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An Entrepreneurial Approach to Job Creation in Rural Canada

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TABLE OF CONTENTS

ABSTRACT	1
1. INTRODUCTION.....	2
2. HISTORY OF THE COMMUNITY FUTURES PROGRAM (CFP).....	2
2.1 Creation of the CFP (1971–1979)	2
2.2 LEDA: The first community empowerment program (1980–1983).....	2
2.3 LEAD corporations (1984–1986).....	2
2.4 The CFP (1986 to today)	3
2.5 Working together (1995).....	3
3. MAJOR ACHIEVEMENTS.....	3
3.1 Operations, Territory and Population	3
3.2 Regional Development Agencies	4
3.3 Services.....	4
4. RESULTS	5
4.1 Loans and Job Creation.....	5
5. SUSTAINABLE COMMUNITY ECONOMIC DEVELOPMENT	7
5.1 Additional Tax Contribution	8
5.2 Investment Fund Capitalization by the Federal Government	9
6. PROVINCIAL AND TERRITORIAL OVERVIEWS.....	10
6.1 Local Governance and Volunteer Engagement: Key Factors in the Success of the CFP.....	10
6.2 What do independent researchers have to say?	10

An Entrepreneurial Approach to Job Creation in Rural Canada

ABSTRACT

Community Futures (CF) is a unique community-driven, economic development initiative designed to assist communities in Canada's rural areas to develop and implement strategies for dealing with a changing economic environment. This program was established in 1985 as part of the federal government's Canadian Jobs Strategy to mitigate the labour market adjustment needs in the country's non-metropolitan areas.

CF organizations provide communities with a variety of business development services, such as business loans, technical support, and training. They serve a population of close to 15 million residents, accounting for 45% of the Canadian population. The agencies are established in rural and semi-urban communities that face common challenges, including increased ageing of the population, migration of workers and businesses to urban centres, economic dependency on a limited number of industries, scarcity of resources and, in some cases, geographical isolation. They are also involved in a wide range of community initiatives, including strategic planning processes, research and feasibility studies, and a diverse range of community economic development (CED) initiatives. CF receives federal funding which is delivered through the Government of Canada's regional development agencies

Today, 30 years later, this board network of 269 CF community economic and business development organizations across the country has helped more than 120,000 entrepreneurs, created and maintained more than 495,800 jobs, invested more than CAD4.2 billion directly into Canada's rural economy, leveraged more than CAD8 billion in additional investment while being driven by more than 3415 volunteers and 1400 staff.

Keywords: Rural, entrepreneur, volunteer, community, economy, Canada

1. INTRODUCTION

For over 30 years, ever since the Community Futures Program (CFP) was established in 1985, Community Futures Development Corporations (CFDCs) and Community Business Development Corporations (CCBDCs) have been encouraging communities to direct their own futures. This unique program has given communities and their representatives the power to make their own decisions for the first time. Here is the history of this exceptional program.

2. HISTORY OF THE COMMUNITY FUTURES PROGRAM (CFP)

2.1 Creation of the CFP (1971–1979)

With the worldwide economic slowdown that came at the end of the 1960s, unemployment rose throughout regions of Canada. Many community-based strategies emerged at this time. The federal government decided to support these strategies by funding programs aimed mainly at improving the labour force in struggling regions. Slowly, the idea took shape to endow rural communities with the tools they needed to take a hand in their own development. In the wake of the Local Initiatives Program (LIP, 1971–1977), the Local Employment Assistance Program (LEAP, 1972–1983) and Canada Works (CW, 1977–1980), Employment and Immigration Canada (EIC) took on “community workers” who strove to find solutions for emergency situations. Lloyd Axworthy, then a member of the Legislative Assembly of Manitoba, came up with the idea as he encountered problems in his riding and decided to deal with them. The Organisation for Economic Co-operation and Development (OECD) even used LEAP as a model when it created the international Local Economic and Employment Development (LEED) program in 1982.

