' success is the existence of formal and informal institutions that make negotiations and dialogue between key stakeholders easier in order to mobilize them and integrate them into the community's development process.

The CFDC and BDC representatives interviewed said that their organizations do meet a community mobilization need by allowing representatives from civil society to take part in the economic development of their community and to meet adapted needs by having organizations that listen to the community. The CED representatives specified that the CFDCs' autonomy was necessary for encouraging the community to take charge of the economy. Again, according to the CFDC and BDC representatives interviewed, the main development problem is the creation and maintenance of jobs in the region. The CED representatives interviewed also identified this problem and specified that there were several types of economies in Quebec's regions and that the CFP helped to adapt and meet the needs of each one, to reach the smallest communities, to keep listening to the communities' needs and to understand their expectations. The CED representatives also noted that the definition of "local economic development" was several years old and should be updated. When CED negotiates new agreements with the CFDCs, it tries to clarify and update definitions, but there is still some confusion.

Moreover, more local economic development assistance clients surveyed identified a need in terms of assistance in preparing development plans (96%) and in developing infrastructures that promote economic development (92%).

The data compiled in the context of the survey of CFDCs and BDCs also illustrate the extent of the needs identified by their clients. Representatives from these organizations identified business counselling as the greatest need (56/58) followed closely by business financing (53/58) and business information (52/59).

Percentage of CFDC and BDC clients who were refused funding from other sources prior to approaching a CFDC or BDC

Businesses' ability to obtain funding from other sources is a strong indicator of the relevance of the financial assistance provided by these organizations.

¹⁶ OECD. Promoting Growth in All Regions (2012), page 16.

According to the results of the telephone survey of CFDC and BDC clients, 59% of them (45/76) that received a loan to start a business had tried to obtain funding from other sources prior to applying to a CDC or BDC for a loan. As shown in Table 5, 56% of clients (25/45) had targeted financial institutions and 20% had targeted funding at the provincial level. Of the clients who had applied to other sources prior to a CFDC or BDC, 73% obtained the funding.

Of the existing business that obtained a loan from a CFDC or BDC, 65% (231/356) had previously tried to obtain funding from other sources. Among those that applied for a loan from another funding source, 61% (141/23) had targeted financial institutions and 215 (48/231) had targeted funding at the provincial level. Of the clients who had applied to other sources prior to a CFDC or BDC, 73% (168/231) obtained the funding.

Table 5 Number of CFDC and BDC clients who first applied to another source of funding

Source of Funding	Funding for Start-up	Funding for Existing Business
Financial institution	25	141
Provincial funding	9	48
Other	7	21
Federal funding	3	13
Municipal funding	1	8
TOTAL	45	231

Source: Survey of CFDC and BDC clients (2014).

As illustrated in Table 6, among the other sources of funding received for their projects, more CFDC and BDC clients obtained funding from a financial institution (152) and the Quebec government (124). In total, 79 clients stated that they had not received any funding other than the loan from the CFDC or BDC. The data in Table 7 shows that CLDs were the organizations that provided the most funding to projects that received a CFDC or BDC loan (105 respondents). The other donors were less represented in the financing packages. CED and Investissement Québec funded 19 and 17 projects, respectively.

Table 6 Number of clients who obtained other sources of funding

Source of Funding	Funding for Start-up	Funding for Existing Business
Financial institution	27	125
Provincial funding	24	100
Other	14	57
Federal funding	8	55
Municipal funding	3	19

Source: Survey of CFDC and BDC clients (2014).

Table 7 Main public donors that funded client projects

Organizations	Business Start-up Number of Respondents	Existing Business Number of Respondents	Total
CLD	20	85	105
CED	3	16	19
Investissement Québec	1	16	17
Financière agricole du Québec	3	10	13
Canadian Youth Business Foundation	5	2	7

Source: Survey of CFDC and BDC clients (2014).

According to Industry Canada’s statistics on financing for SMEs,¹⁷ 79.5% of the owners interviewed used personal savings to support their business’ start-up, while 40.9% obtained credit from a financial institution. These sources of financing were also used most often to support business acquisitions. These same statistics demonstrate that loan financing was relatively harder to obtain for business start-ups (in operation fewer than two years), new business (in operation between two and five years), and businesses in the accommodation and food services sector. SME loan applications were rejected essentially because of insufficient collateral (47.6%). Two additional reasons also given to explain the denial of loan financing were the risks associated with the project (36.8%), and insufficient sales or cash flows (35.9%).

In terms of the support and funding mechanisms, a 2010 CGA-Canada report on entrepreneurship shows the same findings,¹⁸ that is, that many entrepreneurs (73% of start-ups and 54% of SMEs) have no choice but to rely on personal financing for their business—including mortgages on family homes and credit card debt. They recommend that governments should continue to find ways of financially supporting new entrepreneurs to overcome the difficulty of accessing credit.

Proportion of clients who say that funding from the CFDC or BDC helped them to obtain other funds

According to the results of the telephone survey of CFDC and BDC clients, a little over a third of business clients said that the CFDC or BDC loan allowed them to obtain funds from other sources of funding. There is little difference between clients who received loans for start-ups and those who received loans for an existing business.

¹⁷ Industry Canada. SME Research and Statistics (2013), <http://www.ic.gc.ca/eic/site/061.nsf/eng/02832.html#point2>.

¹⁸ CGA-Canada. Laying the Foundation for a National Entrepreneurship Strategy: The CGA Entrepreneurship Report (2010). http://www.cga-canada.org/en-ca/ResearchAndAdvocacy/AreasOfInterest/SmallandMediumSizeEnterpriseIssues/Entrepreneurship/Pages/ca_backgrounder.aspx.

Moreover, 56 of the 57 respondents to the Web survey of CFDC and BDC representatives said that funding from their organization helped their clients to access other sources of funding.

Incentive nature of assistance (percentage of clients who received financial assistance from a CFDC or BDC who would not have been able to start or develop their business without this assistance)

According to the data obtained from the survey of CFDC and BDC business clients, approximately 46% stated that they could not have completed their project without the financial assistance they received. There is little difference between loans for start-ups and those for existing businesses. Moreover, 33% (140/419) of clients stated that they would have been able to carry out their project without this assistance, but they would not have been able to do it within the same time frame or to the same extent. Approximately 21% (87/419) of the clients surveyed said that not having this assistance would not have had any impact on the time frame or extent of their project. During the 2009 evaluation of the CFP, approximately 58% of respondents for start-up businesses and 71% for existing businesses said that they “Completely agree” or “Somewhat agree” with the statement that it “would not have been possible to complete (their) project without the CFDC/BDC loan” (there was no follow-up question on the impact on time frame or extent of the project). The difference could be due to the improvements made to accessing credit after 2009¹⁹ or to the change made to the choice of available answers.

In terms of local economic development projects, 57% of clients said that they would not have been able to complete their project without the assistance received. Approximately 33% (32/98) of clients believed that they would have been able to complete their project, but they would not have been able to do it within the same time frame or to the same extent. Approximately 10% (10/98) believed that they would have been able to complete their project within the same time frame and to the same extent without financial assistance. During the 2009 evaluation of the CFP, approximately 82% of respondents said that they “Completely agree” or “Somewhat agree” with the statement that it “would not have been possible to complete (their) project without assistance from the CFDC/BDC” (there was no follow-up question on the impact on time frame or extent of the project). Again, the difference here could have been due to the change made to the choice of available answers.

The question regarding the incentive nature of the assistance was also included in the annual surveys conducted for the Network. Generally, over 80% of clients stated that they would not have been able to complete their project within the same time frame or to the

¹⁹ Canada Economic Development. Summative Evaluation of Initiatives: Start-up and Succession and Business Support (2014), p. 11.

same extent without the assistance from the CFDC or the BDC. These figures are similar to those reached by the evaluation survey.

According to the CED representatives interviewed, it is possible that some projects funded by the CFDCs and BDCs would have been funded by other organizations. However, investments by the CFDCs and BDCs are still an addition to the funding provided by other donors and they provide loans for higher-risk projects than does the BDC or the banks. The CFDC and BDC representatives interviewed said that certain projects would not have emerged because of a lack of funding. Others would have been delayed or smaller in scale.

Survey of new needs in line with the CFP's objectives

As part of the Web survey of CFDC and BDC representatives, 33 of the 59 respondents said that there was a need for services that are not currently provided by them or by other organizations in their region. The main needs are related to:

- 1) technical assistance, more specifically, assistance with marketing new products and exports, with business innovation and business start-up;
- 2) development of local infrastructure; and
- 3) lack of funding to carry out local economic development projects.

The CFDC, BDC and external stakeholders interviewed believed that businesses need to be further supported in terms in technological changes.

