

**Written Submission for the Pre-Budget  
Consultations in Advance of the 2019 Budget**

**By the Community Futures Network of Canada**



## **Recommendations**

**Recommendation 1:** That the government further leverage the Community Futures network of 267 locally-directed organizations across rural Canada to support its overarching goal of ensuring a competitive Canadian economy.

**Recommendation 2:** That the government provide additional annual resources of \$43.35 million for 5 years to increase the ability of Community Futures Organizations to support federal priorities and deliver the Program's services.

**Recommendation 3:** That the government support the modernization of the terms and conditions of the Community Futures Program to better serve the needs of rural entrepreneurs and communities.

## **Submission: The Community Futures Network of Canada's Proposal for the Renewal and Modernization of the Community Futures Program**

It is well documented that one of the greatest challenges Canada faces in building a strong and vibrant national economy is the significant economic disparity that exists between its urban and rural communities.

Canada faces a challenge to ensure entrepreneurs in all regions of the country have ready access to a sufficient supply of capital to start and grow enterprises that can commercialize new ideas into valuable products and services. We need to encourage and nurture that development to ensure we can create the high-quality jobs that are needed throughout the country.

With enhanced resources, Community Futures will be well-positioned to continue to collaborate with the government to achieve our common goal of a strong, entrepreneurial, innovative and prosperous Canada.

**Recommendation 1: That the government further leverage the Community Futures network of 267 locally-directed organizations across rural Canada to support its overarching goal of ensuring a competitive Canadian economy.**

This government has made a commitment to help Canadian businesses grow, innovate and export so that they can create quality jobs and wealth for Canadians. We strongly agree with its priorities, such as supporting:

- Indigenous Economic Growth
- Women Entrepreneurs
- Innovation

We believe much work remains to be done in engaging rural Canadians in meeting these priorities. Initiatives like the *Women Entrepreneurship Strategy* and the *Innovation Superclusters Initiative* have tremendous potential to advance Canada's economy, but their announced delivery channels to date concentrates those supports in larger population centers. Entrepreneurs in Port Alberni, Flin Flon, and Gander deserve the same access to that programming as do entrepreneurs in Vancouver, Winnipeg or St. John's.

We believe that the Community Futures network represents a valuable infrastructure that should be considered as well-suited delivery agents for other federal programs and services across Canada.

Created in 1985, the Community Futures Program has always played a key role in the growth of small and medium-sized enterprises by providing access to capital, information and services, and in the economic growth of Canadian communities by fostering new approaches to

community economic development based on community strengths and information infrastructures.

The impacts in rural Canada generated by the Community Futures Program have been significant. From 2000-2016, Community Futures Organizations across the country made more than 91,000 loans worth over \$3.8 billion that created or maintained over 550,000 jobs. Those loans have also leveraged nearly \$6.5 billion in funding from other sources.

Annual studies of Community Futures clients conducted by Statistics Canada consistently show that, versus a control group, Community Futures assisted clients:

- Have faster employment growth (8.0% vs. 2.9% unassisted)
- Grow their sales faster (11.2% vs. 6.2%)
- Have a better survival rate (80% vs. 52%) after 5 years

Last year in Western Canada, over 26% of loans made by Community Futures Organizations (CFOs) were to support Indigenous Economic Development, and nationally, 23 of the 58 Aboriginal Financial Institutions that are members of the National Aboriginal Capital Corporations Association (NACCA) are Community Futures Organizations.

On average, CFOs report that 43% of their client base are women, and that 29% of their loans are to businesses with women as the primary shareholder – a sizeable improvement over the 16% number for the general entrepreneur population as cited by Minister Ng.

CFOs can contribute to the government delivering on results for these economic priorities with additional financial resources through a new allocation from the Treasury Board (i.e. not from the current budgets of the Regional Development Agencies).

**Recommendation 2: That the government provide additional annual resources of \$43.35 million for 5 years to increase the ability of Community Futures Organizations to support federal priorities and deliver the Program's services.**

Currently, funding to support the service delivery costs of CFOs varies significantly from region to region and even within regions. Surveys of CFOs across the country have revealed that the current level of funding, which has remained static for the past 10 years, has impacted the ability of CFOs to perform to their full capacity.

The Community Futures Network of Canada (CFNC) also believes strongly that dedicated resources need to be applied to community economic development so that all CFOs can more effectively engage in supporting the kinds of community-based projects and special initiatives that will be needed to advance government priorities in their regions. Examples could include engaging in pilot projects to advance the *Connect to Innovate* high speed internet initiative.

The total additional funds we are requesting to undertake these activities for each of the next five fiscal years is **\$43.35 million**. The breakdown of this figure, by region, is as follows:

<b>Region:</b>	<b>Total Additional Resources (\$M)</b>	<b>Service Delivery (\$M)</b>	<b>CED Funds (\$M)</b>
Atlantic	\$6.05	\$4.0	\$2.05
Quebec	\$10.35	\$7.0*	\$3.35
Ontario	\$9.80	\$6.3	\$3.50
West	\$13.80	\$9.3	\$4.50
North	\$2.6	\$2.2	\$0.40
CFNC	\$0.2	\$0.2	-
<b>TOTAL</b>	<b>\$43.35</b>	<b>\$29.0</b>	<b>\$13.35</b>

\* Includes increased capitalization for Quebec. Over the past four years, CFOs in Quebec have had to draw down \$10 million from their investment funds in order to cover shortfalls in their operating budgets.