In 1978–1979, these initiatives spawned the idea for a completely new experiment: supplying communities with the necessary funding to bring leaders together within a small corporate structure and providing this body with an investment fund to support small business projects that were deemed financially viable and of interest to the community. This project, called Local Economic Development Assistance (LEDA, 1980–1983), promoted community empowerment and a grassroots approach to government involvement in local development.

2.2 LEDA: The first community empowerment program (1980–1983)

Launched in 1980 under the Liberal government, LEDA was the direct predecessor of the CFP. Two pilot communities undertook the initiative in 1979: Nanaimo, on Vancouver Island, and Guysborough, in Nova Scotia. The idea met with great success, and with this momentum, six other pilot projects were set up in 1981 in areas suffering from high and persistent unemployment. The projects were Agence ADEL Haute-Gatineau Inc. and ADELIM, on the Magdalen Islands, Québec; Bouctouche, New Brunswick; Kirkland Lake, Ontario; Battleford, Saskatchewan; and Hay River, Northwest Territories.

2.3 LEAD corporations (1984–1986)

These initiatives were so successful that the newly elected Progressive Conservative government decided to implement the program in communities facing economic difficulty. The program was operated through LEAP and known within the communities as LEAD corporations. In 1983, the Local Employment Assistance and Development (LEAD) program permanently replaced LEDA. Under their mandates, these corporations, which were mainly comprised of local businesspeople, representatives of financial institutions and people working for economic development, catered only to the small-business sector. For the first time, communities and their representatives had the power to make their own decisions. This was unheard of!

Soon, however, participants realized that business development is not possible in a social and cultural vacuum. Despite their important role, LEAD corporations had only a limited medium- and long-term impact because their development strategies did not have to take into consideration the major issues

that the communities faced, such as a lack of career opportunities for youth and the exodus of youth toward large economic centres, the quality of services, the departure of achievers and shortfalls in infrastructure. A holistic view of development and a strategic plan were needed. This dimension would be addressed by CFDCs.

2.4 The CFP (1986 to today)

Having gained much experience from the LEAP, LEDA and LEAD programs, and also inspired by the workings of the European community development system established in the 1970s, the government decided to launch a program to form Community Futures Committees (CFCs). CFCs would provide local communities, individuals and organizations with information and planning services, and help them initiate local socio-economic development. With the creation of the CFP, EIC wanted to address the deficiencies in previous programs by involving and integrating all the social and economic actors from each community sphere. This quotation from the first version of the program provides a clear summary of the government's intentions at the time:

[Translation] *“Furthermore, the CFP was created by EIC with the purpose of establishing the government's role as a participant in a process of community analysis, empowerment and sustainable development rather than as an administrative body, and of promoting community independence by reinforcing local decision-making and returning government assistance to a partnership level.”*

The CFP offered CFCs five avenues for involvement:

- 1) Create a fund for community initiatives
- 2) Acquire training in the form of professional training courses
- 3) Provide travel and job-finding assistance
- 4) Set up a Business Development Centre (CBDC)
- 5) Encourage independent activity through the Self-Employment Assistance (SEA) program.

2.5 Working together (1995)

At this point, LEAD corporations were included in the new CFP alongside CFCs under the name of CBDCs. Each evolved to meet a specific need: CFCs to address local development and CBDCs to provide employment development and business services. CFCs and CBDCs maintained a constant link through client and project referrals. Consequently, after a few years a stronger partnership between the two organizations became inevitable. In 1995, at the direction of Human Resources Development Canada (HRDC), the federal department responsible for the program at the time, the CFCs and CBDCs were merged to become Community Futures Development Corporations (CFDCs). Additionally, in what would become a turning point in the history of the CFP, the management of the Community Futures Program was transferred from HRDC to Canada's regional development agencies.

3. MAJOR ACHIEVEMENTS

Today, the CFP supports 269 CFDCs and CCBDCs in various regions of Canada. For members, exercising autonomy over their decisions and meeting their communities' needs first have always been fundamental principles, which originally came from the CFP. CFDCs and CCBDCs are all private not-for-profit organizations and non-agents of the government; only organizational powers (boards of directors and annual general meetings, or AGMs) can shut them down. Note also that the investment fund of any CFDC or CCBDC belongs to that organization, not to the government or shareholder organizations. It is the only local fund that belongs to the community.

