Western Economic Diversification Canada | Diversification de l'économie de l'Ouest Canada

Evaluation Of The Loan Investment Fund Program

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Ference Weicker & Company

Executive Summary

Purpose

The purpose of the study is to conduct an evaluation of the relevance, success and cost-effectiveness of the Loan Investment Fund Program (LIFP) of Western Economic Diversification Canada (WD).

Method of Study

The different evaluation methodologies that have been employed include the following:

- Survey of a random sample of 100 companies that obtained financing from capital providers that participated in the LIFP;
- Case studies of 12 companies that obtained financing from LIFP capital providers;
- Interviews with all of the major capital providers and other loan partners of the LIFP;
- Interviews with 17 small business financing experts throughout Western Canada;
- Interviews with 24 WD management and staff involved in the LIFP; and
- Comparisons with similar programs and services.

Key Findings and Conclusions

The following paragraphs summarize the key evaluation findings and conclusions regarding the relevance, success and cost-effectiveness of the LIFP.

Study Question	Findings and Conclusions
Relevance of the LIFP	
1. Does the LIFP address an actual need?	The study findings indicate that the LIFP does address an actual need. • 88% of WD staff and 78% of capital providers/loan partners interviewed indicated that the LIFP does address a need because it provides a safety net to encourage conventional lenders to provide financing to higher risk ventures. • 82% of the small business financing experts surveyed indicated that there are gaps in the loan financing available to small-and medium-sized enterprises (SMEs). Some of the financing gaps addressed by the LIFP are:

	• Loans of less than $50,000 to start-up and expanding SMEs, as conventional lenders are not very interested in providing loans of this amount; • Financing for start-up and early stage companies that cannot get financing due to inadequate security and management expertise; and • Knowledge-based and growth oriented companies that have difficulty in obtaining financing from conventional lenders.
2. Should the LIFP continue?	There exists strong support for the LIFP to continue. • Over 94% of WD staff, capital providers/loan partners and LIFP loan clients stated that the LIFP should continue. • 64% of small business financing experts indicated that the Government of Canada should influence private sector financial institutions to do lending to eliminate the gaps in financing available to SMEs, while only 7% of respondents felt that the Government of Canada should intervene directly by providing loan financing to SMEs.
3. Is the LIFP still needed for current government policy?	The consensus of WD staff interviewed is that the LIFP is still needed because one of the key means to stimulate economic development is to increase access to financing for SMEs. Other studies have demonstrated the importance of SMEs to the growth of the western Canadian economy.
4. Are the LIFP mandate and objectives adequately stated?	Program objectives need to be revised to take into account the involvement of the program in micro loan funds, which was not originally anticipated. • The micro loan funds are not aligned with the program objective to increase access to capital to SMEs in emerging industries. • Micro loan funds are also not aligned with the program objective to increase access to capital to targeted groups (i.e. Aboriginal and rural entrepreneurs and youth).

Success of LIFP	
5. To what extent did the LIFP move banks and credit unions into providing capital for higher risk ventures?	The LIFP has resulted in **some** change in moving banks and credit unions into providing capital for higher risk ventures. • The terms and conditions of the LIFP loans are more flexible than conventional bank loans; • Credit unions became involved to a much greater extent in the provision of micro-loans; • Greater involvement by financial institutions in providing financing to higher risk businesses such as start-ups and companies with limited equity; and • Greater involvement in providing financing to knowledge-based businesses and higher risk ventures that would have never received financing in the past (e.g. pre-positive cash flow companies, businesses at the pre-commercialization stage, etc.).
6. Has the LIFP increased access to capital for SMEs in emerging industries and in areas that are crucial to the growth and competitiveness of the western Canadian economy?	The LIFP has increased access to capital for SMEs in emerging industries and areas that are crucial to the growth and competitiveness of the western Canadian economy. • $145.4 million in loans have been made to date, primarily to SMEs in emerging industries such as knowledge based businesses, information technology, manufacturing, advanced technology, and agricultural value-added processing. • 92% of WD staff and 67% of capital providers indicated that the LIFP has increased access to capital for SMEs in emerging industries and crucial areas. • The impact of the LIFP has been reduced by the limited number of loans and the lower-than-expected take up rate of some of the sector loan funds. Most of the LIFP financing is incremental. • Only 16% of LIFP loan clients could have obtained financing from other sources. • The capital providers stated that only 17% of their LIFP loan clients would have received the same amount of funding in the absence of LIFP support.
7. Has the LIFP contributed to the	The incremental impacts of all LIFP clients from program

expansion and diversification of the western Canadian economy?	inception to December 2001 are estimated to be as follows, based on a confidence level of 90%; • Creation of between 2,900 and 5,450 jobs; • Incremental revenues ranging between $302 million and $762 million; and • Incremental exports ranging between $85 million and $128 million.
8. To what extent has the LIFP addressed gaps in the business skills and managerial expertise of LIFP loan clients?	The LIFP has had a limited impact on addressing gaps in the business skills and managerial expertise of loan clients. • Only 26% of the samples of loan fund clients were provided with business advisory services by WD staff prior to loan approval. • Only 21% of sample loan fund clients have received business advisory services from WD staff since their loan was approved. • Most loan clients that received business advisory services felt they were useful. • The types of business advisory services provided by financial institutions to loan fund clients consist primarily of a review of the business plan prior to loan approval, while the business advisory services provided after loan approval vary considerably by institution. The impact of the LIFP could be enhanced by devoting additional resources to increase the business skills and managerial expertise of LIFP loan clients. • Three-quarters of the capital providers and more than two-thirds of WD staff indicated that business advisory services should be provided by WD staff to LIFP loan clients prior to, and after, loan approval. • Other studies have demonstrated that the success rates of loan clients can be enhanced by the provision of business advisory services.

<table>
<tr><td>9. Were there unexpected or negative impacts from the LIFP?</td><td>The most significant adverse impacts are as follows:

• More involvement in micro-loan funds than initially anticipated;

• Lower than expected uptake of some loan funds, particularly knowledge based funds and francophone funds;

• Higher than expected loan losses of some loan funds;

• WD staff not doing as much business counselling as originally anticipated;

• Termination of the program by two banks; and

• More time spent with loan clients and reporting results to WD than initially anticipated by some financial institutions.</td></tr>
<tr><td colspan="2">Cost Effectiveness/Alternatives</td></tr>
<tr><td>10. Does WD's loan program duplicate other loan programs and services?</td><td>The LIFP does not significantly duplicate other loan programs and services.

• Most LIFP loan clients, capital providers and WD staff stated that the LIFP does not duplicate other loan programs and services.

• While some other government loans programs do exist that provide financing to SMEs in western Canada, most of these programs either target specific groups (e.g. Aboriginal, female or young entrepreneurs), target specific sectors (e.g. agriculture) or are available only in one province.

• The LIFP complements other WD programs such as the Community Futures Program.</td></tr>
<tr><td>11. Given alternatives, is the LIFP the most cost-effective way to increase access to debt financing for SMEs in the areas targeted by the LIFP?</td><td>The LIFP is a very cost-effective method of increasing access to debt financing for SMEs.

• 80% of the capital providers and two-thirds of WD staff indicated that the LIFP is the most cost-effective way to increase access to debt financing for SMEs.

• 64% of the small business financing experts indicated that the Government of Canada should influence financial institutions, rather than be involved in direct lending to SMEs, because it results in greater leveraging of capital and utilizes the lending expertise of financial institutions.</td></tr>
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	• The $21 million in WD-booked funds has leveraged $145.4 million in capital provided by banks and credit unions. The amount of other project financing raised by LIFP clients is estimated to range between $52 million and $71 million, based on a confidence level of 90%. As a result, the leveraging ratio of WD-booked funds is estimated to range between 9.7 and 10.7 to 1. • The annual administration costs of the LIFP as a percentage of the total value of the loans outstanding are estimated to be approximately 1.3%, which is lower than that of the Community Futures Program (2.7%) or the Business Development Bank of Canada (2.9%). The relatively low loan administration costs of the LIFP are due to the fact that most of the lending activities related to the LIFP are undertaken by financial institutions.
12. What program modifications to the LIFP, if any, should be considered?	The most frequent responses obtained by WD staff, capital providers and LIFP loan clients regarding program modifications are: • Increase the current degree of risk sharing by WD to ensure continued participation in the program by the banks and credit unions. • Increase the amount of business counseling/after care provided by WD to loan clients to increase their success rates. • Increase the degree of communication between WD staff and financial institutions' staff to better understand their loan approval criteria, improve take-up rates and increase collaboration between staff at the local level. • Encourage financial institutions to dedicate a person to be responsible for the program and to promote the program internally to staff at the branch level. • Encourage greater sharing of experiences and identification of best practices of the financial institutions involved in the program. • Standardize and streamline the reporting requirements of financial institutions to reduce the paperwork and decrease the time that they currently spend on reporting results to WD. • Continue with micro-loan funds but revisit the need for the loan funds with low take-up rates. • The maximum loan size of the micro-loan loan funds to add capital available to SMEs, particularly those that

	want to expand their operations. • Several small business-financing experts indicated that WD should work with more venture capital organizations to provide subordinated debt or equity financing to SMEs, as venture capital organizations are very experienced in dealing with high risk-ventures. These respondents as well as recent studies have indicated that a gap existing in equity financing to SMEs, particularly early stage companies and other companies that require less than $500,000 in equity financing.

Study Recommendations

Our recommendations to enhance the effectiveness of the Loan Investment Fund Program are as follows:

1. Continue with, and possibly expand, the current number and types of loan funds.

The current range of loan funds is necessary to enable the program to increase access to capital for small-and medium-sized enterprises in emerging industries, and in areas that are crucial to the growth and competitiveness of the western Canadian economy. Most of the funds with low take-up rates, with the exception of the francophone funds, have been terminated or have expired. The francophone loan funds provide WD with a cost-effective means of providing access to capital for a specific target group.

One possible area of expansion is to work with more venture capital organizations to provide subordinated debt or equity financing to SMEs, particularly early stage companies and other companies that require less than $500,000 in financing. Another possible area of expansion is to establish micro loan funds in urban areas such as Calgary that are not currently served by a micro loan fund.

2. Conduct detailed benefit cost analysis to determine the most appropriate manner and extent to which additional business advisory services should be provided before and after loan approval by WD to increase the success rate of LIFP loan clients.

The study findings indicate that the provision of additional business advisory services by WD could enhance the impact of the LIFP by reducing the loan loss rates and increasing the employment and revenues generated by LIFP loan clients. Some of the different methods of providing business advisory services that should be explored include use of WD staff, contracting out of this function, partnering with other organizations, and the establishment of mentorship programs to provide mentors with experience in different industry sectors.

3. **Organize regular meetings of WD staff, capital providers and other loan partners to share best practices and resolve common issues.**

These meetings should be held at least annually and more frequently, if necessary. Some examples of the issues identified as a result of the evaluation that should be discussed at these meetings include the following:

- Sharing of best practices regarding the manner in which LIFP loan funds are administered by the financial institutions (e.g. loan approval methods, repayment terms, loan fund promotion, etc.).
- Collaboration in projects of mutual benefit (e.g. more detailed research on the impacts of micro loan programs, research to determine the type and extent of after care support that should be provided by financial institutions to LIFP loan clients, development of a scoring tool that can be used by financial institutions in the micro loan application review process, etc.).
- Enhancement and coordination of the business advisory services provided to loan applicants by WD and the financial institutions.
- Standardizing and streamlining the reporting requirements of financial institutions to reduce the paperwork and time currently spent on reporting results to WD.
- Most appropriate approach to increase the degree of communication between WD staff and of financial institutions' staff to improve the referral activities, maximize take-up rates and enhance the collaboration between staff at the local level.
- Assessment of the need to increase the maximum loan size of the micro loan funds to enhance the capital available to SMEs, particularly small businesses that want to expand their operations.

4. **Undertake a more detailed assessment of the adequacy of current degree of risk sharing by WD to ensure continued participation in the program by the banks and credit unions.**

This assessment is required because, of the 18 financial institutions that have provided most of the capital to date, two banks have already terminated their loan fund agreements, two financial institutions indicated that they are not likely to renew their agreement, while four organizations indicated that they may be willing to renew their loan fund agreement.