In the context of the telephone survey of CFDC and BDC clients, approximately 20% of clients (121 of 545) stated that there was a need for certain services that were not offered by the CFDC or another organization. For business clients, the needs were mainly assistance with financial management, taxes and accounting, as well as start-up and marketing assistance. Local economic development needs were mainly assistance with recruiting, succession planning and finding volunteers, as well as financial assistance.

Need for business succession and transfer support

The entrepreneurial deficit remains a major issue in Quebec, which has an impact on business start-up and succession.²⁰ In this regard, Quebec will experience a significant entrepreneurial deficit in 2018.²¹ Between 2013 and 2018, 55,000 entrepreneurs will retire and overall entrepreneurship will decrease by 13.9%, more than in Ontario (-1.3%) and in Canada (-5.3%). This deficit can be explained in part by a lack of interest in business takeovers. Potential entrepreneurs do not really envision buying existing businesses.²²

²⁰ Canada Economic Development. Summative Evaluation of Initiatives: Start-up and Succession and Business Support (2014), p. 11.

²¹ Quebec government. Ministry of economic development and innovation, *Le renouvellement de l'entrepreneuriat au Québec : un regard sur 2013 et 2018*, p. 14 and 21–22.

²² Indice Entrepreneurial québécois 2013 : *Les entrepreneurs québécois font-ils preuve d'audace?*

Moreover, only 14.8% of potential Quebec entrepreneurs say that they are in a financial situation that would allow them to go into business. In fact, 44% of Canadian entrepreneurs surveyed²³ identified government programs as the best initiatives for improving long-term entrepreneurial growth. In addition, a review of succession and transfer activities in Quebec identified an insufficient supply of financial assistance to cover the costs associated with creating a transfer plan.²⁴

According to the CED representatives interviewed, there is indeed a need for business succession and transfer support, as well as designing and implementing succession plans. A number of stakeholders, including CED, want to support succession, but few have the financial resources to do so. The CFDC and BDC representatives interviewed specified that they fund the transfers of very small businesses, but that much more human and financial resources were needed to act on a larger scale. According to the CED, CFDC and BDC representatives interviewed, only banks and the BDC have sufficient resources to support business succession and transfer.

The challenge facing agriculture succession is even greater than it is in other sectors and it affects mainly rural communities. The high number of farmers who are retiring, combined with the lack of young farmers and the growing cost of sales of farm businesses, are challenges that the agriculture sector must face in the coming years. Approximately 40% of farmers are 55 or older, while only 18% are under the age of 40.²⁵ A number of government organizations fund agriculture succession projects, but the sector's succession needs seem to exceed the available means.

3.1.2 To what extent do the CFP's objectives align with departmental strategic outcomes, and federal government roles, responsibilities and priorities?

Summary answer:

The CFP's objectives align with CED's strategic outcome and federal government priorities.

The analysis of the Speech from the Throne, the Budget Speech, the Budget Plans and CED's Program Alignment Architecture indicates that the CFP's objectives align with federal government priorities, roles and responsibilities, as well as with CED's strategic outcome. Economic development, stability and growth, as well as job creation, continue to be Government of Canada's priorities.

²³ Ernest and Young, The EY G20 Entrepreneurship Barometer 2013: Canada.

²⁴ Board of Trade of Metropolitan Montreal, cited, p. 42.

²⁵ *Portrait de la relève agricole au Québec*, Department of Agriculture, Fisheries and Food (2011), p.13.

The Government of Canada's Economic Action Plan 2013 confirmed the importance of supporting businesses by providing \$400M for venture capital and \$18M for funding, mentoring and resources for young entrepreneurs to launch their own business. The plan also provided funding for job growth through a \$1,000 hiring credit for each new employee hired by small businesses.

Data from the Web survey of CFDCs and BDCs confirm that they target at least one program objective and that the majority target all of the objectives. Moreover, the CED representatives interviewed confirmed that the CFP was in line with CED's priorities and that it was helpful when communities were facing specific problems. However, some CED representatives believed that the CFP's broad national objectives made managing the program difficult and that establishing objectives based on regional needs would be desirable.

The CED business office representatives believed that the objectives of the CFDCs and BDCs integrated well into their business office's vision and that CED should ensure that it always communicates its direction and programs with the CFDCs and BDCs, especially when they change. To this effect, the CFDC and BDC representatives interviewed said that communication of CED's direction and programs was uneven from one business office to the other.

3.1.3 Does the CFP complement, overlap or duplicate other government programs or private-sector services?

Summary answer:

CFDCs and BDCs provide services that are similar to those provided by other organizations and they target the same clients. However, the organizations generally collaborate to minimize the possibility of actual overlap. Moreover, community needs in terms of business assistance and local economic development exceed the current offering.

Overlap identified by clients

The majority of CFDC and BDC clients surveyed noted that other organizations provided similar services to those provided by the CFDCs and BDCs. More clients identified similar services for business financing (77%), information and business intelligence (68%) and business counselling (66%). The organizations most frequently identified as providing these services were CLDs, the BDC, financial institutions, chambers of commerce and Investissement Québec.

The majority of local economic development clients also noted that other organizations provided services that were similar to those provided by the CFDCs. More clients specified

that other organizations provided similar services in term of helping to prepare development plans (81%), information and business intelligence (78%) and business financing (80%). The organizations most frequently identified were CLDs. Educational institutions were also identified by several respondents for training courses and seminars.

A number of clients also specified that CED provided business financing services that were similar to those provided by the CFDCs and BDCs. According to the CED representatives interviewed, the CFDCs and BDCs provided services that complemented CED's services. Through their loans to small businesses, the CFDCs were in a specific niche that was complementary to the services provided by CED, which worked more with medium-sized businesses. Furthermore, on the ground, there are more CFP organizations than there are CED business offices, allowing for more proximity intervention.

Collaboration and complementarity efforts on the ground

The CFDC, BDC and Network representatives interviewed specified that their activities complement those provided by other organizations. The CFDCs and BDCs had partnerships with, among others, the CLDs, Emploi-Québec, Investissement Québec, CRÉs, the RCMs and the BDC. The Network worked in collaboration with, among others, the Association des CLD, the BDC and Entrepreneuriat Québec.

Again according to the CFDC and BDC representatives, the financial services that they provide are different from those provided by other organizations because of the conditions of the assistance (costs, guarantees, repayment deadlines, etc.). They also specified that they provided risk funding that the banks did not provide. Although other stakeholders like the CLDs, Investissement Québec and the BDC can also offer such loans, they do not have the financial or human resources need to meet the needs.

Complementarity and collaboration with the BDC

The CED, CFDC and BDC representatives and those from the BDC said that the CFDCs and BDCs work in collaboration with the BDC to provide services in such a way that the clients do not need to submit their applications several times. According to a representative from the BDC, clients often receive coaching services from the CFDC to structure their projects, services that the BDC does not provide. Contrary to the maximum loan limit of \$150,000 from the CFDCs, the BDC does not have a maximum loan limit, so it can complement a financing package when a CFDC reaches the authorized limit.

Moreover, the BDC entered into a partnership with certain CFDCs and BDCs in the context of which the BDC uses their analysis and approval process to authorize a loan. The goal is to profit from the due diligence of the CFDCs and BDCs to simply interactions with and the requirements of clients, and to reach more entrepreneurs in the regions where the bank does not have as much of a presence. This partnership allows for loans to be granted quickly, the approval time being 48 hours after the BDC has received the file and the bank does not need to meet with the clients before accepting their applications.

Potential overlap, complementarity and collaboration with CLDs

At the provincial level, CED representatives and external stakeholders say that there can be an overlap with the CLDs, as they target the same clients and provide similar services. The document review also demonstrated that the objectives of and services provided by CFDCs and BDCs are similar to those of the CLDs. Moreover, the external stakeholders interviewed said that the CFDCs and BDCs have similar, if not identical, mandates,

According to the CED representatives and the stakeholders, the scope of the potential overlap depends on the level of collaboration developed between the CFDC and the CLD. In some cases, the collaboration is formal and based on a number of specific meetings per month or per quarter to discuss the files. In other cases, the collaboration can be informal, but similarly robust by sharing information, transferring projects based on the speciality of each and working together to support a project. One community stakeholder representative said that the most significant duplication between the CFDCs and CLDs was the technical assistance provided to businesses. Moreover, in small communities, there is less diversity in the sources of funding, which makes the support provided by CFDCs and CLDs important.