3.1 Operations, Territory and Population

The 269 CFDCs and CCBDCs making up the Community Futures Network of Canada are located in all of the Canadian provinces, the Northwest Territories and Nunavut. They serve a population of close to

15 million residents, accounting for 45% of the Canadian population. The agencies are established in rural and semi-urban communities that face common challenges, including increased ageing of the population, migration of workers and businesses to urban centres, economic dependency on a limited number of industries, scarcity of resources and, in some cases, geographical isolation.

According to the 2011 census, 19% of Canadians lived in more than 4500 rural communities. However, this proportion varied from one region to next. While 14% in Ontario, the proportion of the rural population reached 75% in Newfoundland and Labrador and 100% in Nunavut and the Northwest Territories.

The area served by a CFDC generally consists of a group of communities sharing the same job market. The population served by a CFDC includes 55,000 residents, on average, with 23,000 residents representing the rural population. As such, the service area of CFDCs and CBDCs is not restricted to rural communities, but extends to the semi-urban areas of territories and provinces affected by the consequences of regional devitalisation.

3.2 Regional Development Agencies

The Government of Canada oversees the implementation of the Community Futures Program (CFP). In 1995, the Treasury Board approved the transfer of the CFP from Human Resources Development Canada to regional development agencies. Since then, the national program is administered as follows:

- Atlantic Canada Opportunities Agency (ACOA) for the four Atlantic provinces
- Canada Economic Development for Quebec Regions (CED)
- Federal Economic Development Initiative for Northern Ontario (FedNor)
- Federal Economic Development Agency for Southern Ontario (FedDev Ontario)
- Western Economic Diversification Canada (WED) for the four western provinces
- Canadian Northern Economic Development Agency (CanNor) for the two northern territories

3.3 Services

The CFP is a program that supports communities in their efforts to take charge of the economic development of their area. To achieve the objectives of this program, CFDC and CBDC activities and services focus on supporting local economic development and helping businesses through financing activities and advisory services.

The CFDCs and CBDCs support the preparation and implementation of local economic development plans and projects in partnership with local stakeholders. These activities vary widely in nature and are often related to the preparation of development plans or the implementation of specific projects related to the plans.

The CFDCs and CBDCs provide loans for business start-up, expansion, modernization, acquisition and turnaround to create and maintain jobs. The CFDCs and CBDCs are responsible for the sound management of their funds to ensure growth and sustainability.

The CFDCs and CBDCs also provide businesses, proponents and organizations across their territories with technical support services in the form of individual advisory services to improve their chances of achieving a successful business. This support can include advice on how to start-up a business, find potential solutions, support financial forecasting, seek funding, analyze situations, etc. Financial assistance is often paired with technical assistance to reduce loan-related risks and improve the chances of business success.

4. RESULTS

Since the program of local economic development activities differs significantly across communities, it is hard to present an overall picture of these activities. However, the following results focus on activities common to all of the Community Futures organizations in Canada.

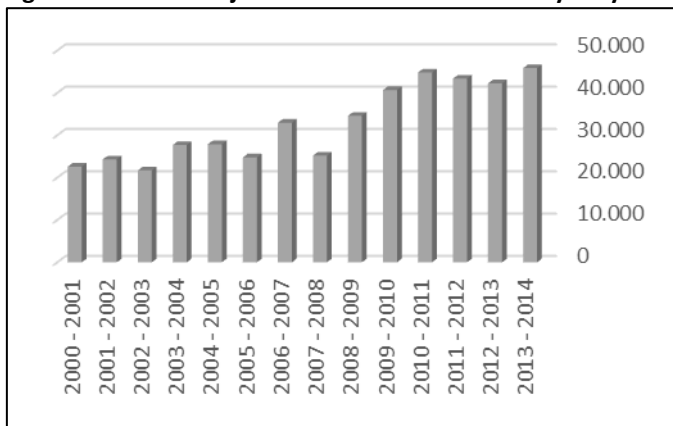
4.1 Loans and Job Creation

Thirty years after the establishment of the first CFDCs and CBDCs, the main objective of the CFP remains labour force development. Small businesses are the main underpinning of the Canadian economy, 87.4% have fewer than 20 employees and 10.7% between 20 and 100 employees. Only 2% of businesses across Canada have more than 100 employees¹. According to performance reports produced by the agencies, 90% of the businesses supported by the CFDCs and CBDCs under the CFP are small businesses (less than 20 employees).