5. **Revise the objectives of the LIFP.**

The objectives should be revised to account for the involvement of the program in micro loans, which was not initially anticipated at the start of the program. In particular, the objectives should recognize that the scope of the program extends beyond the provision of capital to emerging industries, specific areas (i.e. R&D commercialization, knowledge-based soft asset companies, traditional value-added and export oriented firms) and specific groups (i.e. Aboriginal and rural entrepreneurs and youth).

Table of Contents

I. Introduction

A. Purpose of Report

The purpose of this study is to conduct an evaluation of the Loan Investment Fund Program of Western Economic Diversification Canada (WD). The scope of the evaluation is on issues of relevance, success and cost-effectiveness. The specific evaluation issues that have been employed to conduct an evaluation of the Loan Investment Fund Program (LIFP) are as follows:

Relevance

1. Does the LIFP continue to be accurately focused on addressing an actual need?

2. Should the LIFP continue?

3. Is the LIFP still needed for current government policy, even assuming it is producing as expected?

4. Are the LIFP mandate and objectives adequately stated?

Success

5. In what manner and to what extent did the LIFP increase access to capital for targeted groups (i.e. Aboriginal and rural entrepreneurs and youth) and to small-to medium-sized enterprises (SMEs) in emerging industries and in areas that are crucial to the growth and competitiveness of the western Canadian economy (i.e. R&D commercialization, knowledge-based soft asset companies, traditional value-added and export-oriented firms)?

6. What has been the impact of the LIFP in assisting in the expansion and diversification of the western Canadian economy through the provision of incremental sources of capital to SMEs where gaps in financing for the targeted strategic sectors exist?

7. Did the LIFP strategically invest public funds in a manner that significantly leverages private sector funds by moving capital providers into higher risk, new economy ventures in support of SMEs?

8. In what manner and to what extent did the LIFP address gaps in business skills and managerial expertise experienced by SMEs?

9. Were there unexpected or negative impacts from the LIFP?

Cost Effectiveness

10. Does the LIFP duplicate other loan programs and services?

11. Given alternatives, is the LIFP the most cost-effective way to increase access to debt financing for small and medium sized businesses in the areas targeted by the LIFP?

12. What modifications, if any, should be considered to the current program design and delivery methods to increase the effectiveness, including cost effectiveness, of the LIFP?

B. Method of Study

The different methodologies that have been undertaken to conduct an evaluation of the LIFP include the following:

1. Review of LIFP documentation including individual loan fund agreements, evaluation studies, client satisfaction surveys, program guidelines and status reports.

2. Review of LIFP management information systems including WD client tracking systems and information provided by loan fund partners.

3. Interviews with 24 WD employees including staff of Capital Services Secretariat and other WD staff that are the primary WD contact for the loan fund partners, Directors of Client Services, Client Services Officers in each province, and WD Senior Management.

4. Interviews with 32 capital providers and other loan partners including representatives of participating financial institutions, Community Future Development Corporations (CFDCs) and francophone economic development organizations in each province.

5. Interviews with 17 small business-financing experts in western Canada.

6. Survey of a random sample of 100 companies that obtained financing from a capital provider as part of the Loan Investment Fund Program.

7. Case studies of a stratified sample of 12 companies that obtained financing from a capital provider as part of the Loan Investment Fund Program.

8. Brief literature review regarding the demand for financing and business advisory services by small-and medium-sized businesses in western Canada.

9. Comparisons with similar government programs and services.

C. Report Outline

Chapter 2 provides a brief description of the objectives, intent and activities of the LIFP. Chapter 3 summarizes the results of interviews with WD staff, capital providers/loan partners, small business financing experts and a random sample of 100 LIFP loan clients. Chapter 4 describes the key findings resulting from case studies of a sample of 12 companies that obtained LIFP financing. The last chapter provides a brief comparison of similar programs and services.

II. Description of Loan Investment Fund Program

The following paragraphs provide a brief description of the objectives, intent and activities of the LIFP.

A. LIFP Objectives

While the purpose and intent of the LIFP are described in the program documentation, the objectives of the LIFP are not formally stated. Similarly, the agreements with capital providers describe the purpose and objectives of the specific loan agreements, but do not formally state the overall objectives of the LIFP. However, the following program objectives can be inferred based on program documentation including the original Treasury Board submissions. The program objectives, as stated in the 1996 Evaluation Plan for the Loan/Investment Fund Program, are as follows:

1. Increase access to capital for targeted groups (e.g. Aboriginal and rural entrepreneurs, youth) and to small-to medium-sized enterprises in emerging industries and in areas that are crucial to the growth and competitiveness of the western Canadian economy (R&D commercialization, knowledge-based soft asset companies, traditional value-added and export-oriented firms).

2. Assist in the expansion and diversification of the western Canadian economy through the provision of incremental sources of capital to SMEs where gaps in financing for the targeted strategic sectors exist.

3. Strategically invest public funds in a manner that significantly leverages private sector funds by moving capital providers into higher risk, new economy ventures in support of SMEs.

4. Address gaps in business skills and managerial expertise experienced by SMEs.

The above program objectives need to be revised to take into account the large involvement of the program in micro loan funds, which was not originally anticipated. While they do make a significant contribution to the economy, the micro loan funds are not aligned with the program objective to increase access to capital by SMEs in emerging industries and in the targeted areas specifically mentioned (i.e. R&D commercialization, knowledge-based soft asset companies, traditional value-added and export-oriented firms). The micro loan funds are also not aligned with the program objective to increase access to capital by the targeted groups specifically mentioned (i.e. Aboriginal and rural entrepreneurs and youth).

B. Purpose and Intent

According to the Treasury Board approved Terms and Conditions for the LIFP, the overall intent of the program is to be an incremental source of capital to western Canadian firms. The program is intended to be pan-western in nature and to support the continued development and diversification of the western Canadian economy. The following paragraphs summarize the intent of the program as stipulated in the Treasury Board approved terms and conditions of the LIFP:

1. Eligible Recipients

WD will seek to negotiate and enter into loan/investment fund agreements with private and public sector providers of debt/equity capital (capital providers), including the Farm Credit Corporation and the Business Development Bank of Canada, to provide a pool of capital for loans and for equity investments in SMEs in targeted industries or with targeted groups. The LIFP will fill a key gap in the financing requirements of eligible firms where access to capital is a problem.

2. Payment Provisions

The LIFP will provide repayable contributions to capital providers for the establishment of loan/investment loss reserves to support industry loan/investment funds for SMEs in western Canada on commercial terms. WD will provide funding for capital providers, not exceeding in aggregate the lesser of 20% of the total Loan/Investment Fund to be provided by the capital providers or $10 million, in order for the debt/equity capital providers to establish and maintain Loan/Investment Loss Reserves. Capital providers and partners will provide commercial loan/investments to eligible firms.

3. Term of Agreement

The term of any Loan/Investment Fund Agreement made under the LIFP shall normally be not for more than 10 years. The loan loss reserve will be created and maintained by the capital provider and will consist of a booked funds portion based upon an allocation of each new loan/investment actually made by the capital provider and a non-booked portion representing the balance in the loan/investment loss reserve. Thereafter, debt/equity-financing activity under a Loan/Investment Fund Agreement shall cease and WD's share of the non-booked funds portion of the Loan/Investment Fund Agreement shall be repaid to WD with or without interest as negotiated. The booked funds portion shall continue to be administered in respect of all debt/equity-financing transactions which remain outstanding under the Loan/Investment Fund Agreement until the last of such amounts have been repaid or the management of the recovery process thereof is complete.

4. Risk Sharing

Losses can be partially mitigated through the taking of security from the borrowers, and others, and by WD's and the capital providers' contributions to Loan/Investment Loss Reserve(s). Net losses will be determined once the secured assets are seized and liquidated.

The amount that may be charged as net losses to a Loan/Investment Loss Reserve may include the principal balance of the loan/investment, the accrued interest, and all reasonable collection costs, including agency, receivership and legal costs and any out-of-pocket expenses incurred by the capital provider. WD will be responsible for an agreed upon percentage, not to exceed 80%, of net losses against the loan/investment portfolio, to a maximum of the booked portion of a Loan/Investment Loss Reserve and, in any case, WD's maximum liability for loan/investment losses shall not exceed WD's agreed upon maximum contribution under the Loan/Investment Fund Agreement. In the event that net losses exceed the booked portion of a reserve prior to the reserve being fully subscribed, any excess losses would be charged when the funds become available. Any losses that cannot be charged to the reserve are the responsibility of the respective capital provider.

5. Loan Terms

Each Loan/Investment Fund Agreement entered into between WD and the capital provider under the LIFP will define the loan parameters (i.e. loan size, loan term, loan repayment conditions, fees and charges, and interest rates) to be applied to individual loan arrangements entered into between the capital provider and eligible applicants.

6. Eligible Applicants

To be eligible to receive loan/investment funds, an applicant will:

- Be a firm involved, or about to become involved, in a targeted industry or targeted group;
- Be operating, or about to operate, as a firm in western Canada;
- Have less than 250 employees and annual total sales of less than $12 million; and
- Have demonstrated management commitment and financial exposure, such as a full time commitment to the management of the firm and a significant financial stake in the project.

7. Eligible Projects

Subject to the presentation of an acceptable business plan, eligible projects for loan/investment fund assistance will meet a relevant set of criteria to be established for each targeted industry or target group. The specific criteria may require tailoring for each target industry or group. The criteria will generally include:

- Research and development leading to commercialization;
- Pre-commercial and commercial product development;
- Market development; and
- New production and services capacity.

8. Loan Application and Administration Process

WD's role will include identifying, screening and referring eligible clients to the capital provider, path finding, fund promotion and communication activity in cooperation with the capital provider, and ongoing monitoring support and provision of business services to individual clients for approved projects. WD may assist applicants to complete a technology review and/or a business plan. The capital provider will be solely responsible for loan/investment approval decision and the administration of loans/investments under the Loan/Investment Fund Agreement. The capital provider will assume responsibility for their loans/investments and portfolio management, loan collection, reporting and accounting.

9. Management Committee

A Management Committee will oversee each Loan/Investment Fund and be comprised of members from the capital provider and WD. The Management Committee shall be responsible for all supervisory matters pertaining to the Loan/Investment Fund and may make recommendations to the parties for changes to the Fund that it considers necessary. The Management Committee may establish an industry or group Advisory Committee to provide input to them on the Fund administration and industry or group priorities.