Furthermore, a 2010 OECD review report on Quebec's rural policy²⁶ confirms the lack of a formal mechanism to facilitate collaboration between the CLDs and the CFDCs to avoid duplicate efforts and to optimize the use of these resources. This report recommends that local authorities make collaboration easier in order to improve consistency in development efforts in the communities. Currently, collaboration depends on each local context and the OECD report cites examples of good practices: "In few cases, CADCs and CLDs are strongly integrated and give the local board of directors access to a broader set of resources and tools (virtually pooled together) to promote the development of their community."²⁷ As a good practice to replicate, the report refers to the example of the Société de développement du Témiscamingue, which was created with the mandate of providing a collaboration platform between the CFDCs and BDCs in order to create efficiencies.

The case study of the Rivière-du-Loup CFDC illustrates the possibility of duplications and the efforts to minimize these. The people interviewed under this study were generally of the opinion that there was little to no overlap between the CFDC's activities and those of the CLD.

In the case of the BDCs, the majority of the economic stakeholders interviewed considered that Investissement Québec and certain CLDs provided equivalent services, but that the organizations were separate. According to the CED representatives interviewed, BDC services complemented those provided by Investissement Québec and, in some regions, the two organizations share projects.

²⁶ OECD. OECD Rural Policy Review: Québec, Canada (2010). p. 291.

²⁷ *Ibid.* p. 98.

In terms of governance, the CFDCs and BDCs are separate from the CLDs, which were related to the RCMs and had municipal and provincial officials among their board members. Under their agreements with CED, CFDC and BDC officers and employees could not act as officers nor be employees of an organization whose mission, objectives or main activities were related to local economic development and the majority of whose funding came from public money.

3.2 Performance

3.2.1 To what extent are the CFP's performance measurement and reporting structures effective in reporting its outcomes?

Performance measurement context of CFDCs and BDCs

As part of the efforts carried out by regional development agencies to align performance measurement, a common performance measurement strategy was developed in 2012 and implemented in Quebec in 2013–2014. The purpose was to ensure that the outcomes reported were based on common indicators, such as those documented by Statistics Canada. As the period studied in this evaluation precedes the implementation of the new performance measurement, the following analysis is based on the performance measurement used between 2008–2009 and 2012–2013.

Summary answer:

The CFP's performance measurement and accountability mechanism used during the period studied in this evaluation were not effective in reporting the program's outcomes. There were no outcome targets included in the agreements with the CFDCs and BDCs. Moreover, given the large amount of performance data that were missing from the database or extreme in nature—that is, very high or very low—these data do not seem to have been systematically quality controlled by CED. The lists of projects requested as part of the new CFDC performance measurement could make the validation step easier. However, these lists are not requested at BDCs.

Recommendations:2. Agreements with CFDCs and BDCs should include performance targets.

3. The information provided by CFDCs and BDCs should be in a consistent format and there should be a sufficient level of detail to allow CED business offices to validate and monitor the outcomes.

4. CED should validate performance information and enter it into the Hermès system.

Quality of CFP performance data provided by the CFDCs

In 2008, the Network and CED worked together to ensure that there was a common understanding of the performance indicators between all CFDCs, BDCs and CED business offices. According to the CED representatives interviewed, the performance measurement used was appropriate because it allowed for CFDC and BDC outcomes and activities to be monitored. However, for each year examined, the performance data for several of these organizations were missing in the CED system and other data were extreme in nature. The data therefore do not seem to have been systematically validated by CED.

In 2013–2014, the performance measurement was simplified and harmonized across Canada. According to the CED representatives, the number of indicators was considerably reduced and the most important ones were kept. The lists of projects now requested at the CFDCs could make it easier for CED business offices in terms of validation. However, no list is requested at the BDCs.

Moreover, all of the CFDC and BDC representatives surveyed (59/59) said that there were follow-ups with the businesses funded. The follow-ups focused mainly on a results audit (50) and an expense audit (36). Nearly half of the respondents (26/59) said that the frequency of the follow-ups depended on the nature of the project and the level of risk. Otherwise, the follow-up was conducted mainly once a month (16) or once every two months (11). In 2009, only 10 of the 60 respondents said that the frequency of the follow-up was determined on a case-by-case basis. The main types of follow-up conducted in 2104—in person and by telephone—were similar to those identified in 2009.

Use of the performance data by the CFDCs and BDCs

According to the CFDC, BDC and Network representatives, the performance measurement was important and relevant to following their activities and for documenting the outcomes achieved. A representative from one organization said that he had developed his own performance indicators that corresponded more closely to his activities and that he did not work with CED's performance indicators very much.

The CED representatives interviewed said that they only compiled the performance data and sent them to headquarters; they do not use the performance data very much. They said that the business offices did not have the time to analyze the indicators, to discuss them or to validate them with the CFDCs.

Since 2008–2009, the transmission deadline for CFDC and BDC annual reports dropped from 90 days to 60 days. However, approximately 90% of organizations were unable to meet this deadline and in most cases, the performance data were not collected. The issue of the quality of the performance data was also identified in the 2009 evaluation.

3.2.2 To what extent have CFP activities helped to achieve the desired immediate outcomes?

Summary answer:

According to CFDC and BDC clients, the services that were used the most were business consulting, business intelligence and information, as well as assistance preparing development plans. The level of satisfaction with services was over 90% and clients said that the quality of the services had improved or been maintained.

Performance measurement data collected by CED indicate that:

- The number of accompanied start-up businesses and entrepreneurs has remained stable, but the number of already existing businesses being accompanied is declining (1,342 in 2008–2009 versus 959 in 2012–2013).
- CFDCs and BDCs lent nearly \$350M between 2008–2009 and 2012–2013, and the total value of projects funded during this period was \$1,237M. Approximately 12% of the value of these loans was allocated to business start-ups.
- A growing portion of CFDC investment funds is lent to businesses (66% in 2007–2008 versus 73% in 2012–2013).
- Most CFDCs and BDCs carried out between one and five local economic development plans between 2008–2009 and 2012–2013,²⁸ and they still collaborate in the preparation of several plans; the number of communities with a plan has decreased (111 in 2008–2009 versus 31 in 2012–2013).
- CFDCs worked with approximately 670 partners annually between 2008–2009 and 2012–2013 to support development planning, and they carried out 1,762 local economic development projects.

Although the CFP achieved the outcomes above, this question cannot be answered, as there were no targets for the program's performance indicators.

Recommendation: 5. Targets that are specific to Quebec should be set for the program's performance measurement strategy indicators.

²⁸ The CFP contributions to BDCs do not target the carrying out of local economic development activities. As the survey of CFDCs and BDCs was anonymous, it was impossible to adjust the questionnaire based on the type of organization.

Profile of services provided by the CFDCs

The CFDCs and BDC all provide services to businesses. The CFDCs also provide services to support local economic development. The data from the Web survey of CFDC and BDC representatives indicate the frequency with which these services are delivered. Table 8 shows that services to businesses were provided the most, including business counselling, business financing and business intelligence. These data closely resemble the data presented in the 2009 evaluation.

According to the CED representatives interviewed, the CFDCs supported entrepreneurs and businesses in preparing their business plans, their business strategies and their products, and they provided training occasionally. The CFDC and BDC representatives interviewed also said that their organizations supported entrepreneurs and businesses in their development. The external stakeholders interviewed were of the same opinion and none questioned the support provided by the CFDCs and BDCs. Everyone interviewed said that the services were provided in both official languages.

Table 8 Frequency of services provided by the CFDCs and BDCs

Services Provided	Often	Sometimes	Rarely	Never	Total
Assistance with the preparation of development plans	22	24	9	4	59
Information and business intelligence	57	2			59
Referral services	48	10	1		59
Business counselling	59				59
Business financing	58	1			59
Development of infrastructure to support economic development	13	24	15	6	58
Training courses and seminars	18	32	8		58
Promotion of and investment in the tourism industry	16	26	14	2	58
Partnerships to promote access to information technologies	29	23	5	1	58
Awareness raising and action on sustainable development	30	12	13	3	58

Source: Survey of CFDCs and BDCs (2014).

Trends in the consulting services provided to CFDC and BDC clients

CFDCs and BDCs provide support to entrepreneurs who start up a business and to those who already have a business. Between 2008–2009 and 2012–2013, they helped 1,235 entrepreneurs to prepare a business plan and they supported 4,533 people and businesses in their efforts to start a business. They also provided support services to 6,113 businesses being acquired, rebuilt, expanded or modernized.

Services to businesses—use and satisfaction of clients

According to the data from the survey of CFDC and BDC clients, some services are used more frequently than others. As demonstrated in tables 9 and 10, the services that were most often used by business clients were business counselling, and information and business intelligence. These results are similar to those noted in the 2009 evaluation. Table 11 illustrates that information and business intelligence were also used often by local economic development clients.

The client survey also confirms that satisfaction rates are always above 90% (very satisfied and quite satisfied) and therefore similar to those noted in the 2009 evaluation and surveys conducted by the Network. Moreover, the majority of clients surveyed for the evaluation indicated that the quality of the services had improved (35%) or been maintained (63%). Only 3% of clients believed that the quality of the services had deteriorated.