CFP-supported businesses operate primarily in the trade, retail, manufacturing, accommodation and restaurant, and services sectors.

Since the group of CFDCs and CBDCs was formed in 1985, 495,800 jobs have been created and maintained. In 2013-2014 alone, 45,845 jobs were created – the most in a single annual period in the history of the CFP; this result is an outstanding achievement.

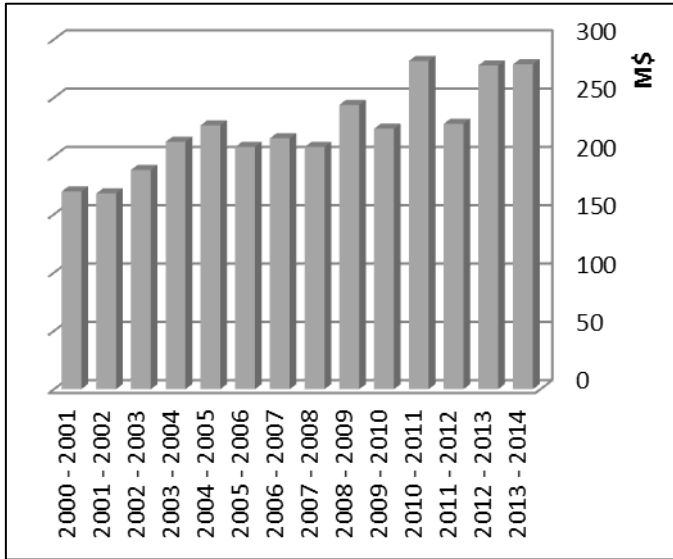
Figure 1. Number of jobs created and maintained yearly



Since 1985, the CFDCs and CBDCs have granted 119,800 loans for a total investment of \$4.2 billion. The total yearly value of loans was \$169.5M in 2000-2001 and rose to \$278.6M in 2013-2014.

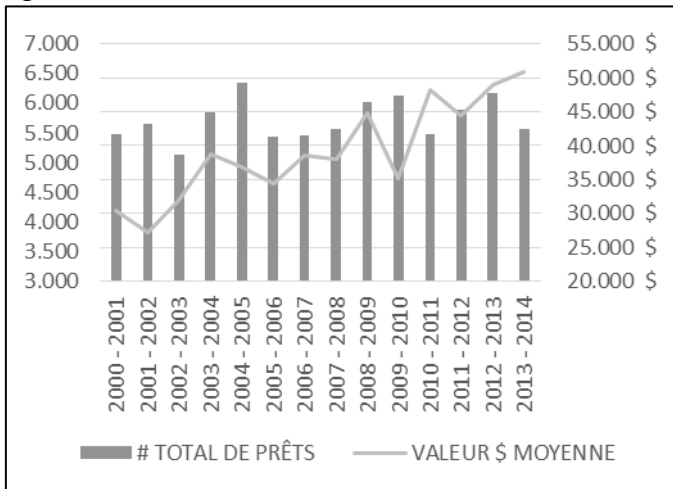
¹ Business Register of Statistics Canada

Figure 2: Total annual value of loans since 2000



Over the years, the number of loans has hovered around 5,500, while the average value of the loans has grown on a more constant yearly basis. As a result, the average value of loans increased significantly (by 67%) rising from \$30,000 in 2000-2001 to \$50,000 in 2013-2014. This figure is close to the average value of loans granted by all financial institutions in Canada² to businesses with one to four employees: \$61,935.