Table 2.1
Characteristics of LIFP Loan/Investment Fund Agreements

Fund/Capital Provider	Fund Amount ($ Million)	WD Share of Loan Loss Reserve ($ Million)	Total Funding Approved*	Term
Active Sector Funds				
Agriculture Value Added (CIBC/FCC)	$100	$10.0	$44,994,457	1995 – 2005
Knowledge and Growth Fund (BDC)	15	3.0	4,270,000	2000 - 2004
Knowledge Based Businesses (CIBC)	20	2.5	4,800,000	1997 - 2004
Growth Capital Program (VanCity Cap Corp)	20	3.0	8,910,838	2000 – 2003
VanCity Conservation	4	0.6	-	2001 – 2003
EcoTrust Conservation	3	0.5	486,000	2001 – 2003
Sub-total	**162**	**19.6**	**63,461,295**	
Inactive/Expired Sector Funds				
Biotechnology (RBC)	30	3.8	764,000	1995 – 1997
Health (RBC)	20	2.5	2,702,410	1996 – 1998
Information Technology & Telecomm. (RBC)	40	5.0	7,758,093	1996 – 1998
Agricultural Value-Added (RBC)	20	2.0	-	1997 – 1997
Advanced Materials & Manufacturing (RBC)	20	2.5	950,000	1997 – 1997
Environmental Technology (TD) (Environment Canada)	40	5.0	5,444,167	1996 – 2000
Advanced Technology (TD)	40	4.6	12,930,774	1997 – 2000
Agricultural Value-Added (TD)	20	2.0	2,920,000	1997 – 2000
Knowledge Based Industries (BDC)	25	5.0	24,077,700	1995 – 2000
Tourism (BDC)	25	5.0	2,388,000	1996 – 2001
Sub-total	**280**	**37.4**	**59,935,144**	
Micro Loan Funds				
Self-Reliance Loan Program (VanCity)	15	$3.0	9,666,696	1997 – 2003
Assiniboine Credit Union	2.5	0.5	2,389,922	1998 – 2003
Saskatoon Credit Union	1.0	0.2	644,958	2000 – 2004
Page Credit Union	1.0	0.2	158,518	1999 – 2004
Capital City Savings & Credit Union	2.5	0.5	739,695	2000 – 2005
First Nations Bank	10	2.0	181,400	1999 – 2004
Sub-total	**32**	**6.4**	**13,781,189**	
Abled Funds				
VanCity	2.5	0.5	160,881	2000 – 2005
Coast Capital Savings and Credit Union	2.5	0.5	712,654	2000 – 2005
Sub-total	**5**	**1.0**	**873,535**	
Francophone Funds				
Sask. Fransaskois Fund (Page CU)	2.0	0.4	25,000	2000 – 2003
BC Francophone Fund (VanCity)	2.0	0.4	-	2001 – 2004
Alberta Francophone (Beaumont CU)	2.0	0.4	-	2001 – 2004
Manitoba Francophone (BDC)	2.0	0.4	-	2001 – 2004
Sub-total	**8**	**1.6**	**25,000**	
CFDCS (BC)				
10 Community Investment Loan Funds (Working Opportunity Fund with 10 CFDCs)	7.0	1.4	2,301,589	1997 – 2001
Community Investment Loan Fund (Columbia Basin Trust with 5 CFDCs)	4.0	0.4	2,975,806	1999 - 2004
CFDABC Community Enterprise Fund (ICBC)	10.0	1.0	2,075,000	2000 - 2003
Sub-total	**21.0**	**2.8**	**7,352,395**	
Total	**$508**	**$68.8**	**$145,428,558**	

* From program inception to March 31, 2002.

C. Types of Loan/Investment Fund Agreements

A total of 40 loan/investment fund agreements have been signed since the inception of the LIFP in 1995. As indicated in Table 2.1, these forty agreements consisted of 16 sector funds focused on specific emerging sectors of the economy, six micro loan funds, two loan funds targeted to assist entrepreneurs with disabilities, four loan funds geared to assist francophone entrepreneurs and 12 loan funds tailored specifically to provide additional financing to Community Futures Development Corporations (CFDCs) in BC.

The original focus of the LIFP was to establish sector funds that provided loans to companies in a specific industry sector. Between 1995 and 1997, twelve such loan/investment fund agreements were signed with the following five financial institutions: Royal Bank of Canada, Toronto Dominion Bank, Canadian Imperial Bank of Commerce, Business Development Bank of Canada, and Farm Credit Corporation. Some financial institutions such as the Royal Bank of Canada signed several loan/investment fund agreements, with each agreement focusing on a different sector of the economy (i.e. biotechnology, health, information technology and telecommunications, agricultural value-added, and advanced materials and manufacturing). The Royal Bank of Canada and the Toronto Dominion Bank decided to terminate their loan/investment fund agreements in 1997/98 and 2000, respectively. In addition, some other sector funds, such as the Tourism and the Knowledge Based Industries loan funds administered by BDC, have expired.

Commencing in 1997, the LIFP started to diversify and signed a number of different types of loan/investment fund agreements. Between 1997 and 2000, six different micro loan fund agreements were signed with five credit unions and the First Nations Bank to provide a total of $32 million in micro loans to start up and existing businesses. The credit unions administering these loan funds are based in Vancouver, Edmonton, Saskatoon, Regina and Winnipeg. As a result, micro loans are now provided to businesses located in all major urban centres in western Canada with the exception of Calgary. This action complements the Community Futures Program, which provides financing to SMEs in rural locations throughout western Canada.

Between 1997 and 2000, twelve different loan/investment fund agreements were signed to augment the funds available for lending by CFDCs in BC because these CFDCs had exhausted their sources of capital. The capital for these loan/investment fund agreements was provided by the Working Opportunity Fund, Columbia Basin Trust, and the Insurance Corporation of BC.

Some of the other types of loan/investment fund agreements negotiated recently include a fund in each province to assist francophone entrepreneurs and two abled funds to assist entrepreneurs with disabilities in BC.

Table 2.1 indicates that the total original value of the loan/investment fund agreements signed to date is approximately $508 million and that WD's original share of these agreements for the loan loss reserve is about $68.8 million. However, a number of loan fund agreements have expired or terminated. Furthermore, the maximum loan amount of some active sector funds has been reduced. By taking these aspects into account, the total value of LIFP loan/investment fund agreements is currently about $292.3 million and WD's share is approximately $43 million.

Table 2.2
Key Terms and Conditions of LIFP Loan/Investment Fund Agreements

Fund/Capital Provider	Maximum Loan Size ($ 000's)	WD Loan Loss Reserve (%)	Interest Rate Premium (%)	Maximum Term
Active Sector Funds				
Agriculture Value Added (CIBC/FCC)	1,000	10/20*	2 – 6	10
Knowledge and Growth Fund (BDC)	500	20	3 – 10	7
Knowledge Based Businesses (CIBC)	1,000	12.5	3 – 6	7
Growth Capital Program (VanCity Cap Corp)	500	15	6 – 14	7
VanCity Conservation	500	15	3 – 10	10
EcoTrust Conservation	500	15	3 – 10	10
Inactive/Expired Sector Funds				
Biotechnology (RBC)	500	12.5	3 – 6	7
Health (RBC)	500	12.5	3 – 6	7
Information Technology & Telecomm. (RBC)	500	12.5	3 – 6	7
Agricultural Value-Added (RBC)	500	10	3 – 6	7
Advanced Materials & Manufacturing (RBC)	500	12.5	3 – 6	7
Environmental Technology (TD) (Environment Canada)	500	12.5	0 – 6	7
Advanced Technology (TD)	500	11.5	0 – 6	7
Agricultural Value-Added (TD)	500	10	0 – 6	10
Knowledge Based Industries (BDC)	250	20	Negotiated	7
Tourism (BDC)	250	20	3 – 5	8
Micro Loan Funds				
Self-Reliance Loan Program (VanCity)	35	20	3 – 6	5
Assiniboine Credit Union	25	20	3	5
Saskatoon Credit Union	25	20	3 – 6	5
Page Credit Union	25	20	3 – 6	5
Capital City Savings & Credit Union	25	20	3 – 6	5
First Nations Bank	25	20	3 – 6	5
Abled Funds				
VanCity	75	20	3 – 6	5
Coast Capital Savings and Credit Union	75	20	3 – 6	5
Francophone Funds				
Sask.Fransaskois Fund (Page CU)	75	20	3 – 6	5
BC Francophone Fund (VanCity)	35	20	3 – 6	5
Alberta Francophone (Beaumont CU)	75	20	3 – 6	5
Manitoba Francophone (BDC)	375	20	1 – 6	5
CFDCS (BC)				
10 Community Investment Loan Funds (Working Opportunity Fund with 10 CFDCs)	75 – 125	20	2 – 5.5	5
Community Investment Loan Fund (Columbia Basin Trust with 5 CFDCs)	250	10	3	5
CFDABC Community Enterprise Fund (ICBC)	500	10	3	5

* 10% in first five years and 20% in next five years.

D. Terms and Conditions of Loan/Investment Fund Agreements

As indicated in Table 2.2, all 40 loan/investment fund agreements signed to date provide loan rather than equity financing to SMEs. Some funds such as the Growth Capital Program administered by VanCity Capital Corporation provide subordinated debt financing. The key terms and conditions of LIFP loan fund agreements are as follows:

1. Maximum Loan Size

   The maximum loan size of the active sector loan funds is $500,000 for some funds and $1,000,000 for other funds. The effective maximum loan size for most active sector funds is $1 million because, in most instances, the loan fund agreements state that the maximum that may be loaned to any firm shall not exceed $1 million.

   The maximum loan size for the micro loan funds is typically $25,000 with the exception of the VanCity Self Reliance Fund where the maximum loan size is $35,000. However, in most instances, the micro loan fund agreements state that, on an exception basis and where agreed to by WD and the financial institution, loans up to $50,000 may be considered.

   The maximum loan size of the CFDC loan funds provided by Columbia Basin Trust and ICBC is $250,000 and $500,000, respectively. These maximum loan sizes were established to enable CFDCs in BC to undertake larger than normal loans as the maximum loan size for CFDCs under the Community Futures Program is $125,000.

2. Loan Loss Reserve

   As indicated in the Table 2.2, WD's share of the loan loss reserve ranges between 10% and 20% for the sector funds and CFDC loan fund agreements, while the loan loss reserve is 20% for all micro, abled and francophone loans agreements.

3. Interest Rate

   The interest rate specified in most loan fund agreements is a rate equivalent to the financial institution's prime rate plus a premium that may range from 3% to 6%. However, as indicated in Table 2.2, some of the sector funds can charge interest rates of up to 14% above the prime rate.

4. Term of Loan

   The maximum term of the sector fund loans typically ranges between seven to ten years while the maximum term of the other types of loan funds is five years.

5. Eligible Projects

   Most of the loan fund agreements stipulate that eligible projects for loan assistance will indicate strong potential for commercial viability and be the following:

   - Research and development leading to commercialization;
   - Pre-commercial and commercial product development;
   - Market development; and
   - New production and services capacity.

6. Risk Management

Most LIFP loan fund agreements stipulate that WD's role will include the identifying, screening and referral of eligible clients, path finding, fund promotion and communication activity in cooperation with the financial institution, as well as some ongoing monitoring support and provision of business services for approved clients. Some loan fund agreements also state that risk management will be assisted by the availability of sectoral analysis expertise in WD and other government departments, as well as through assistance to applicant businesses to address management needs. Most loan fund agreements state that after care is a critical component of the loan program because studies of small business needs have indicated that the success rate for projects increases by 50% where support for management development is provided in tandem with project financing.

Some loan agreements, such as the agreement for the CIBC Information Technology and Telecommunications Loan Program, state that technological assessments of the potential for successful commercialization can be a critical factor, and financial institutions do not have this capacity. This agreement also states that WD will facilitate the applicant in obtaining expert advice and analysis where required for CIBC to complete its due diligence. In addition, this agreement states that, in order to reduce the costs to the potential applicant, a pre-screening process by WD, in consultation with CIBC, will eliminate those applications, which would not be eligible for loans under the loan program.

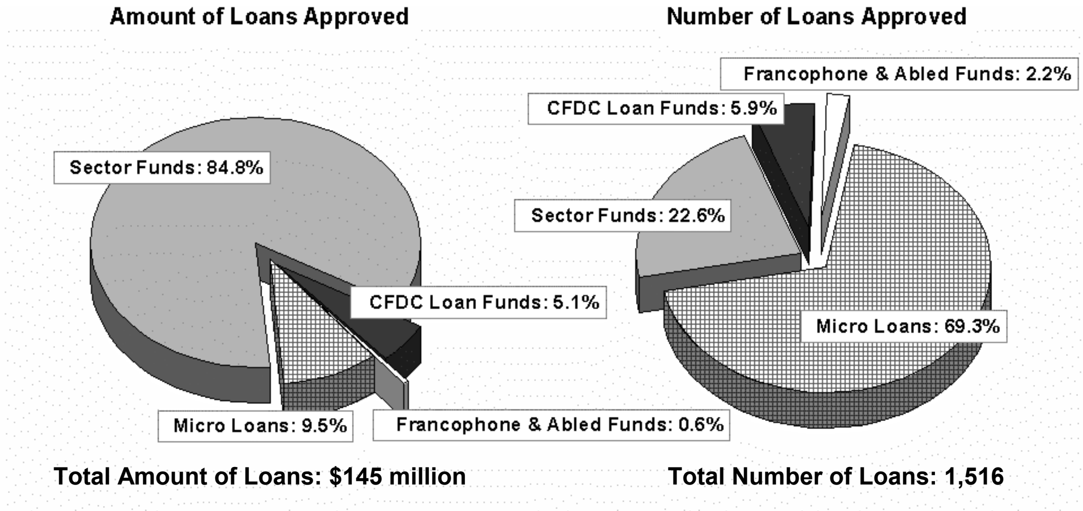
E. Description of Loans Approved

As indicated in Table 2.1, the total value of LIFP loans approved since inception to March 31, 2002 is approximately $145.4 million. The total value of loans approved to date is about 29% of the original value of $508 million of all loan fund agreements signed to date. The majority of this difference can be explained by the termination of a number of sector funds prior to the end of their term, lower-than-expected take-up rate of some funds, particularly sector funds, and the fact that most loan funds still have a few more years before the expiry of their term.