Table 9 Frequency of use of CFDC or BDC services—business start-ups

Services Provided	Often	Sometimes	Rarely	Never	Total (n)
Business counselling	8%	41%	24%	28%	80
Business financing	4%	20%	69%	8%	80
Information and business intelligence	11%	33%	23%	34%	80
Referral services	1%	23%	29%	48%	80
Training courses and seminars	3%	13%	28%	58%	80
Awareness raising and action on sustainable development	4%	11%	20%	65%	79

Source: Survey of CFDC and BDC clients (2014).

Table 10 Frequency of use of CFDC or BDC services—existing businesses

	Often	Sometimes	Rarely	Never	Total
Services Provided	%	%	%	%	n
Business counselling	8%	41%	24%	28%	80
Business financing	4%	20%	69%	8%	80
Information and business intelligence	11%	33%	23%	34%	80
Referral services	1%	23%	29%	48%	80
Training courses and seminars	3%	13%	28%	58%	80
Awareness raising and action on sustainable development	4%	11%	20%	65%	79

Source: Survey of CFDC and BDC clients (2014).

Services Provided	Often	Sometimes	Rarely	Never	Total (n)
Business counselling	11 %	35 %	30 %	23 %	420
Business financing	7 %	25 %	53 %	15 %	421
Information and business intelligence	1 %	34 %	33 %	25 %	392
Referral services	4 %	17 %	29 %	50 %	418
Training courses and seminars	4 %	21 %	21 %	55 %	420
Awareness raising and action on sustainable development	1 %	10 %	20 %	67 %	414

Source: Survey of CFDC and BDC clients (2014).

Table 11 Frequency of use of CFDC or BDC services—local economic development

Services Provided	Often	Sometimes	Rarely	Never	Total (n)
Assistance with the preparation of development plans	9%	45%	28%	18%	97
Development of infrastructure to support economic development	7%	25%	24%	43%	96
Partnerships to promote access to information technologies	10%	24%	23%	42%	96
Information and business intelligence	16%	36%	19%	28%	96
Referral services	10%	33%	26%	30%	96
Business counselling	14%	22%	28%	35%	96
Financing	15%	22%	25%	35%	94
Training courses and seminars	6%	27%	21%	45%	96
Awareness raising and action on sustainable development	3%	27%	30%	41%	98

Source: Survey of CFDC and BDC clients (2014).

Average number and value of CFDC and BDC loans per year

On average, CFDC and BDC loans in their communities total \$70 million annually. As illustrated in Table 12, approximately \$8.5 million are in loans to business start-ups and a little over \$61 million are in loans to existing businesses annually. The increase in the value of the loans in 2009–2010 and 2010–2011 is linked to the additional funds for the Start-up and Succession Initiative and the Business Support Initiative. CFDCs and BDC receive, on average, a little more than 1,500 loan applications per year and they approve close to 1,300.

Table 12 Number and value of CFDC and BDC loans

Year	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	Total
Number of loan applications	1,470	1,540	1,972	1,216	1,420	7,618
Number of loans approved	1,283	1,261	1,471	1,141	N/A	N/A
Number of loans made	1,256	1,299	1,465	N/A	N/A	N/A
Start-up loans	\$7.5M	\$9M	\$9.5M	\$9.4M	\$7.1M	\$42.5M
Existing SME loans	\$46.7M	\$71.9M	\$75M	\$55.7M	\$57.7M	\$307M
Total loans	\$54.2M	\$80.9M	\$84.5M	\$65.1M	\$64.7M	\$349.5M

Source: CFDC and BDC performance measurement.

Percentage of funds in active loans—CFDCs only

CFDCs dedicated an increasing share of their funding to business loans.²⁹ As illustrated in Table 13, the share of funding dedicated to business loans increased from 65.71% in 2008 to 72.28% in 2013.

Table 13 Percentage of investment funds in business loans

2008	2009	2010	2011	2012	2013
65.71%	63.05%	69.89%	71.59%	70.10%	72.28%

Sources: CFDC financial statements.

Leverage effect per dollar invested—CFDCs only

According to performance data, CFDC loans totalled \$236.5M between 2008 and 2013, and the total value of these projects equalled \$1,236.8M. The leverage effect is therefore \$4.7 invested for every dollar in CFDC loans. The leverage effect noted in the 2009 evaluation of the CFP was similar. The BDCs are not included in this analysis.

Percentage of clients whose requests for financial assistance were turned down by another source or for whom the funding from other sources was conditional on funding from the CFDC or BDC

Among the business clients surveyed, 64% (276/432) stated that they applied to another organization for a loan before submitting an application to the CFDC or BDC. Of these, 73% (201/276) were successful in obtaining funding from that first source. There is no difference between start-up businesses (33/45) and existing businesses (168/231). The first sources of funding that were targeted the most were financial institutions (169/276) and provincial government agencies (72/276).

Moreover, 37% (117/318) of business clients surveyed said that the CFDC or BDC loan was needed in order to obtain other sources of funding. The results are similar to those in the 2009 evaluation and there is no difference between start-up businesses and existing businesses. Generally, satisfaction surveys conducted for the Network conclude that funding from the CFDC allowed approximately 60% of business clients to obtain other sources of public funding.

Data from the survey of CFDC and BDC representatives indicate that 56 of the 57 respondents said that their organization had made it easier to access other sources of funding. The CED representatives interviewed said that the CFDCs are still a higher-risk lender and they greatly improve access to capital. For the community stakeholders

²⁹ Financial statement data are for the CFDCs only, while the Capital Réseau data do not distinguish the funding between CFDC and BDC.

interviewed, it was difficult to quantify the impact that the CFDCs and BDCs had on obtaining funding. For the BDCs, the fees and interest were higher than the banks. Therefore, businesses worked with them because there were no alternatives. In terms of the CFDCs, their investment funds and their technical assistance had a positive impact on businesses, but it is difficult to determine the scope.

Number of strategic plans supported and completed by the CFDCs

The results of the survey of CFDC and BDC representatives set out in Table 14 demonstrate that the majority of these organizations completed between 1 and 5 development plans between 2008–2009 and 2012–2013 and that they also act as a collaborator in preparing several plans.³⁰

Table 14 Involvement in preparing development plans from 2008–2009 to 2012–2013

	0	1 to 5	6 to 10	11 to 15	16 to 20	21 to 25	Don't know	Total
Number of plans in which the CFDC or BDC collaborated	3	34	10	4	4	1	1	57
Number of plans completed by the CFDC or BDC	6	46	3	0	1	0	1	57

Source: Web survey of CFDCs and BDCs (2014).

Furthermore, 89% (73/82) of local economic development clients surveyed said that their community had one or several development plans in place and of these, 37 said that the assistance from the CFDC was in the context of preparing a development plan for their community. In addition, 63 local economic development clients said that they had been consulted in the context of preparing a plan and of these, 53 said that the CFDC was involved in preparing the plan.

According to the data on CFDC performance, these organizations help an average of 67 communities to prepare a plan every year. However, the number of communities that received support in preparing a plan decreased during the period studied, dropping from 111 in 2008–2009 to 31 in 2011–2012. This decrease could be due to the long duration of existing development plans.

³⁰ BDCs are not funded by CED to support the planning of local development. It is not possible to determine how many of the 10 BDCs took part in the survey.

Number of partners involved in strategic planning with the CFDCs

The data on CFDC performance set out in Table 15 demonstrate that these organizations worked with close to 670 partners to support development planning. The significant difference in outcomes between 2011–2012 and 2012–2013 could be partially due to the absence of data in CED’s Hermès systems for 2011–2012.

Table 15 Number of local stakeholders adhering to the plans

	2008 – 2009	2009 – 2010	2010 – 2011	2011 – 2012	2012 – 2013	Total
Number of local stakeholders adhering to the development and diversification plans	722	700	427	242	1,256	3,347

Source: CFDC performance data.

In the context of the survey of CFDCs and BDCs, as shown in Table 16, the respondents said that they had consulted a variable number of external agencies while preparing development plans. These data closely resemble the data obtained during the 2009 evaluation.

Table 16 Number of agencies consulted for development plans

	0	1 to 5	6 to 10	11 to 15	16 to 20	21 to 25	26 and +	Don't know	Total
On average, how many agencies were consulted for the development plans?	2	12	13	12	6	2	7	3	57

Source: Web survey of CFDC and BDC representatives (2014).