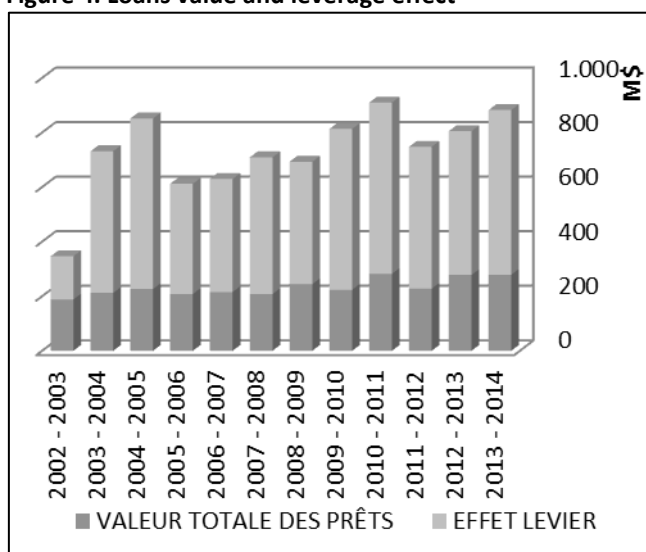
Figure 3. Loans to businesses: Evolution of the number and average value



The number of jobs created or maintained per business supported by the Community Futures Network of Canada also rose from 4.1 in 2000-2001 to 8.4 in 2013-2014. This increase is consistent with the increase in the average value of loans.

² Survey on Financing and Growth of Small and Medium Enterprises, 2011, Industry Canada

Figure 4. Loans value and leverage effect



Since 2002-2003, the cumulated leverage effect of investments made through the CFP amounts to \$6 billion. Combined with their total value of loans, the CFDCs and CBDCs have generated a total investment of \$9.2 billion to the Canadian rural economy over the course of the last 12 years.

In its annual reports, the Community Futures Network of Canada provides data on funding activities and jobs created, by province and territory. This data has been grouped together by geographic zone to correspond to the regions served by the regional development agencies.

Table 1. Funding activities and jobs created

ZONES	TOTAL NUMBER OF LOANS	TOTAL VALUE OF LOANS	LEVERAGE EFFECT	NUMBER OF JOBS GENERATED
West	20 385	852 993 192 \$	999 523 320 \$	72 845
Atlantic	21 998	740 042 981 \$	636 112 861 \$	57 176
Ontario	16 016	775 245 581 \$	1 269 994 018 \$	81 710
Québec	19 465	735 128 736 \$	2 905 326 526 \$	239 292
North	2 279	94 385 012 \$	126 016 923 \$	7 619
TOTAL	80 143	3 197 795 502 \$	5 936 973 648 \$	458 642

5. SUSTAINABLE COMMUNITY ECONOMIC DEVELOPMENT

Community Economic Development (CED) involves a holistic approach that fosters community autonomy and independence. To achieve such an objective, an initial emphasis is placed on strategic community planning which is followed by support for the development and implementation of local initiatives. The nature of CED varies enormously from one community to the next, since it reflects local-specific situations. This CFP component is a critical element for communities faced with economic challenges. It encourages collaborative action and generates local initiatives that help diversify the local economy of our communities. In this way, the CFP fosters economic stability, job creation and the growth of more sustainable businesses, as well as community productivity.

CFP performance reports issued by Statistics Canada on behalf of the regional development agencies demonstrate the incrementality of the program. Businesses that have been supported by the CFDCs and CBDCs show a better economic performance when compared with businesses without CFP support.

In the last four years, Statistics Canada has studied the performance of businesses that have received CFP support and compared them with other businesses with similar characteristics. This study is based on indicators common to all the federal agencies, such as employment, the survival rate of businesses, business volume and productivity.

The results of this study show that businesses financed by the CFDCs and CBDCs perform better because they create more jobs and experience higher growth in payroll than the businesses in the comparison group. In addition, the rate of survival and annual growth in sales figures of CFP-financed businesses is higher than the businesses without CFP support. In light of these results, it comes as no surprise that labour force productivity in businesses supported by the CFDCs and CBDCs exceeds that of businesses from the comparison group. It is clear that the CFP and the CFDCs and CBDCs contribute directly to improving the competitiveness of businesses and the creation of community wealth. Moreover, these more competitive and productive businesses generate new investments in the rural and semi-urban regions served by the CFP and contribute to the sustainability of their communities.