As indicated in Table 2.3, sector loan funds account for $123.4 million or about 85% of the total value of LIFP loans approved to date. The values of loans approved to date by micro loan funds and CFDC loan funds are approximately $13.8 million and $7.4 million, respectively. Only one loan for $25,000 from the francophone loan funds has been approved to date while the total amount of loans issued by the abled loan funds is less than $1 million.

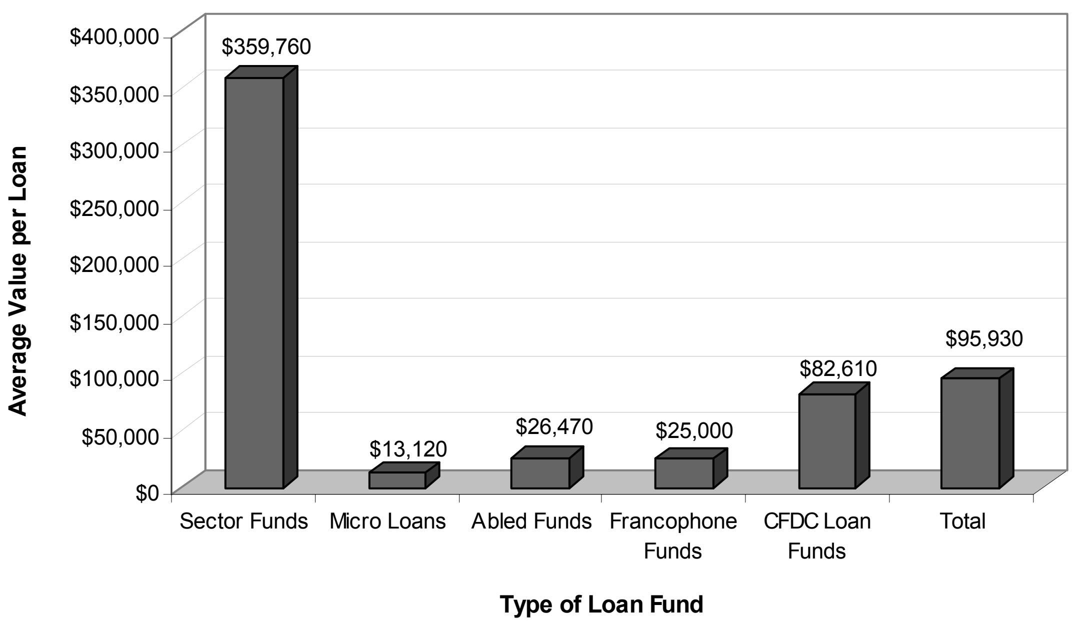
While micro loans account for only about 9.5% of the total amount of LIFP loans made since inception, they account for a significantly higher proportion of the total number of loans approved to date. As indicated in Table 2.3, a total of 1,050 micro loans have been approved which accounts for 69% of the total of 1,516 LIFP loans that have been approved since inception to March 31, 2002. As a comparison, a total of 343-sector fund loans have been approved which accounts for about 23% of the total number of LIFP loans to date.

Table 2.3
Number and Value of LIFP Loans by Type of Loan Fund



As indicated in Table 2.4, the average loan amount of all LIFP loans is $95,930. The average loan size is considerably smaller for loans provided by the micro loan funds ($13,120), francophone funds ($25,000), and abled loan funds ($26,470). The average loan size of $359,760 for sector funds is considerably larger than the average loan size of the other loan funds. Less than one quarter of the loans approved by the sector funds are for less than $200,000.

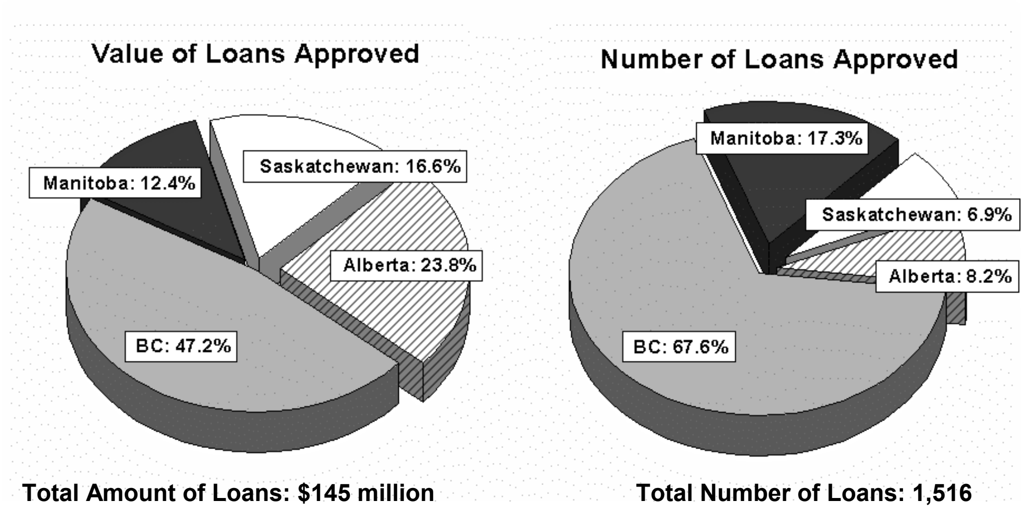
Table 2.4
Average LIFP Loan Size by Type of Loan Fund



As indicated in Table 2.5, BC accounts for 68% of the total number of loans and 47% of the total value of loans approved since inception of the LIFP. The high number of loans in BC is due primarily to the Self Reliance Micro Loan Fund administered by VanCity. The total number of Self

Reliance micro loans approved is 736, which is almost one half of the total number of LIFP loans.

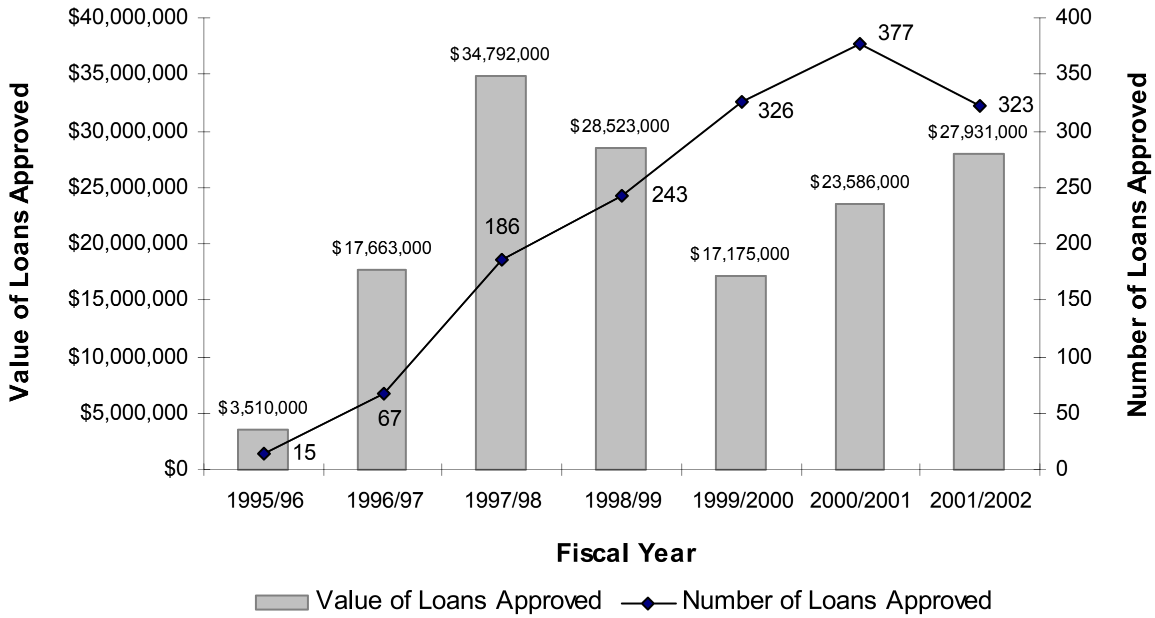
Table 2.5
Value and Number of LIFP Loans Approved by Province



The second most active province is Alberta, which accounts for 24% of the total value of LIFP loans and 8% of the total number of LIFP loans. The relatively low number of loans in Alberta is due to the fact that most (74%) of loans originated from sector loan funds.

As indicated in Table 2.6, the annual amount of LIFP loans approved peaked in 1997/98 at approximately $34.8 million and then declined to approximately half of this amount by 1999/2000. In the last two years, however, the annual amount of new loans approved has increased steadily to $23.6 million in 2000/01 and $27.9 million in 2001/02. More than 300 loans have been approved each year for the last three years. Approximately 80% of the total number of LFIP loans approved in the last three years (i.e. 1999/2000 to 2001/2002) consist of micro loans.

Table 2.6
Annual Number and Value of LIFP Loans Approved Per Year Since Inception



It is important to note that Table 2.6 indicates the number and value of new loans approved. Because some loans have not proceeded, reconciliation with the records of financial institutions has resulted in a reduction of loan approvals of $5,174,438 (13 Toronto Dominion Bank loans) in 2001/2002, and $2,528,000 (8 Royal Bank of Canada loans) in 1999/2000.

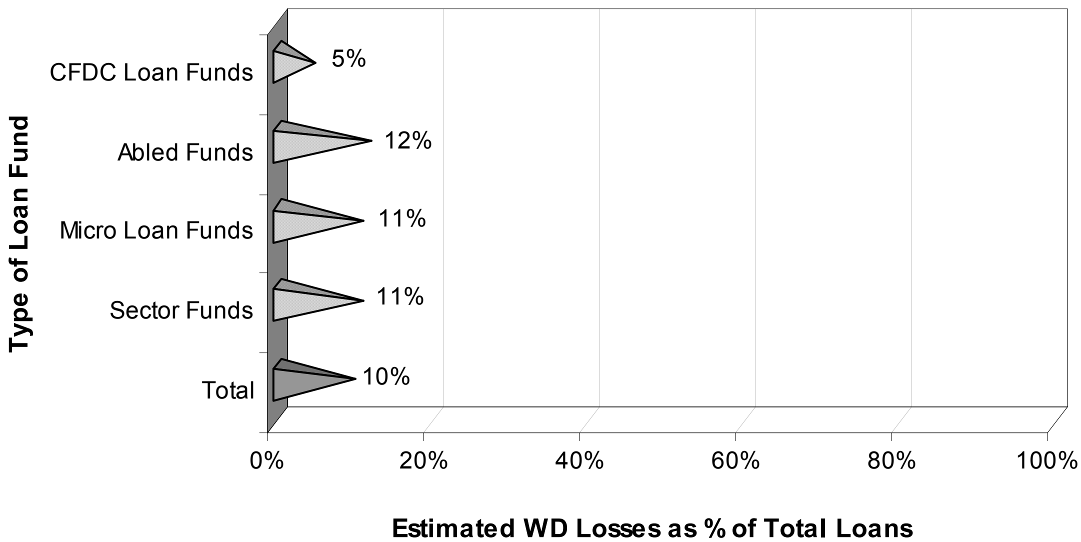
F. Loan Approval Rates

According to WD management information systems, a total of 1,245 loan applications have been received for financing under the LIFP sector loan funds as of March 31, 2002. Of this total, 343 have been approved, 156 are in process, while the remaining 746 are not proceeding because they are ineligible, rejected by the financial institution, withdrawn by the client, or path found to other sources. As a result, the average approval rate for applications to the sector loan funds is approximately 31%. The loan approval rate for other types of loan funds is not available as this information is not reported to and tracked by WD.