Signs that the plans supported or completed by the CFDCs are up to date and that the community is encouraged to participate

Among the local economic development clients who said that the CFDC had participated in preparing their community’s development plan, 36% (19/53) said that the CFDC had been the initiator. All of these clients (19/19) said that the CFDC had consulted them on preparing the plan and that the community’s level of participation in its preparation had been appropriate. These same clients said that these consultations were mainly done in person during meetings (17), as well as in the form of telephone consultations (8) and written consultations (3). These results are similar to those presented in the 2009 evaluation.

All of the respondents (51/51) to the CFDC and BDC representatives’ survey were of the opinion that the nature of the community’s participation in the development planning had been appropriate. All of the CFDC and BDC clients interviewed (20/20) as part of the telephone survey were of the same opinion. During the 2009 evaluation, nearly 90%

(52/58) of CFP organizations and 87% (41/47) of their clients believed that the nature of the community's participation in its development planning had been appropriate.

The CED representatives interviewed believed that the preparation of development plans by the CLDs was more transparent, given that the plans prepared by the CLDs became public documents and that a certain number of elected officials sat on their boards of directors.

Organization governance

The CFDC and BDC representatives interviewed said that there were mechanisms in place to ensure that the communities are involved in their organizations' strategic planning. These representatives also said that the boards of directors were representative of their communities and that public invitations to become members had been issued. According to the survey of CFDCs and BDCs, the means most often used to get the community involved in their organization's strategic planning were meetings with community stakeholders, boards of directors that reflected the community and regular updating of the strategic plan. Nearly half of the respondents said that they rarely or never used meetings or strategic planning sessions with the public (26/56).

Generally, the CED representatives interviewed believed that the CFDC and BDC boards of directors were representative of their community. However, they believed that renewal of board members and "ideas" was a challenge; board members are in their positions for longer than those at the CLDs. The CED representatives also said that the CFDC and BDC board members tended to let senior management design or propose ideas on the organization's direction, while CLD board members seemed to play a larger role in terms of their organization's direction. However, the CED representatives believed that the business offices did not always have excellent knowledge of CFDC and BDC governance. They said this knowledge is better when CED representatives take part in these organizations' board meetings. Since 2008, new guidelines set out the participation of CED employees in the board meetings of other organizations given the legal obligations of board members, especially the obligation to act in the best interest of the organization they manage as board members. However, these guidelines do not preclude a CED employee's participation in board meetings, and agreements between CED, the CFDCs and BDCs support the participation of CED employees in board meetings.

Local economic development projects and initiatives implemented

According to the data from the survey of CFDCs and BDCs, on average, each CFDC and BDC takes part in 16 local economic development projects per year. Moreover, among the 96 local economic development clients surveyed, 70 said that assistance from the CFDC focused on completing a local economic development project. The performance data also demonstrated that, every year, each CFDC helped an average of 6 local economic development projects identified in the development plans.

Number of partners taking part in local economic development initiatives implemented by CFDCs

All those who responded to the survey of CFDC and BDC representatives said that they had established partnerships in their communities (56/56). They said that their main partners were the CLDs, the municipalities, the chambers of commerce and CED. Of the CFDC clients surveyed, 73% (70/96) of those that received local economic development assistance said that collaboration with the CFDC allowed them to develop one or more partnerships.

Impact on the effective implementation of community economic development through projects, partnerships and other community development initiatives

All of the clients surveyed who said that their community's development plan had been prepared by their CFDC (19/19) indicated that the activities of that CFDC supported the implementation of the plan. They said that the CFDC's collaboration was mainly in the form of:

- counselling, consultation and coaching services;
- assistance in completing projects; and
- financial assistance and assistance developing a financing package.

Quality of partnerships related to planning and to local economic development initiatives

According to the CFDC and BDC representatives interviewed, the development plans prepared by the CFDCs often aligned with those of the CLDs, but there was not necessarily a formal consultation process. The CFDC and BDC representatives said that their plans were closer to the community's needs because they were not influenced by directions from Quebec or Ottawa. The external stakeholders interviewed had little knowledge of how the CFDCs prepared the development plans, but they were generally of the opinion that these plans aligned with the CLDs' plans, which were the communities' main development plans.

In terms of the community taking charge, data from the survey of CFDC and BDC representatives indicate that they use governance mechanisms aimed at integrating the community's challenges into their decision-making process. The respondents said that their organization used a board of directors made up of members who represented the organization's territory (97% or 57/59) and a variety of sectors (95% or 56/59). However, data from this survey indicate that the CFDCs and BDCs do not always use public communication mechanisms to solicit the community's participation in their organization's strategic planning. A little over half of the respondents said that their organization often or sometime issued public invitations for membership (30 out of 58) or planning meetings with the public (30 out of 59).

3.2.3 To what extent have CFP activities and immediate outcomes helped to achieve intermediate outcomes?

Summary answer:

The perceptions of the clients surveyed and of the CED, CFDC and BDC representatives interviewed were very positive in terms of the impact that CFDCs and BDCs have on improving their clients' business practices, and supporting business start-ups, business survival and business growth. During the 2008–2009 to 2012–2013 period, assistance from these organizations helped to start up 972 SMEs and to purchase 1,137 SMEs. This assistance also contributed to the improvement, modernization and expansion of 4,225 SMEs.

Statistics Canada's data indicate that businesses funded by CFDCs and BDCs saw a greater increase in their revenues than did comparable businesses that did not receive funding from these organizations.³¹ This gap tended to increase over time, growing from 3.8 percentage points for the period from 2003 to 2008 to 8.1 percentage points for the period from 2005 to 2010.

In terms of local economic development, according to representatives from the CFDCs, their organizations initiated projects that aimed to resolve emergency situations for the community. The CFDC clients' perception was also very positive in terms of their impact on their communities.

Although the CFP achieved the outcomes above, this question cannot be answered, as the program had no targets in terms of performance.

Perception of the CFP's impact on improved business practices, and the start-up and growth of businesses

The perception of surveyed clients was very positive in terms of the impact the CFDCs and BDCs had on improving their clients' business practices, supporting business start-ups, and helping businesses to survive and grow. Over 90% of clients who received assistance to start a business or for an existing business said that the CFDCs and BDCs had been "very

³¹ Statistics Canada's analysis examines the evolution of the performance of the same business cohorts by going back over a period of five years. For example, the performance of businesses that had active loans in 2008–2009 (including the loan disbursement, the moratorium period and the loan repayment) is measured from 2003 to 2008.

successful” or “somewhat successful” in achieving these outcomes. These results are higher than those noted in the 2009 evaluation.

According to the CED representatives interviewed, the CFDC and BDC outcomes demonstrated that these organizations helped to improve business practices, to create businesses and to allow them to survive and grow. Almost all of the CFDC and BDC representatives surveyed said that their organization had been able to support business start-ups (56/58), to maintain businesses in the community (57/58) and to improve their clients’ skills and knowledge (55/56). These data are similar to those in the 2009 evaluation.

Number of business start-ups

As shown in Table 17, CFDCs and BDCs helped to start 972 SMEs between 2008–2009 and 2012–2013. Assistance from the CFDCs and BDCs also helped in the acquisition of 1,137 SMEs and in the improvement, modernization and expansion of 4,225 SMEs.

Table 17 Number of SMEs started, acquired, improved, modernized or expanded

	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	Total
Number of businesses created	192	205	184	192	199	972
Number of businesses acquired	234	237	162	277	227	1,137
Number of businesses improved, modernized or expanded	859	861	798	829	878	4,225

Source: CFDC and BDC performance measurement.

CFP impact on capacity for socio-economic development

According to the CFDC representatives interviewed, they were very often involved in projects aimed at resolving emergency situations for the community and they were often the ones who initiated these projects. For example, when tobacco cultivation came to an end in Lanaudière, the CFDC had the initiative to adapt and change to an alternative crop—hemp. In fact, several food products were developed by local producers because of assistance from a CFDC.

Moreover, the CFDC and BDC representatives surveyed said that these organizations had influenced the community to take charge of and develop its capacities (53/56), and improved their clients’ skills and knowledge (55/56). The CFDC clients surveyed generally had a positive perception of the impact of these organizations. Generally, over 90% of local economic development clients believed that the CFDCs had succeeded in achieving their outcomes.

Client sales growth over a five-year period (versus comparison group)

The data from Statistics Canada allow for a comparison between the variation in the sales of businesses that had received one or more loans from a CFDC or BDC and those of other businesses in Quebec. This data is on businesses with fewer than 100 employees and are used to measure the variation in sales over a five-year period. As shown in Table 18, businesses funded by CFDCs and BDCs saw a greater increase in their revenues (percentage) than did businesses that did not receive funding. Moreover, the gap tended to increase over time, growing from 3.8 percentage points for the period from 2003 to 2008 to 8.1 percentage points for the period from 2005 to 2010.