5.1 Additional Tax Contribution

The economic performance of the CFP also means additional revenues for the federal government. The positive impacts resulting from increased job creation, payroll, sales figures and the survival rate of businesses unquestionably translate into new tax revenues that significantly offset the government's investment in the CFP. For example:

- Personal income taxes resulting from the additional jobs and payroll
- Corporate income taxes resulting from the additional sales figures
- Goods and services taxes generated by the additional loans and sales
- Additional employee and employer contributions to group benefit plans
- Property taxes resulting from real estate investments related to funds received
- Others (licenses, fuel tax, etc.)

These tax revenues represent funds that allow the Treasury Board to offset inherent CFP costs. With regard to incrementality related to the growth in jobs and payroll alone, as indicated in the table below, CFP outcomes have reached \$786 million.

Table 2. Salaries generated by the CFP

Number of jobs generated by CFDC and CBDC loans	458 642
Average salary (*)	\$35,000
Additional job growth (2)	2.5%
Additional jobs	11,466
Payroll of additional jobs	\$401,311,750
Additional growth of payroll (**)	2.4%
Additional payroll	\$385,259,280
Salaries generated by the CFP	\$786,571,030
(*) CFIB, SMEs offer salaries 70% above the minimum wage	
(**) Statistics Canada, <i>Rapport sur le rendement de la CFP au Québec</i> , August 2014	

To obtain a clearer picture of the overall outcome of CFDC and CBDC loan activities, outcomes related to the survival rate of businesses and business volume growth also need to be considered. These calculations are trickier, however, since it is harder to estimate the sales figures of businesses.

Nonetheless, the actual impacts are not limited to new tax revenues. They are also visible at the social level through the revitalization of communities, the empowerment of local stakeholders and the integration of sustainable development processes.

5.2 Investment Fund Capitalization by the Federal Government

Each CFDC and CBDC has investment funds available to finance the start-up and development of local businesses. Based on documentary research³ and recent studies, the CFDCs and CBDCs have received \$570 million from the federal government to establish their investment funds. “According to data drawn from corporate financial statements and observations by agency representatives interviewed during program evaluation, the investment funds have been managed appropriately by the CFDCs and CBDCs⁴.”

The total value of investment funds of all the CFDCs and CBDCs has grown to \$1.2 billion. This figure represents an overall growth rate exceeding 130%, and an annual growth of close to 5% during the 2000-2014 period.

This success is all the more commendable, given the fact that the loans provided by the CFDCs and CBDCs often entails greater risks. Historically, in Quebec, 80% of CFDCs and CBDCs loans represent average to high risks.

As indicated in the following table, each dollar injected by the federal government into CFDC and CBDC investment funds has been loaned 5.6 times over the last fourteen years.

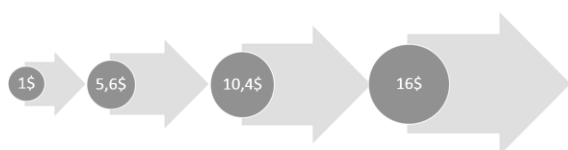
Table 3. Capitalization turnover

Federal Government Capitalization of CFP Investment funds	569 M\$
Total value of loans since 2000	3 198 M\$
Capitalization turnover (3 198 ÷ 569)	5.6 times

Furthermore, when the leverage effect/capitalization ratio is considered, it is fair to say that each dollar injected by the federal government has generated \$10.40 (\$5.937M/\$569M) in additional funding, other than through the CFP.

Therefore, every dollar of federal capitalization has generated \$5.60 in loans, and has leveraged an additional \$10.40, for an overall investment of \$16.

Figure 3. Capitalization Impact of CFDCs and CBDCs



³ 1st Pan-Canadian CFDC and CBDC conference, May 25 - 28, 2000.

⁴ *Évaluation du CDP*, prepared by Canada Economic Development, February 2015.