G. Loan Loss Rates

According to WD records, the estimated loan losses that must be borne by WD amount to approximately 10% of the total amount of loans approved to date. This estimated loan loss rate is based on estimates provided by participating financial institutions. As indicated in Table 2.7, WD's portion of the loan losses as a percentage of total loans is quite similar for most of the different types of loan funds.

Table 2.7
Estimated WD Loan Loss Rates by Type of Loan Fund



The losses in Table 2.7 do not include the loan losses that must be borne by the financial institutions that are in addition to the losses that can be recovered from WD's loan loss reserve. According to WD staff, the total loan loss rate is estimated to be approximately 15% of the total value of loans approved, which would amount to approximately $21.8 million.

H. Program Management

The Capital Services Secretariat has been responsible for the management and administration of the LIFP on behalf of WD. During the initial years of operation, Management Committees and some Advisory Committees were employed to resolve issues and obtain input to enhance the program. In recent years, very little use has been made of the formal management structure stipulated in the loan fund agreements, which includes a Management Committee and an optional Advisory Committee for each loan fund agreement. Instead, the program has been managed by direct contact between staff of the Capital Services Secretariat, and staff of participating financial institutions and other loan fund partners.

III. Survey Results

This chapter summarizes the surveys of WD staff, capital providers/loan fund partners, small business financing experts and a sample of LIFP loan clients regarding the Loan Investment Fund Program.

A. Description of Survey Groups

The following paragraphs describe the nature and extent of the four surveys undertaken to evaluate the Loan Investment Fund Program.

1. Survey of Capital Providers/Loan Fund Partners

In total, 32 in-depth interviews were conducted with all of the major capital providers/loan fund partners. The number and type of individuals interviewed consisted of the following:

- Eighteen interviews with a representative from each of the capital providers to the LIFP and the primary contact within each organization for the 40 different loan fund agreements of the LIFP. Many of these individuals are responsible for more than one loan fund agreement.

- Ten interviews with representatives of Community Futures Development Corporations and the Community Futures Development Association of British Columbia who are involved in the delivery of specific loan fund agreements (i.e. WOF, ICBC and Columbia Basin Trust).

- Four interviews with representatives of francophone economic development organizations involved in the delivery of the francophone loan fund in each province.

2. Survey of WD Staff

A total of 24 interviews were conducted with WD staff. Table 3.1 provides a breakdown of the number and type of WD staff that were interviewed.

Table 3.1
Number and Type of WD Staff Interviewed

Type of WD Staff	Number Interviewed
Staff of Capital Services Secretariat and other WD staff that are the primary WD contact for the loan fund partners	6
Client Services Officers in each province that assist LIFP clients as well as other WD clients	7
Director of Client Services in each province	4
WD senior management	6
Other WD staff	1
Total	24

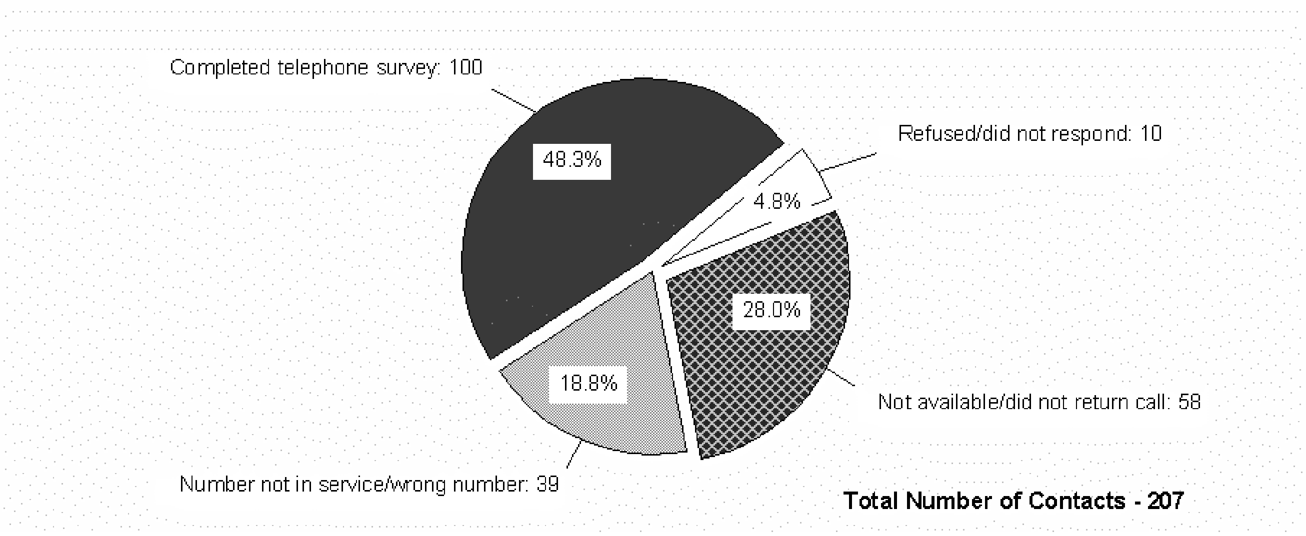
3. Small Business Financing Experts

A total of 17 interviews were conducted with small business financing/sector experts in western Canada. The individuals interviewed included ten people involved in venture capital/corporate finance and five university professors with expertise in financing to small and medium sized businesses. The experts interviewed were selected from all four provinces in western Canada.

4. Survey of a Sample of LIFP Loan Clients

A total of 100 interviews were conducted with a random sample of all companies that obtained an LIFP loan from inception of the program to December 31, 2001. Of the original sample of 100 loan clients, surveys were completed with 54 of these clients. To obtain 100 completed surveys, attempts were made to contact a total of 207 LIFP loan clients. As indicated in Table 3.2, the two primary reasons why some loan clients could not be contacted is that the telephone numbers were not in service (19%) or the loan clients were not available at any of the three or more times that a call was made and they did not return these calls. Only 4% of loan clients contacted refused to undertake the survey.

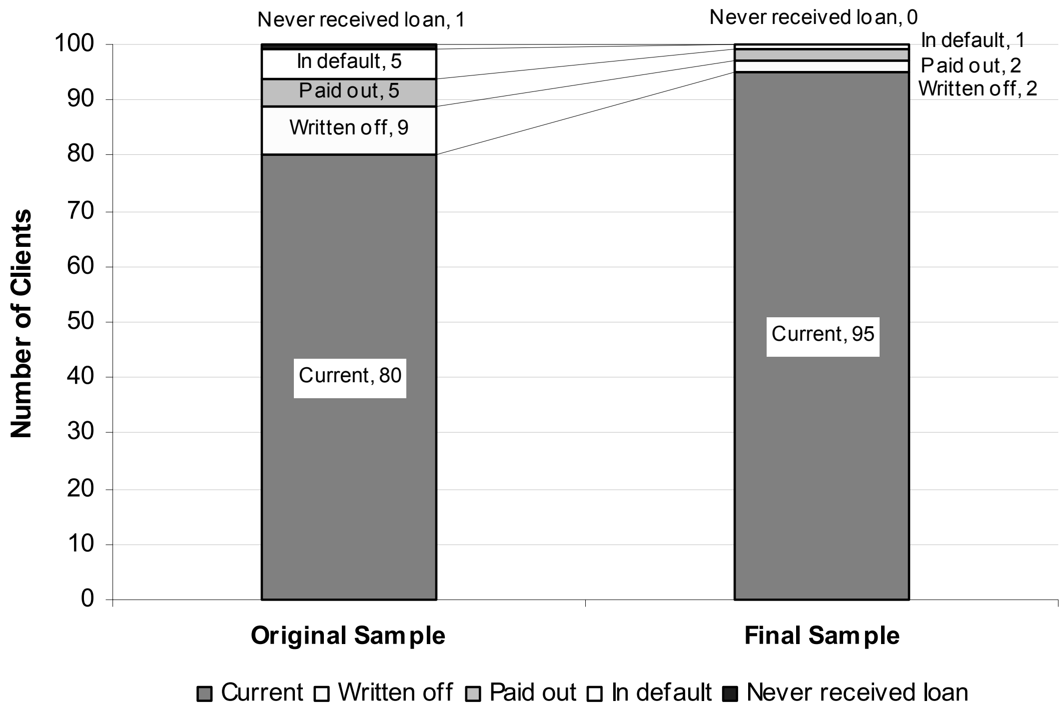
Table 3.2
Nature of Contact With Sample Loan Clients



It is important to recognize that more difficulty was experienced in contacting companies where the loan has been written off or is in default. As indicated in Table 3.3, the final sample of 100 LIFP loan clients contains only three companies where the loan has been written off or is in default compared to 14 companies that were selected as part of the original sample. This factor has been taken into account in estimating the impact of the LIFP with regard to factors such as job creation.

Table 3.3

Loan Status of Original and Final Sample LIFP Clients



Total number of clients = 100

Table 3.4 provides a breakdown of the 100 loan clients surveyed by financial institution and by loan fund. The sample of LIFP loan clients surveyed consists of 30 companies that received funding from loan funds that have a maximum loan size of $75,000 or less (i.e. includes all micro-loan, abled and francophone loan funds as well as the CFDC Community Investment Loan Fund (WOF) and 70 companies that received financing from the other loan funds that have a maximum loan size in excess of $75,000 (i.e. all sector funds and the CFDC loan funds where capital was provided by ICBC and the Columbia Basin Trust).

Table 3.4
Source of Financing for Sample LIFP Loan Clients

Capital Provider/Lending Institution	Type of Loan Fund	Number of Loan Clients Surveyed
Small Loan Funds (maximum loan size of $75,000 or less)		
VanCity	Self Reliance Micro Loan	44
Assiniboine Credit Union	Micro Loan	15
Capital City Savings & Credit Union	Micro Loan	2
Saskatoon Credit Union	Micro Loan	1
First Nations Bank	Micro Loan	2
VanCity	Abled	1
Coast Capital Savings	Abled	3
CFDCs (Working Opportunity Fund)	CFDC Community Investment Loan Fund	2
Sub-total		70
Large Loan Funds (maximum loan size greater than $75,000)		
BDC	Knowledge Based Industries	5
BDC	Tourism	1
CIBC	Agricultural Value-Added	5
FCC	Agricultural Value-Added	5
RBC	Information Technology & Telecomm.	1
TD	Advanced Technology	6
TD	Environmental Technology	1
VanCity Capital Corporation	Growth Capital Program	3
CFDABC (ICBC)	CFDC Community Enterprise Fund	2
CFDCs (Columbia Basin Trust)	CFDC Community Investment Loan Fund	1
Sub-total		30
Total		**100**

As indicated in Table 3.5, the 100 sample loan clients received 118 LIFP loans as some clients received more than one LIFP loan. The total amount of financing provided by these LIFP loans is approximately $12 million, of which approximately about $10.7 million consists of loans from large loan funds and the remaining $1.3 million consists of loans from the small loan funds. The average size of the loans provided to sample clients by the small loan funds is $14,919 and the majority (54%) of these loans ranged in amount from $10,000 to $24,999. The average amount of the loans provided to sample clients by the larger loan funds is $344,774 and the largest proportion (42%) of these loans range in size from $250,000 to $500,000.

Table 3.5
Size of Loan Received by Sample LIFP Clients Surveyed

Loan Amount	Number of Loans Obtained From:			% of Total Loans
	Small Loan Funds	Large Loan Funds	Total	
Less than $5,000	6	-	6	5%
$5,000 - $9,999	22	-	22	18%
$10,000 - $24,999	47	1	48	40%
$25,000 - $49,999	9	-	9	8%
$50,000 - $74,999	1	2	3	3%
$75,000 - $99,999	2	1	3	3%
$100,000 – $249,999	-	10	10	8%
$250,000 - $499,999	-	13	13	11%
$500,000 - $1,000,000	-	2	2	2%
Over $1,000,000	-	2	2	2%
Total	87	31	118	100%
Average loan size	$14,919	$344,774	$101,576	
Average financing per client	$18,542	$356,267	$119,860	

The sample of 118 loans accounts for about 8.5% of the total number of loans and 8.4% of the total amount of loans approved since program inception to December 31, 2001. Table 3.6 indicates that the sample of loan clients is representative of the total population of loan clients both by average loan size and by distribution between small and large loan funds.