Table 18 Average annual sales growth by business size in Quebec

Evaluation Year	2003–2008				2004–2009				2005–2010			
	CFP-assisted Businesses		Comparable Group		CFP-assisted Businesses		Comparable Group		CFP-assisted Businesses		Comparable Group	
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
Businesses with fewer than 100 employees	13.4	586M (664M → 1.25B)	9.6	14.87B (25.54B → 40.41B)	13.7	1.062B (1.182B → 2.244B)	6	15.68B (46.568B → 62.248B)	13.2	0.908B (1.053B → 1.961B)	5.1	9.239B (32.784B → 42.023B)
Businesses with fewer than 20 employees	12.3	N/A	8.3	N/A	10.6	N/A	4.1	N/A	8.6	N/A	3.1	N/A
Businesses with 20 to 100 employees	15.7	N/A	14.3	N/A	17.9	N/A	11	N/A	19	N/A	10.7	N/A

Source: Statistics Canada.

3.2.4 To what extent have CFP activities and immediate and intermediate outcomes helped to achieve ultimate outcomes?

Summary answer:

Desired outcome: Economic stability, growth and job creation

According to Statistics Canada's data, employment growth was proportionally higher in businesses that received funding from a CFDC or a BDC than it was in businesses in the comparable group. However, the performance gap seemed to decrease over time, going from 4.6 percentage points for the period from 2003 to 2008 to 1.8 percentage point for the period from 2005 to 2010. Proportionally, businesses with fewer than 20 employees saw stronger employment growth than did businesses with 20 to 100 employees. In this category, businesses in the comparable group saw stronger employment growth than did those that were funded by CFDCs and BDCs during two of the three periods studied. It was not possible to qualify economic stability.

Desired outcome: Diversified and competitive local rural economies

Statistics Canada's data indicate bigger productivity gains in businesses that were funded by the CFP. This gap was wider in businesses with 20 to 100 employees than it is in businesses with fewer than 20 employees. It was not possible to qualify diversification.

Desired outcome: Economically sustainable communities

Statistics Canada's data indicate that businesses' survival rate was proportionally higher in businesses that had received funding from a CFDC or a BDC than it was in businesses in the comparable group. In fact, the survival rate after five years is between 18 and 20 percentage points higher for businesses that received a loan from a CFDC or BDC. Although the CFP achieved the outcomes above, this question cannot be answered, as there were no targets in terms of the program's performance indicators. Moreover, the indicators used to answer this question focused only on assistance to SMEs. The anticipated contribution of local economic development activities to the achievement of the three ultimate outcomes desired is not defined in the performance measurement.

Recommendation: 6. Local economic development needs and outcomes should be clearly defined.

Variation in employment growth over a five-year period

According to Statistics Canada's data, employment growth was proportionally higher in businesses that received funding from a CFDC or BDC than it was in businesses in the comparable group. However, as illustrated in Table 19, the performance gap seemed to decrease over time, going from 4.6 percentage points for the period from 2003 to 2008 to 1.8 percentage point for the period from 2005 to 2010. Businesses with fewer than 20 employees performed better than did businesses with 20 to 100 employees. In this category, businesses in the comparable group performed better than did those that were funded by the CFP during two of the three periods studied.

Table 19 Average annual employment growth by business size in Quebec

Business Size	2003-2008		2004-2009		2005-2010	
	Funded SMEs	Comparable Group	Funded SMEs	Comparable Group	Funded SMEs	Comparable Group
Fewer than 100 employees	9.4%	4.8%	4.7%	2.9%	4.0%	2.2%
Fewer than 20 employees	11.4%	5.5%	9.0%	3.4%	8.0%	2.5%
20 to 100 employees	5.4%	3.2%	0.4%	1.7%	-0.1%	1.5%

Source: Statistics Canada.

Sales growth per employee

As illustrated in Table 20, businesses funded by CFDCs and BDCs increased their productivity more than businesses in the comparable group did. This gap was wider in businesses with 20 to 100 employees than it is with businesses with fewer than 20 employees.

Table 20 Average annual payroll increase per employee by business size in Quebec

Business Size	2003-2008		2004-2009		2005-2010	
	Funded SMEs	Comparable Group	Funded SMEs	Comparable Group	Funded SMEs	Comparable Group
Fewer than 100 employees	N/A	N/A	3.9%	2.6%	4.2%	2.1%
Fewer than 20 employees	N/A	N/A	2.1%	2.3%	2.6%	2.0%
20 to 100 employees	N/A	N/A	6.6%	4.2%	6.6%	3.8%

Source: Statistics Canada.

Business survival rate after five years

Statistics Canada's data indicate that businesses funded by CFDCs and BDCs have a higher survival rate than do businesses in the comparable group. Over a five-year period, the survival rate of funded businesses varied between 81% and 83%, while the rate among other businesses varied between 61% and 65%. Moreover, the survival rate of businesses funded by CFDCs and BDCs was higher than those in the comparable group in almost every sector.

Perception of CFDCs' and BDCs' contribution to economic stability, employment growth and creation, diversification and competitiveness, and economic viability

According to the CED representatives interviewed, CFDCs and BDCs contributed to economic growth and to job creation in their community. Since the 1980s, these organizations have provided consulting services and invested in businesses in their community. The CFDCs' and BDCs' contribution to economic diversification was harder to determine, as they first work on their community's strengths and assets.

The CED representatives also said that CFDCs and BDCs provide local service, as they are located all across Quebec; CED cannot do this, as it has a more limited number of business offices. The CFDC and BDC representatives interviewed also said that they provided local service and that the ties they established with their community over the years allowed them to act quickly, effectively and relevantly. They said that CFDCs and BDCs can act much faster than governments (federal, provincial and municipal). This effectiveness and efficiency allowed them to achieve socio-economic results, among others.

With the exception of one respondent, all of the CFDC and BDC representatives surveyed said that their organization contributed to:

- the community's economic growth and stability (59/59);
- the community's diversification and development (59/59);
- the community's viability (58/59); and
- the survival of community businesses (59/59).

For the external stakeholders interviewed, the CFDCs and BDCs helped a small number of businesses. This assistance had a significant effect on their stability and growth. These stakeholders said that the business consultation services provided by CFDCs helped saved the businesses. However, few stakeholders were able to say whether the CFDC or BDC in their community had had a significant socio-economic impact. They said that these organizations' budgets were too small to have a macroeconomic impact and that they contributed less to the community's taking charge, as they did not have the staff needed to take part in all committees and issues tables. In a lot of cases, only the managing director had time to take part.

In the context of the case study of the Rivière-du-Loup and Vallée-de-la-Gatineau CFDCs, the outcomes of the local economic development project that were submitted during the 2009 evaluation of the CFP were examined more closely. Some projects seemed to have been productive, such as the creation of a vacationers' association in Vallée-de-la-Gatineau to encourage businesses to make the most of vacationers. The economic spinoffs of vacationers in the RCM increased from \$26M in 2007 to \$52M in 2014. However, other local economic development projects did not proceed.

3.2.5 What are the barriers to achieving the CFP's immediate, intermediate and ultimate outcomes, and to what extent are they being mitigated?

Summary answer:

According to the sources consulted, the main factor that had an impact on the CFP's outcomes was the lack of funding for business operations. With a few exceptions, each CFDC and BDC receives an almost identical contribution from CED, despite the fact that demographic weight varies greatly from one CFDC or BDC to the next.

Recommendation: 7. The resource allocation model for the operating costs of CFDCs and BDCs should be revised to ensure that this allocation is adapted to the communities' needs.

Identification of obstacles and their impact

Obstacles related to program operations

According to the CED representatives interviewed, there were no specific obstacles. On the financial front, funding provided under the agreements negotiated in 2011 were generally a CFDC and BDC budget freeze. These representatives also said that although CFDCs had been given more freedom in terms of using interest fees in these agreements, the non-indexation of funding could become an obstacle in the medium term. That said, in the context of fiscal restraint, the CFP compares favourably with other programs. Some CED representatives were also of the opinion that the \$150,000 loan limit should be increased and that there were an increasing number of exemption requests to this effect. CED estimated that there were 21 exemption requests for loans over \$150,000 during the period from 2009–2010 to 2012–2013.

Moreover, a CED representative said that there should be a closer link between the CFDCs' business plans and those of CED business office in order to promote better synergy. Some added that because human resources had been reduced at CED, there were fewer and fewer contacts in and visits to the CFDCs and BDCs. Although CED business offices receive the agendas and minutes of CFDC and BDC board meetings, a few CED representatives said that their knowledge of CFDC activities was more limited now than they no longer attended these meetings. This was also mentioned in the 2009 evaluation.