6. PROVINCIAL AND TERRITORIAL OVERVIEWS

The 269 CFDCs and CBDCs across Canada are grouped into 10 provincial associations and two territorial associations. Each association includes between 3 and 67 organizations. Their role varies from one region to the next, although it essentially consists of developing tools for members and fostering the sharing of information on local initiatives and business and governance practices. The following pages provide an overview of the wide variety of activities undertaken in each region using statistical data.

6.1 Local Governance and Volunteer Engagement: Key Factors in the Success of the CFP

Researchers agree that the CFP governance model and the role played by volunteers involved in CFDCs and CBDC activities has been the very foundation of the program's success, year after year.

The CFDCs and CBDCs are private non-profit corporations governed by boards of directors whose officers include local volunteers representing various business sectors and clientele. This board composition allows the CFDCs and CBDCs to analyze and assess the local economic development issues faced by their communities. Volunteer board members are elected during annual general meetings, to which local stakeholders are invited. These governing bodies serve as a mechanism for the local population to take an active part in the development of their region.

6.2 What do independent researchers have to say?

In 2014, Community Futures program evaluations were undertaken on behalf of the federal regional development agencies responsible for the delivery of the Community Futures Program across Canada. The reports from these independent evaluations demonstrate the phenomenal results that Community Futures organizations are achieving in all parts of the country. The following evaluation highlights offer insight into the impact we are having in our local communities.

Western Economic Diversification Canada – June 2014

Community Futures-assisted firms outperformed a comparable group of non-assisted firms in terms of employment growth, survival rate and revenue growth. Between 2005 and 2010, CF-assisted firms had an average employment growth rate of 9.5% compared to 4.2% for non-assisted firms. CF-assisted firms had a survival rate of 76% five years after start-up compared to 60% for non-assisted firms, as well as a revenue growth rate of 13.8% compared to 6.1% for non-assisted firms.

Overall, CF loan clients leveraged \$1.2 for every dollar disbursed by the CFs. Based on the total of all leveraged amounts for all CF activities, the Community Futures Program leveraged \$4.6 for every dollar spent by the department.

Industry Canada, Federal Economic Development Initiative for Northern Ontario – April 2014

Statistics Canada data analysis of Community Futures Program-assisted firms to a comparator group of non CFP-assisted firms showed that sales for CFP-assisted firms climbed from \$224.8 million in 2005 to \$376.2 million in 2010. This represents an average increase of 10.8% per year, which is far more than the 3.6% per year from non-assisted firms. Employment growth in CFP-assisted firms grew by an average of 7.7% per year over the five-year period (2005–2010) compared to 3.1% for the comparator group. The business survival rate for all CFP-assisted firms established between 2000 and 2005 was 84% after the crucial fifth year post start-up, compared with 64% for comparable firms started within that same time period.

Federal Economic Development agency for Southern Ontario – April 2014

CFDC loan clients grew faster, had higher rates of survival, and generated an estimated additional \$516 million in revenue, 3,865 jobs, and almost \$130 million in wages over a five-year period compared to similar businesses that did not receive loans. Statistics Canada data indicates that small- and medium-sized enterprises (SMEs) that received loans from CFDCs in southern Ontario

grew significantly faster (14.9% vs. 6.9%) and had higher survival rates (88% vs. 66%) after five years than similar businesses that did not receive CFDC loans.

Economic Development Agency of Canada for the Regions of Quebec – April 2014

With respect to survival, it is important to point out that businesses supported by the Community Futures Program (CFP) have higher survival rates than the comparator group after five years. There is a difference of 20 percentage points across all industries, with some sectors (e.g., hotel and food services and manufacturing) achieving a positive difference of 28 and 25 percentage points respectively, compared to the comparator group.

Atlantic Canada Opportunities Agency – June 2014

Community Futures Program-assisted firms are achieving better outcomes than comparable firms, particularly with respect to employment, growth and business survival rates. According to Statistics Canada data, the survival rate of CFP-assisted firms was higher than that for comparable firms by 20 percentage points after the crucial fifth year following start-up.

In brief, the CFDCs and CBDCs, together with the regional development agencies, and the CFP form a team that...

- drives business success,
- creates jobs,
- promotes projects,
- encourages investment and
- participates in community prosperity.