Table 3.6
Comparison of Sample with Total Population of LIFP Loans

	Sample	Population
Average loan size		
Small loan funds	$14,919	$14,975
Large loan funds	$356,267	$336,249
Total	$101,576	$95,930
Proportion of total number of loans from:		
Small Loan Funds	74%	75%
Large Loan Funds	26%	25%

As indicated in Table 3.7, the average number of years in business of the sample companies, at the time of the survey, is 2.9 years for the small loan fund clients and 8.6 years for the sample companies that received financing from large loan funds.

Table 3.7
Age of Business When Surveyed

Number of Years In Business When Surveyed	Percentage of Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
Less than one year	4%	-	2%
One to two years	51%	17%	41%
More than two years and less than five years	27%	20%	25%
Five to ten years	16%	37%	23%
More than ten years	1%	27%	9%
Total	99%	101%	100%
Average number of years in business	2.9	8.6	4.6

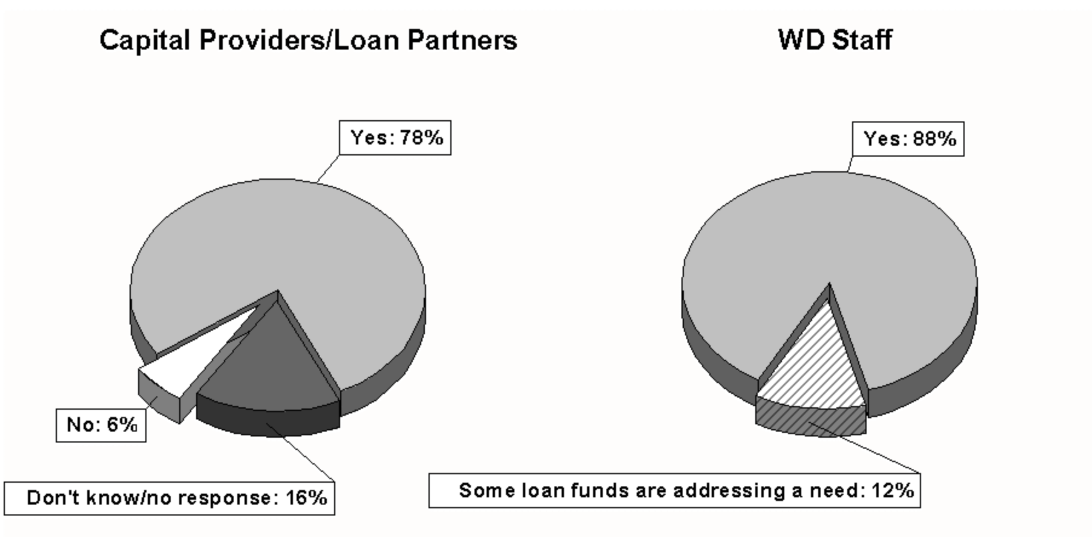
B. Relevance of LIFP Program

The following paragraphs summarize the survey results regarding the need and relevance of the LIFP program.

1. Does the LIFP address an actual need?

There exists consensus by all four respondents groups that the LIFP does address a need. As indicated in Table 3.8, 88% of WD staff and 78% of the capital providers/loan partners interviewed stated that the LIFP does address a need and that the LIFP is necessary to provide a safety net to encourage conventional lenders to move up the risk curve and provide financing to higher risk ventures.

Table 3.8
Does the LIFP address an actual need?



Following are the most frequent responses from capital providers of small loan funds regarding the needs addressed by their loan funds (number of responses indicated in brackets):

- Provides financing for new businesses denied financing from conventional sources due to factors such as low net worth of owner, insufficient equity, limited security and lack of management expertise (8);

- Banks and credit unions not willing to provide small business loans of less than $25,000 (7);

- Financing for goodwill and intangibles not readily available from conventional sources (3); and

- Difficult to obtain working capital for small SMEs (2).

Listed below are the most frequent responses from capital providers for the large loan funds regarding the needs addressed by their funds (number of responses indicated in brackets):

- Companies that are growing and have difficulty in obtaining financing due to weak balance sheets and limited equity (6);

- Financial institutions need to be encouraged to increase their risk appetite and lend on cash flow rather than security (5);

- Provides financing for start-ups which have difficulty obtaining financing from conventional sources (4);

- SMEs do not have sufficient access to capital as banks do not like to lend less than $250,000 (4);

- The LIFP loan funds directed at CFDCs (i.e. funding provided by ICBC, Columbia Basin Trust, and WOF) allows CFDCs to provide larger loans in rural communities because the maximum size of loan allowed permitted under the Community Futures Program is $125,000.

As indicated in Table 3.9, the most frequent response from WD staff regarding what needs the LIFP is addressing is the existence of a large demand for micro-loans but conventional lenders are not interested in providing loans less than $50,000. Some of the other financing gaps that respondents indicated the LIFP is addressing include financing for start-up enterprises, companies that cannot get financing due to inadequate security and management expertise, knowledge-based and growth-oriented companies that have difficulty in obtaining financing from conventional lenders, agricultural value-added enterprises, and financing to enable SMEs to expand.

Table 3.9
What needs are addressed by the LIFP?

Response	% of Total WD Staff
Conventional lenders are not interested in providing loans less than $50,000 but there is a big demand for these small loans	71%
Conventional lenders are not very interested in providing financing for start-up businesses	29%
Assists companies that cannot get financing due to inadequate security and management expertise	25%
Provides safety net to encourage conventional lenders to move up the risk curve and provide financing to higher risk ventures	25%
Assists knowledge-based and growth-oriented companies that have difficulty in obtaining financing from conventional lenders	21%
Large take-up in agricultural value-added loan funds indicates there is need for additional financing in this sector	17%
Meets gap in financing for SMEs to expand	13%

Approximately 96% of the sample LIFP loan clients indicated that the LIFP should be continued because it meets a variety of needs. Furthermore, approximately 82% of small business financing experts indicated there are gaps in the loan financing available to SMEs, while the remaining respondents did not know or did not respond. The most frequent responses from small business financing experts regarding the gaps that exists are as follows (number of responses indicated in brackets):

- Early stage enterprises (7);
- Insufficient financing at all stages of growth of SMEs (5);
- Start up companies (4);
- Financing less than $250,000 not available from banks (3);
- Working capital (3); and
- Higher risk businesses such as advanced technology and biotechnology (3).

The small business financing experts were asked if the access to loan financing by SMEs has improved or deteriorated in recent years. Approximately 35% of respondents indicated that the access to loan financing by SMEs has remained the same in recent years, 24% of respondents indicated that access to financing has deteriorated; the remaining 41% of respondents did not know or did not respond to this question.

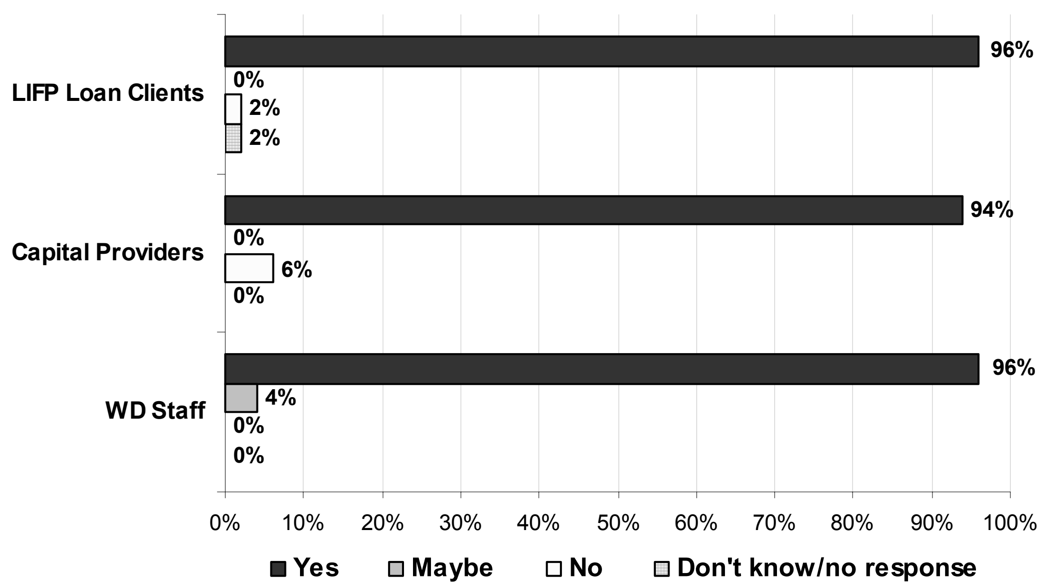
Approximately two thirds of small business financing experts also indicated that there are gaps in the equity financing available to SMEs, 12% of respondents indicated there are no gaps; the remaining 23% of respondents did not know or did not respond. For the respondents that indicated that gaps exist in the equity financing available to SMEs, the most frequent responses identifying them are as follows (number of responses indicated in brackets):

- Equity financing of less than $500,000 (7);
- Equity financing for early stage companies (6); and
- Equity financing of less than $1,000,000 (2).

2. Should the LIFP continue?

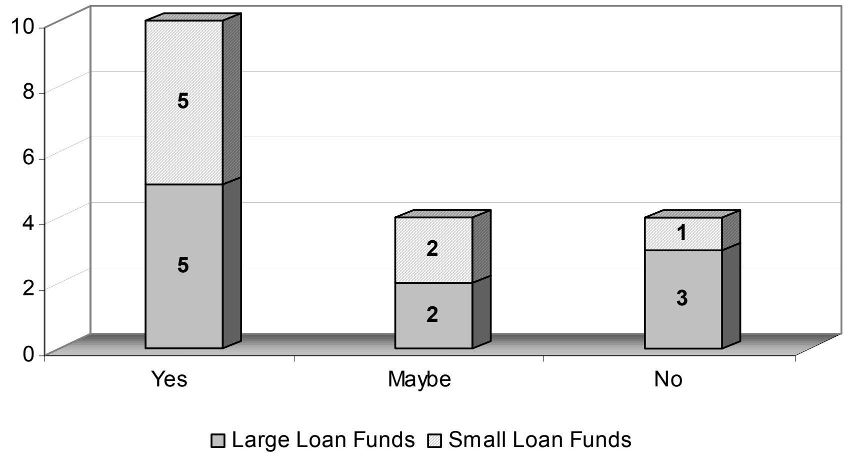
Strong support exists for the LIFP to continue. As indicated in Table 3.10, at least 94% of WD staff, capital providers/loan partners and LIFP loan clients indicated that the LIFP should continue. When respondents were asked why the LIFP should continue, the most frequent reason given was that the program addresses the financing needs of SMEs that are starting up or expanding. Some other reasons given are that it encourages financial institutions to do riskier loans while providing a service to the community (i.e. stimulates economic development).

Table 3.10
Should the LIFP continue?



The capital providers to the LIFP were asked if they were willing to renew their current loan fund agreements once they expired. As indicated in Table 3.11, 56%, or 10 out of the 18 capital providers indicated that they were willing to renew; four organizations indicated that they might be willing; the remaining four organizations indicated that they either have already terminated or are not willing to renew their loan agreement.

Table 3.11
Willingness of capital providers to renew their loan fund agreements

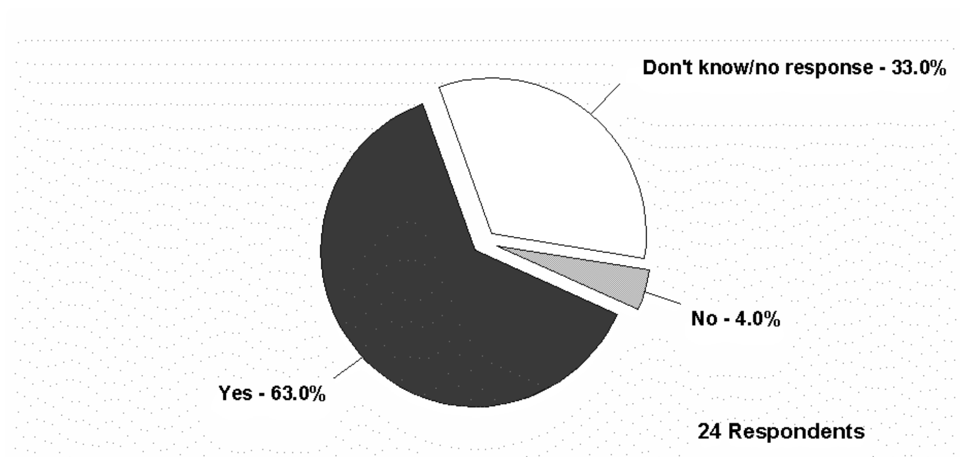


When the small business financing experts were asked what actions are most appropriate for the Government of Canada to deal with the gaps in SME financing, the majority (64%) of respondents indicated that the Government of Canada should influence private sector financial institutions to do lending to deal with these gaps, 7% felt that the Government of Canada should intervene directly by providing loan financing to SMEs and the remaining 29% of respondents did not know or did not respond to the question.