Although the CFDC and BDC representatives interviewed did not mention any obstacles, 47 of the 58 respondents to the survey of these representatives said that there were factors that could hinder their CFDC or BDC's capacity to assume its responsibilities. The main factor identified was the freeze on CED's contribution (38 out of 47). This obstacle was also the one that was most identified by CFDCs and BDCs during the 2009 evaluation.

The budget allocation model has not changed since the 2009 evaluation. With few exceptions, the CFDCs and BDCs still receive consistent funding. But the 2009 evaluation indicated that this allocation model still did not consider the communities' demographic weight and economic health. For example, between 2007–2008 and 2012–2013, the CFDC serving the smallest population (approximately 1,500 people) received \$3.2M, while the CFDC serving the largest population (approximately 105,000 people) received \$2.7M. Variation in the needs from one community to the next could explain why over one third of the CFDC and BDC representatives surveyed (20/58) did not list the freeze on CED's contribution as an obstacle to their operations.

Several of the CFDC and BDC representatives surveyed also noted the difficulty in recruiting and retaining employees because of the limited budget (19 out of 47). One CFDC representative interviewed said that, for budgetary reasons, salaries in the CFDCs were 5% to 10% lower than they were in the CLDs. This made it more difficult to recruit staff. Only three respondents identified CED contract clauses as factors that hindered their work.

During the 2009 evaluation, several CFDCs and BDCs identified bureaucratic burden and the lack of CED coordination. These two obstacles were mentioned only once during the 2014 evaluation. The 2009 evaluation also noted that there was a lack of program coordination between the regional development agencies. This obstacle was not mentioned in the 2014 evaluation. Since 2009, the agencies have worked together to coordinate the program's implementation and harmonize its performance measurement.

Obstacles related to the external context

According to the CED representatives interviewed, geographic isolation, economic health and the lack of leadership were the external factors that could be obstacles to achieving the CFP's outcomes. Moreover, over half of the CFDC and BDC business clients surveyed (237/449) identified obstacles, that main ones being the lack of funding, the challenge of marketing and of developing new markets, and competition.

3.2.6 To what extent is the CFP efficient?

Summary answer:

It was not possible to identify the part of CED funding that was used for assistance to businesses versus the part used for local economic development. The evaluation team was therefore not able to determine the cost of the outcomes achieved. With regard to coordination activities, representatives from CED, the CFDCs and the BDCs were generally of the opinion that the Network played its role well by ensuring the development and sharing of common tools for all of its members, as well as consistent communication.

Recommendation: 8. Agreements with CFDCs must specify which part of CED's contribution will be used for assistance to businesses and which part will be used for local economic development.

Ratio of operational costs to value of CFDC funding (loans and local economic development)

It is not possible to allocate total CFP expenditures by type of outcome. CED's contribution to CFDCs is not allocated between business assistance activities and local economic development activities.

Network activities and perceived value

At the national level, the CFNC brings together all of the CFDC associations. In Quebec, all of the CFDCs and BDCs are members of the Network. There are also informal regional groups in Quebec made up of CFDCs and BDCs from one same region.

Community Futures Network of Canada

In terms of information sharing, the majority of CFDC and BDC representatives surveyed said that the CFNC was "somewhat effective" (23/29) and one third of respondents (14/39) said it was "somewhat ineffective." Some respondents said that the idea of a national network was a good one, but that they did not use it much because there were few opportunities for discussion. Others said that the issues addressed by this network were at too high a level. The results of the CFDC and BDC survey could reflect the limited collaboration between the CFNC and the Network during the period studied in the evaluation. The 2009 evaluation indicated that Quebec CFDCs were removed from the CFNC in 2007 because they found that it had strayed too far from its mandate and had become too operational. However, the relationship between the CFNC and the Network has improved since the last CFP evaluation.

CFDC and BDC Network

The agreement between the Network and CED states that it plays a monitoring role, shares best practices and helps to coordinate special initiatives. Over 90% (53/58) of CFDC and BDC representatives surveyed said that the Network is “very effective” in terms of sharing information between the CFDCs and BDCs, while 10% (5/58) said that it was “somewhat effective.” Some respondents specified that the Network had excellent knowledge of its members, that it responded to requests quickly, and that it ensured that information and tools were distributed to its members. According to one BDC representative interviewed, the Network brings them together. The BDC interacts with the Network regularly, which allows it to communicate a consistent message to all of the organizations.

As set out in Table 21, between 2007–2008 and 2012–2013, the Network received \$21.3M (an average of \$3.5M per year), including the \$14.3M that was redistributed to the CFDCs and BDCs.

Table 21 CED contributions to the Network

	2007– 2008	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	Total
Total expenditures	\$4M	\$3.6M	\$3.6M	\$3.6M	\$3.2M	\$3.2M	\$21.3M
Operational expenditures— including service delivery to members	\$1.2M	\$1.2M	\$1.2M	\$1.2M	\$1.1M	\$1.1M	\$6.9M
Special initiatives (amounts transferred to CFDCs and BDCs by the Network)	\$2.8M	\$2.4M	\$2.4M	\$2.4M	\$2.1M	\$2.1M	\$14.3M

Sources: CED’s Hermès database and the financial statements verified by the Network.

Informal regional networks

Almost all of the CFDC and BDC representatives surveyed (58/59) said that these networks were “very effective” or “somewhat effective.” The respondents specified that they were closer to their individual concerns and that they allowed for discussions on local concerns and the development of joint projects. The respondents also said that meeting’s frequency varied from one region to the next and that they are sometimes not frequent enough.

3.2.7 Is there a most cost-effective way of achieving expected outcomes, taking into consideration alternative delivery mechanisms, best practices and lessons learned?

Summary answer:

According to the CED, CFDC and BDC representatives, the current program model was the most cost-effective for achieving the desired outcomes. The Network and the Business Development and Infrastructure Branch were the coordination mechanisms needed to ensure the consistent use of the CFP across CED business offices, CFDCs and BDCs.

For the CED representatives interviewed, the CFP was the most cost-effective way of achieving the expected outcomes, taking into account the reality in Quebec. They also said that abolishing the Network could be a way of saving money, but that it gave its members tools that allowed them to use their resources for community services. The representatives said that CED should strengthen its relationship with the Network and its participation in the CFDC conference. The CED representatives identified the following three issues:

1. The definition of “local economic development” should be clarified by questioning the evolution of how things have been done since the program was created. A narrow definition would ensure more consistent management of the agreements.
2. The limit of \$35 million that can be contributed to the common fund under the CFP should be increased. Exceptionally, CED has increased it, but it cannot make new contributions without modifying the CFP.
3. CED should examine the use of repayable contributions in the context of the CFP. Exceptionally, CED used them in the Start-up and Succession Initiative and the Business Support Initiative. The evaluation of these initiatives found that using repayable contributions ensured more effective management of government funds than using non-repayable contributions would have allowed. Under these initiatives, 75% of the amount invested by CED will be recovered by the CRF.

New contribution agreements

The CFDC and BDC representatives interviewed confirmed that the 2011 agreements gave them more flexibility. Based on certain criteria, they allowed the use of investment fund surpluses to fund operations and the use of operation budget surpluses to capitalize investment funds. Although CED did not index its contributions in the 2011 agreements, these agreements gave CFDCs great autonomy in term of managing the revenues generated. However, the CFDC and BDC representatives interviewed also said that they would like to see funding indexation to better meet needs. One CFDC and BDC representative wanted these organizations to once again have the opportunity to reach agreements with CED under its other programs so that they can develop activities that are adapted to the needs

of the community and a better relationship with the CED business office. This representative also said that other partnerships, besides the one with CED, needed to be developed.

According to the CED representatives interviewed, the agreements reached in 2011 were clearer, but there were still problems related to the interpretation of provisions. CED business offices often faced situations that were not set out in the agreements and they each had to interpret the provisions, while there were 66 CFDCs and BDC, and 40 CED advisers managing the CFP agreements. These representatives also said that it was important to have good communication even within CED. Two of the CFDC and BDC representatives interviewed also mentioned that there were problems with interpreting provisions in the agreements.

Among the points raised by the CED representatives, one said that five-year agreements allowed CFDCs to have some funding stability and another representative said that CED should allow CFDCs to manage their budget on a five-year basis, rather than a yearly basis. For example, if there is a surplus one year, the CFDC should be able to recover the surplus the following year. Moreover, one CED representative said that it would be relevant to collaborate further with CFDCs on local economic development, but that CED would need more human resources to do so. This same representative said that the agreements with CFDCs should direct this increased collaboration. Another representative said that the definition of business used in the CFP should allow for loans to individuals to buy shares in the context of a succession plan. The CFDC and BDC representatives interviewed said that too much accountability was required by CED and that it should trust the CFDC and BDC boards of directors more.