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

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

Increased service delivery funding will make available adequate, equitable, indexed five-year funding to all CFOs in all regions of the country so that they are able to provide the level of service that their clients and communities require.

The increased resources would allow for a minimum, average level of funding of \$400,000 for service delivery to be put in place. This amount was determined through member surveys of operational costs, converting 1994 funding of \$250,000 into 2017 dollars, and the experience of CFO's in Quebec, who have been receiving that amount for several years and have been able to avoid some of the harmful impacts of funding shortfalls experienced in other regions.

Without additional funding, not only will the ability to deliver programming to address federal priorities be compromised, but the management of our existing \$1.2 billion in federal assets will be at risk due to a lack of staff capacity to effectively monitor our loan clients.

Increased community economic development resources are proposed to allow for direct CFO investment in initiatives to keep local economies competitive. “Community-based projects and special initiatives” are one of the four Community Futures Program activity areas for which CFOs receive funding support. Yet, in a number of regions in the country, no financial resources have been allocated to the CFOs to enable them to participate, in a meaningful way, in local community economic development (CED).

Local initiatives undertaken in Ontario, Quebec and the West over the years have clearly demonstrated that CED is extremely effective in addressing economic challenges and enabling communities to create local economic opportunities that, in turn, support and sustain local businesses. It is an approach that recognizes that local challenges and opportunities are as varied as individual communities themselves and that locally-driven approaches to addressing those challenges and pursuing new opportunities have the greatest chance of success.

The CFNC estimates that an annual CED allocation of \$50,000 per CFO would be appropriate. We propose that, in each region, regional CED Committees comprised of representatives from the CFOs and their respective Regional Development Agencies would be responsible for reviewing and approving applications for CED project funding. This would ensure that the projects with the potential to produce the greatest economic impact would receive funding or that the funds are used to support projects in communities that are experiencing significant economic challenges.

**Recommendation 3: That the government support the modernization of the terms and conditions of the Community Futures Program to better serve the needs of rural entrepreneurs and communities.**

The current terms and conditions of the Community Futures Program were put in place 9 years ago, with some of the provisions in place for far longer. Rural communities, entrepreneurs, and the conditions for conducting business have changed significantly in that time period. The Community Futures Program rules of operation need to be modernized to meet the present and future needs of clients. We suggest that the Regional Development Agencies engage with CFNC representatives to implement several changes:

1. CFOs should have the opportunity to provide financial assistance to any rural small and medium-sized enterprise or social enterprise up to a limit of \$300,000. The current normally accepted limit of \$150,000 has been in place for over 15 years, and the capital needs of entrepreneurs have grown steadily over that period. CFOs across the country have had to regularly request permission to lend amounts beyond their normally accepted limit of \$150,000, and standing exemptions are already in place in most regions of the country. It’s time to update the terms and conditions to reflect this reality.
2. CFOs should have the ability to charge a rate of interest that they feel is appropriate, while taking into account risk and ensuring they are not in competition with private sector lenders. Canada’s chartered banks and other traditional lending institutions offer

preferred interest rates for their business clients. CFO-assisted clients should not be penalized for their inability to access financing from traditional lenders.

3. CFOs have proven to be fiscally prudent stewards of public funds. They have successfully grown their initial investment fund capitalization from \$569 million to \$1.2 billion through loan repayments with interest from their small business clients. The CFNC believes that CFO's have earned the freedom to use these self-generated funds as they see fit, such as investing them back into their communities through initiatives that could help build a business community that embraces change, is willing to take smart risks, and is sufficiently resourceful to create new products and services.

## **Summary**

If rural communities are to fully participate in the effort to ensure Canada's competitiveness, a concerted effort and appropriate resources must be applied to the development of strong and vibrant rural communities across Canada. It is only by doing so that our rural communities can have the chance to create and maintain a climate that is conducive for entrepreneurs to start, grow and sustain successful business.

Community Futures Organizations have worked with entrepreneurs across the country to help them develop new and innovative products and services that can compete in today's highly competitive global marketplace. Our client group includes men, women, youth, Indigenous people and new Canadians. Much of our effort has been focused on providing entrepreneurs with the skills, training and capital they need to compete and prosper in a knowledge-based economy. We have also worked hard in our communities to promote and support clean and sustainable technologies.

The enhanced resources and program changes that we are requesting will strengthen the Community Futures Program in rural Canada to accelerate access to services to reach marginalized and underserved priority groups, provide responsive solutions to support the scaling up and expansion of small businesses to stimulate growth, meet the increasing capital needs required for entrepreneurs to operate in today's business environment, and support the sustainable development of Canada's rural communities through dedicated funding for community economic development initiatives.

We are confident that these supports will provide increased opportunities for all Canadians living in rural Canada to participate in the government's push to ensure Canada's competitiveness.