3. Is the LIFP still needed for current government policy, assuming it is producing as expected?

As indicated in Table 3.12, 63% or 15 out of 24 WD staff indicated that the LIFP is still needed for current government policy, one respondent indicated that the LIFP was not needed; the remaining 33% or 8 respondents did not know or did not respond to this question.

Table 3.12
Is the LIFP still needed for current government policy assuming it is producing as expected?



Of the WD staff that indicated the LIFP is still needed for current government policy, the most frequent reasons are that WD has a mandate for economic development and one of the key areas to stimulate economic development is increasing the access to financing by SMEs.

C. Success of LIFP

The following paragraphs summarize the survey questions dealing with the success of the LIFP program.

1. To what extent did the LIFP move banks and credit unions into providing capital for higher risk ventures?

Capital providers and WD staff were asked to indicate, based on the loan funds they have been involved with, to what extent the LIFP has moved banks and credit unions into providing capital for higher risk ventures, on a scale of 1 to 5 where 1 is no change and 5 is a major change. As indicated in Table 3.13, the average responses of the capital providers and WD staff are 3.6 and 3.3, respectively, which indicates that some change has occurred as a result of the LIFP, in moving banks and credit unions into providing capital for higher risk ventures. The extent of the change appears to be similar for both capital providers of small loan funds and the larger loan funds.

Table 3.13
To what extent did the LIFP move banks and credit unions into providing capital for higher risk ventures?

No.	Response	Capital Providers			WD Staff
		Small Loan Funds	Large Loan Funds	Total	
1.	No change	0%	0%	0%	7%
2.	Minimal change	0%	10%	6%	21%
3.	Some change	50%	40%	44%	42%
4.	Significant change	13%	20%	17%	15%
5.	Major change	25%	20%	22%	0%
6.	Don't know	12%	10%	11%	15%
Average (scale of 1 to 5)		**3.7**	**3.6**	**3.6**	**3.3**

Some WD staff also provided responses for the loan funds administered by credit unions versus the loan funds administered by the banks. Using the same scale of 1 to 5 where 1 is no change and 5 is a major change, the average responses of these staff are that the LIFP has resulted in a minimal to some change (2.5 out of 5) in the banks as compared to a significant change (3.9 out of 5) in moving the credit unions into providing capital for higher risk ventures.

When WD staff was asked to indicate the nature of the change that occurred in moving banks and credit unions into providing capital for higher risk ventures, the most frequent responses are as follows (number of responses indicated in brackets):

- Credit unions became involved to a much greater extent in the provision of micro-loans (8);
- Greater involvement by banks in providing financing to knowledge-based businesses which gave them a more informed and positive view of these businesses (6);

- Banks and credit unions made a change to non-asset based financing (4); and
- Banks and credit unions got involved in providing financing for some higher risk ventures (3).

When capital providers were asked to indicate the nature of the change that occurred, the most frequent responses by these respondents are as follows (number of responses indicated in brackets):

Capital Providers of Small Loan Funds

- Can now provide financing to higher risk businesses such as start-ups and companies with limited equity (4);
- Can provide micro-loans which would have never received funding in the past (3); and
- A criterion is that it has to be first turned down for a conventional loan (2).

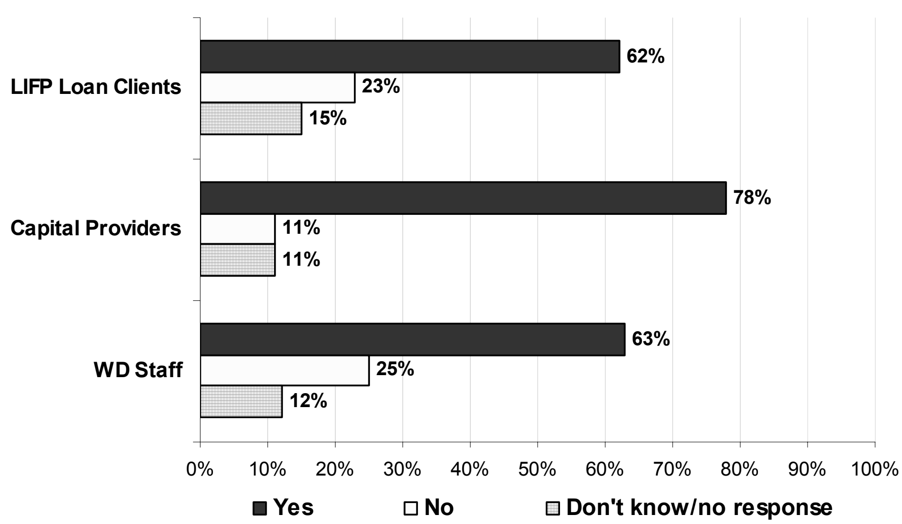
Capital Providers of Large Loan Funds

- Allows them to consider higher risk ventures (e.g. start-ups, pre-positive cash flow companies and companies at the pre-commercialization stage) that would have never received financing in the past (5); and
- Got into new markets such as knowledge-based businesses (2).

2. Are the terms and conditions of the LIFP loans more flexible than conventional bank loans?

As indicated in Table 3.14, the majority of WD staff, capital providers and LIFP loan clients indicated that the terms and conditions of the LIFP loans are more flexible than conventional bank loans.

Table 3.14
Are the terms and conditions of the LIFP loans more flexible than conventional loans?



Of the respondents that indicated the LIFP loans are more flexible than conventional bank loans, the most frequent responses by all three respondent groups regarding which loan terms and conditions are more flexible are security taken, level of risk, repayment schedule and loan purpose (Table 3.15).

Table 3.15
Which terms and conditions of LIFP loans are more flexible?

Response	Respondent Group		
	LIFP Loan Clients	Capital Providers	WD Staff
Security taken	74%	64%	60%
Level of risk	56%	71%	47%
Repayment schedule	48%	64%	60%
Loan purpose	37%	64%	20%
Working capital available	31%	29%	20%
Equity contributed/available	26%	57%	0%

3. Has the LIFP increased access to capital to targeted groups (i.e. Aboriginal and rural entrepreneurs, youth) and for small-and medium-sized enterprises in emerging industries and in areas that are crucial to the growth and competitiveness of the western Canadian economy (R&D commercialization, knowledge-based soft assets, traditional value-added and export oriented firms)?

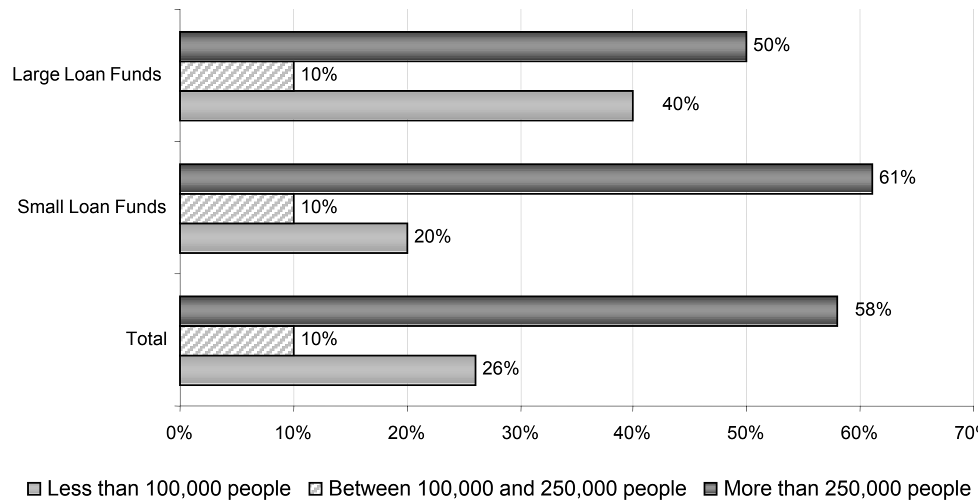
As indicated in Table 3.16, most of the loan clients that obtained financing from the large loan funds are in emerging industries such as information technology/communications, advanced manufacturing, knowledge-based industries, and value-added agriculture and aquaculture. While some of the loan clients of the small loan funds are also in emerging sectors, the largest proportion of the micro-loan clients are in the services sector.

Table 3.16
Industry Sector of LIFP Loan Clients

Industry Sector	Loan Clients Financed By:			% of Total Respondents
	Small Loan Funds	Large Loan Funds	Total	
Agriculture/aquaculture	-	4	4	4%
Biotechnology	-	1	1	1%
Health	2	1	3	3%
Information technology/communications	5	9	14	14%
Advanced technology	1	1	2	2%
Manufacturing	12	9	21	21%
Knowledge based industries	-	1	1	1%
Tourism/hospitality	8	2	10	10%
Retail trade	11	-	11	11%
Wholesale trade	2	2	4	4%
Services	29	-	29	31%
Total	70	30	100	100%

With regard to the impact of the LIFP on the groups specifically targeted such as rural entrepreneurs, Table 3.17 indicates that the largest proportion (61%) of the small loan clients is based in large urban communities (i.e. more than 250,000 people). Fifty percent of the clients of the large loan funds are based in large urban communities while 40% of clients are based in small communities with less than 100,000 people.

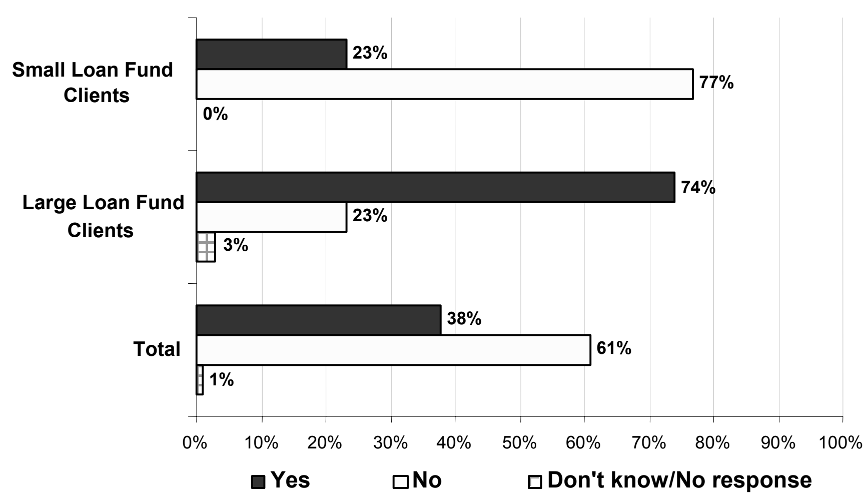
Table 3.17
Size of Community of LIFP Loan Clients



Seven of the sample companies (5 small loan clients and 2 clients of the large loan funds) have company owners that are of Aboriginal origin. Five of the sample companies (3 micro-loans clients and 2 clients of the other loan funds) have company owners that are less than 25 years of age.

As indicated in Table 3.18, 54 out of 70 or 77% of the sample small loan fund clients had not previously obtained financing from a bank or credit union. In contrast, only 23% of the clients of the large loan funds had not previously obtained financing from a bank or credit union.

Table 3.18
Prior to your LIFP loan(s), has your firm previously obtained any financing from a bank or credit union?



Prior to obtaining an LIFP loan, the most frequent source of financing for loan clients was self/partners (56% of responses) while the second most frequent source of financing mentioned is commercial lenders (22% of responses) as indicated in Table 3.19.

Table 3.19
Prior to your LIFP loan(s), what were the major sources of financing for your firm?