Mechanisms in place to support efficiency and economy

Formal partnerships between the BDC and some CFDCs and BDCs allow these organizations to approve a loan on behalf of the BDC. According to the CFDC, BDC and BDC representatives interviewed, this partnership reduced the timelines for approval of BDC funding and simplified relations between clients and their donors. These partnerships also allowed for the BDC's services to be extended in the regions. For the participating CFDCs, these partnerships allowed them to provide more funding than the \$150,000 limit by adding a loan from the BDC.

3.2.8 Are the investment funds well managed by the CFDCs? Are the loan loss rate and level of risk acceptable?

Summary answer:

According to CFDC and Capital Réseau financial statements, and to the CFDC and CED representatives interviewed, the investment funds were well managed by the CFDCs. In

light of the low loss rate, the level of risk seemed low. However, CED had not ruled on what it meant by an acceptable level of risk.

Number and percentage of loans written off, number and percentage of outstanding loans

The formula used for the annual loan loss rate was:

$$\text{Annual loss rate} = \frac{\text{Allowances for bad debts + write-offs}}{\text{Total investments}}$$

In this formula, the sum of investments was the sum of short-term receivables (for the next 12 months) and long-term assets (business investments). As shown in Table 22, the loss rate is down for both funds during the period studied. For the regular fund, the loss rate dropped from 5% in 2008 to 2.3% in 2013. The youth fund decreased from 3.7% in 2008 to 2% in 2013. A decrease in the loss rate for these two types of funds was also noted in the 2009 evaluation. Since the last evaluation, the average loss rate for the youth fund has been below the rate for the regular fund, despite the fact that youth fund loans are unsecured.

Table 22 CFDC loss rate

Loss rate	2008	2009	2010	2011	2012	2013
Regular fund	5.0%	5.0%	3.4%	2.7%	2.0%	2.3%
Youth fund	3.7%	3.6%	3.2%	3.1%	2.4%	2.0%

Sources: Capital Réseau and CFDC financial statements.

Percentage of funds in active loans

Between 2008 and 2013, the total of the investments funds grew from \$154M to \$183M, an increase of nearly 19%. During this period, the value of the regular fund and of the youth fund increased by 20% and 5.5%, respectively. Approximately half of these funds were concentrated in 20 CFDCs. The 2009 evaluation noted this as well.

Needed to meet its short-term obligations and maintain a minimum loan capacity, a CFDC's liquid assets represent the share of its investment fund that is not loaned to businesses. These liquid assets were invested in the common fund or in guaranteed investments. The liquid assets invested in Capital Réseau that were then loaned to other CFDCs were excluded from the calculation of the CFDCs' overall liquid assets. As illustrated in Table 23, the overall gross liquidity ratio went from 34.3% in 2008 to 27.7% in 2013. The 2009 evaluation noted an increased in this rate.

Table 23 Value of the funds and liquidity ratio of regular funds and youth funds

In dollars (\$M)	2008	2009	2010	2011	2012	2013
Regular funds (\$M)	136.9M	143.6M	149.3M	154.1M	159.0M	164.6M
Youth funds M)	17.3M	17.5M	17.9M	17.8M	17.9M	18.2M
Total (\$M)	154.1M	161.1M	167.2M	171.9M	176.9M	182.9M
Total gross liquid assets (\$M)	61.0M	67.7M	68.6M	71.7M	76.5M	75.7M
Liquid assets invested in Capital Réseau (\$M)	15.5M	18.4M	30.0M	31.8M	34.0M	39.3M
Capital Réseau borrowing (\$M)	8.2M	8.2M	18.3M	22.9M	23.6M	25.0M
Overall gross liquid assets (\$M)	52.9M	59.5M	50.3M	48.8M	52.9M	50.7M
Overall gross liquidity ratio (%)	34.3	37.0	30.1	28.4	29.9	27.7

Note: Liquid assets were calculated by combining the financial statements of the CFDCs and Capital Réseau. Capital Réseau borrowing included that from BDCs.

Sources: Capital Réseau and CFDC financial statements.

Perception of investment fund management

The CED business office representatives interviewed said that the funds were generally well managed and that the loss rate was reasonable. This same observation was made in the 2009 evaluation. These representatives also said that there were financial analysis gaps from one CFDC to another; some were less detailed. Systematically, the objective of CFDC investments was to complete the financing package and not be the only investor; clients were encouraged to seek funding from other sources. They also noted that the agreements with the CFDCs stipulated that the investment policies of the CFDCs that set out their loan activities should be submitted to CED.

According to the CFDC and BDC representatives interviewed, these organizations acted only after an in-depth analysis of the project's pre-financing. The CFDCs also had to choose loans for which the level of risk did not undermine the sustainability of their funding.

Moreover, the partnership between the BDC and some CFDCs and BDCs showed that CFP organizations showed reasonable due diligence. To this effect, the CFDC and BDC representatives interviewed said that their organizations spent an average of 30 hours before financing and 300 hours of follow-up per project. To enter into a partnership with the BDC, the CFDC or BDC had to submit a request and the bank had to verify the organization's reasonable diligence and loss rate. For the CFDCs and BDCs with an agreement with the BDC, the bank asked for their financial statements on an annual basis and had to be advised of changes made to staff and the loss rate. Some CFDCs were turned down by the BDC because their loss rate was too high. The BDC representative interviewed said that none of the files seen had had a reasonable diligence that was problematic. At March 31, 2014, 70 joint loans had been issued and over 30 CFDCs and BDCs had entered into an agreement with the BDC.

Extent to which clients were encouraged to seek funding from other sources

According to the survey of CFDC and BDC clients, 70% of loan clients for business start-ups (51/73) and 66% of loan clients for existing businesses (223/338) said that the CFDC or BDC had encouraged them to seek other sources of funding. The CFDC and BDC representatives interviewed also said that they strongly encouraged businesses to diversify their sources of funding and to use funding from banks and government agencies, like CED and the BDC.

Management's Response

Recommendations	Management's Response	Deadline
1. CED should document the needs that explain which regions are covered by CFDCs and CBDCs. It should justify the use of the CFP in urban areas with over 100,000 inhabitants.	To optimize and modernize the delivery of the CFP in Quebec, CED will work in collaboration with the Réseau des SADC et CAE to analyze and document the needs that explain the regions covered by CFP organizations and the use of the CFP in urban areas with over 100,000 inhabitants. This will support the work that will be undertaken for recommendation 7.	September 30, 2017
2. Agreements with CFDCs and CBDCs should include performance targets.	CED will work with the CFDCs, CBDCs and the Réseau des SADC et CAE to determine the performance targets in the agreements.	September 30, 2017
3. The information provided by CFDCs and CBDCs should be in a common format and there should be a sufficient level of detail to allow CED business offices to validate and follow-up on the results.	Since 2013-2014, CED has already launched a number of actions to respond to this recommendation.	Completed
	CED will work with the CBDCs and the Réseau des SADC et CAE to obtain the list of businesses that benefited from the technical assistance.	September 30, 2017
4. CED should validate performance information and enter it into the Hermès system.	Together with the Network of CFDCs and CBDCs, CED implemented directives on performance measurement to help ensure a common and consistent interpretation of the information.	Completed
5. Targets that are specific to Quebec should be set for the program's performance measurement strategy indicators.	The determination of targets that are specific to Quebec for the program's performance measurement strategy indicators will start in the 2015-2016 fiscal year. CED has already added CFP performance measurement strategy indicators to its own performance measurement framework. CED determined targets for those indicators in its 2015-2016 Report on Plans and Priorities.	September 30, 2017

Recommendations	Management's Response	Deadline
<p>6. Local economic development needs and outcomes should be clearly defined.</p>	<p>In 2014-2015, CED updated the definition of local economic development to ensure that the needs of communities are met according to the agreements.</p> <p>To improve performance measurement related to the CFP's local economic development at the national level, CED will consult and work with the other regional development agencies to develop one or more indicators.</p>	<p>September 30, 2017</p>
<p>7. The resource allocation model for the operating costs of CFDCs and CBDCs should be revised to ensure that this allocation is adapted to the needs of communities.</p>	<p>To optimize and modernize the delivery of the CFP in Quebec, CED will work with the Réseau des SADC et CAE to study the resource allocation model for the operating costs of CFP organizations and make recommendations that may be implemented under new agreements. This will be based on the needs analysis conducted for recommendation 1.</p>	<p>September 30, 2017</p>
<p>8. Agreements with CFDCs must specify which part of CED's contribution will be used for assistance to businesses and which part will be used for local economic development.</p>	<p>CED will work with the CFDCs and the Réseau des SADC et CAE to evaluate the portion of CED's contribution that will be used for assistance to businesses and the portion that will be used for local economic development.</p>	<p>September 30, 2017</p>

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