Major Sources of Financing	**Loan Clients Financed By:**		
	Small Loan Funds	**Large Loan Funds**	**Total**
Self/partners	70%	39%	56%
Commercial lenders	12%	33%	22%
Other federal government sources	2%	3%	2%
Provincial government	-	5%	2%
Private sector equity investors/venture capitalists	6%	18%	11%
Family/friends	10%	-	6%
Other	-	3%	1%
Total	100%	100%	100%

As indicated in Table 3.20, 45% of the small loan fund clients obtained all of the financing for their project from the LIFP while 27% of the clients of the large loan funds obtained 100% of the financing for their project from LIFP. The average proportion of project financing obtained from the LIFP by small loan fund and large loan fund clients is 72% and 58%, respectively.

Table 3.20
What proportion of your total financing for the project was covered by the LIFP loan(s)?

Proportion of Total Financing Obtained From LIFP	**Loan Clients Financed By:**		
	Small Loan Funds	**Large Loan Funds**	**Total**
Less than 25%	7%	17%	10%
25% to 49%	16%	17%	16%
50% to 74%	17%	30%	21%
75% - 99%	14%	3%	11%
100%	45%	27%	39%
Don’t know/no response	1%	6%	3%
Total	100%	100%	100%
Average	72%	58%	68%

For those clients that obtained only part of their project financing from the LIFP, the most frequent other source of financing (62% of responses) for the sample LIFP loan clients is self/partners while the second most frequent source of financing is commercial lenders (15% of responses) as indicated in Table 3.21.

Table 3.21
What were the other major sources of financing that you received at the same time that you received the LIFP loan(s)?

Other Major Sources of Financing	Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
Self/partners	69%	50%	62%
Commercial lenders	13%	20%	15%
Other federal government sources	4%	3%	4%
Provincial government	2%	10%	5%
Private sector equity investors/venture capitalists	0%	17%	6%
Family/friends	12%	0%	8%
Total	100%	100%	100%

As indicated in Table 3.22, 49% of LIFP loan clients indicated that they could not have obtained financing from other sources if WD's loan program had not been available. Approximately 28% of respondents indicated that they could have obtained financing from other sources but either not as much financing or with more restrictive terms and conditions. Only 16% of respondents indicated that they could have obtained financing from another source.

Table 3.22
Do you think that you could have obtained financing from other sources if the LIFP had not been available?

Response	Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
Yes	16%	17%	16%
Yes, but with more restrictive terms and conditions	23%	17%	21%
Yes, but not as much financing	3%	16%	7%
No	48%	50%	49%
Don't know/no response	10%	0%	7%
Total	100%	100%	100%

The LIFP loan clients that indicated they could have obtained financing from other sources were also asked from which sources they could have accessed financing. As indicated in Table 3.23, the most frequent source of financing mentioned by 56% of respondents was commercial lenders such as banks and credit unions.

Table 3.23
Which other sources could you have obtained financing?

Source of Financing	Loan Clients Financed By:			% of Total Responses
	Small Loan Funds	Large Loan Funds	Total	
Self/partners	2	4	6	10%
Commercial lenders	23	10	33	56%
Other federal government sources	2	3	5	9%
Provincial government	2	-	2	3%
Private sector equity investors/venture capitalists	2	5	7	12%
Family/friends	6	-	6	10%
Total	37	22	59	100%

The proportion of LIFP loan clients, who indicated they could have obtained financing from other sources, if the WD loan program had not been available, is similar to the responses of the capital providers surveyed. As indicated in Table 3.24, the capital providers stated that approximately 17% of their LIFP loan clients would have received the same amount of funding in the absence of LIFP support. In most cases, the LIFP funding is incremental because the interest rate charged on LIFP loans is higher than conventional loans and most loan clients would most likely choose a lower interest rate loan than a higher interest rate loan. The LIFP is also incremental for the most part because the loss rates incurred by capital providers for LIFP loans is considerably greater than that incurred for conventional loans. It is important to recognize that the capital providers may have included some lower risk loans to reduce the overall level of risk of their loan funds to an acceptable level. Therefore, the inclusion of some lower risk loans may be necessary for some financial institutions to provide higher risk loans to the remaining loan clients in their loan funds.

Table 3.24
Proportion of LIFP loan clients that would have received the same level of funding or would have received less funding in the absence of LIFP support

Response	Percentage of Responses		
	Small Loan Funds	Large Loan Funds	Total
Average percentage of loan clients that would have received the same amount of funding	14%	19%	17%
Average percentage of loan clients that would have received some but less funding	6%	22%	15%

As indicated in Table 3.24, the capital providers indicated that, on average, approximately 15% of their loan clients would have received some but less funding in the absence of LIFP support. The primary rationale given by capital providers regarding why some clients would have received some funding in the absence of LIFP is that they are sound projects and sufficient security exists for a conventional loan.

Most of the capital providers indicated that the LIFP loan clients are new rather than existing loan clients. On average, approximately 80% of the loan clients of micro-loan funds are new clients while over 90% of the clients of the other loan funds are new clients of the financial institution.

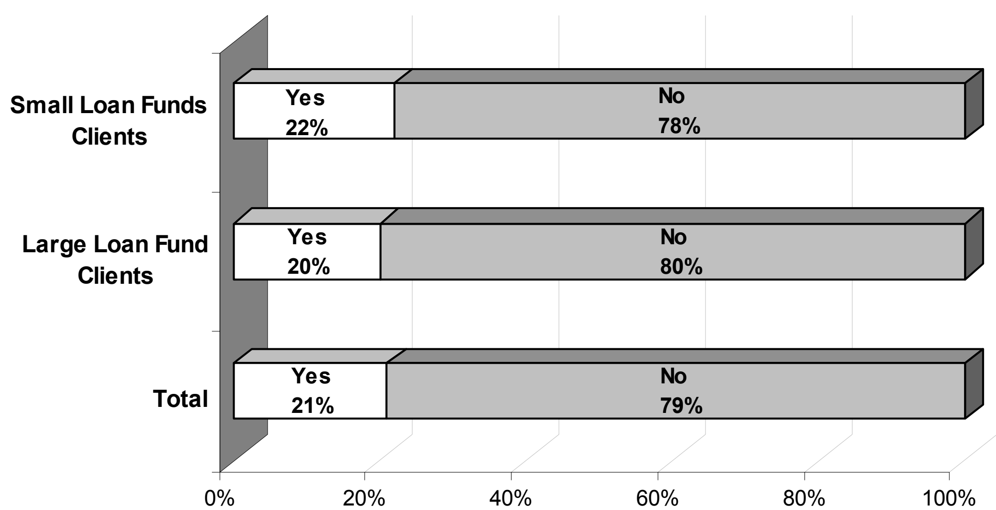
As indicated in Table 3.25, 63% of small loan fund clients and 83% of the large loan fund clients felt that the loan financing and other assistance they obtained from the LIFP have been important (i.e. rating of 3 to 5 on a scale of 1 to 5 where 1 is not at all important and 5 is very important) in enabling them to gain access to conventional financing.

Table 3.25
How important do you think the loan financing and other assistance you obtained from the LIFP have been in enabling you to gain access to conventional financing?

Response	Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
1 Not at all	20%	10%	17%
2	-	7%	2%
3 Somewhat important	9%	13%	10%
4	9%	13%	10%
5 Very important	45%	57%	49%
Don’t know/no response	17%	0%	12%
Total	100%	100%	100%

As indicated in Table 3.26, 21% of the sample LIFP loan clients received supplemental financing from the same financial institution since they obtained LIFP financing.

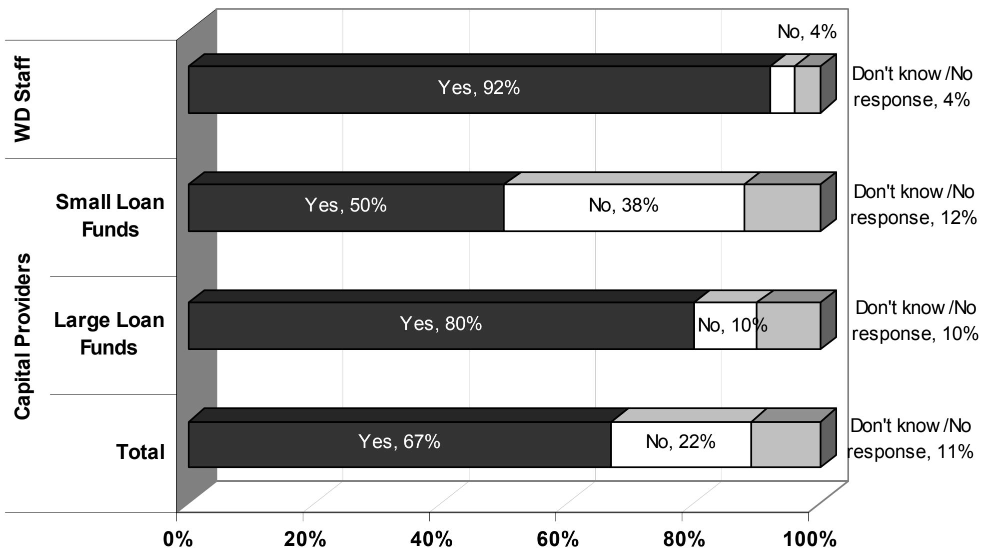
Table 3.26
Have you received any other financing from the financial institution since you obtained the LIFP loan(s)?



The respondents that received supplemental financing were also asked to indicate how much financing was obtained and the purpose of this financing. The average amount of supplemental financing received by 15 small loan fund clients was $11,200 while the average amount of

supplemental financing received by six clients of the larger loan funds was $332,500.
As indicated in Table 3.27, 67% of capital providers and 92% of WD staff indicated that the LIFP has increased access to capital for small-and medium-sized enterprises in emerging industries and in areas that are crucial to the growth and competitiveness of the western Canadian economy. Capital providers were asked to respond to the specific impact of the loan funds that they administered while WD staff were asked to respond to the overall impact of the LIFP.

Table 3.27
Has the LIFP increased access to capital for small-and medium-sized enterprises in emerging industries and in areas that are crucial to the growth and competitiveness of the Western Canadian economy?



As indicated in Table 3.27, a higher proportion of capital providers for small loan funds than capital providers of large loan funds indicated that the LIFP has not increased access to capital for SMEs in emerging industries and areas that are crucial to the growth and competitiveness of the western Canadian economy. The primary reason is that only a small proportion of small loan funds are provided to companies in emerging sectors as most of the financing is provided to companies in traditional sectors of the economy.

For the capital providers that indicated the LIFP has had an impact, they were also asked to indicate the nature and extent of the impact. The most frequent responses given by capital providers for the small loan funds are the following (number of responses indicated in brackets):

- The provision of micro-loans as a result of the LIFP has increased access to capital for SMEs in areas that are crucial to the growth of the western Canadian economy because the start up and expansion of all types of SMEs are important to economic growth (4);

- LIFP has encouraged their financial institution to provide financing to higher risk ventures which would have not been able to obtain financing (1); and

- Financing has enabled companies to grow and take on new employees (1).

The most frequent responses given by capital providers for the large loan funds regarding the impact of the LIFP are the following (number of responses indicated in brackets):

- Allowed them to take increased risks and provide debt capital financing to SMEs that would not have been able to access financing (2);

- Allowed companies that would have had difficulties in obtaining financing the opportunity to start-up or expand their operations (2);

- The impact of the LIFP on emerging sectors such as knowledge-based businesses and advanced technology has been limited due to the lower-than-anticipated number of loans to companies in these sectors (2); and

- Allowed them to provide financing in areas such as nutraceuticals and food processing where they normally would not have been involved in (2).

For the WD staff that indicated the LIFP has had an impact on increasing access to capital for SMEs in emerging industries and areas that are crucial to the growth and competitiveness of the western Canadian economy, they were also asked to indicate the nature and extent of the impact. The most frequent response given by 13 or 54% of all respondents is that the LIFP has had a limited impact due to the limited number of loans and the unwillingness of most bankers to lend to higher risk ventures, thereby resulting in a lower-than-expected take up rates of some sector loan funds, particularly those targeting the emerging sectors of the economy. Some of the other more frequent responses received regarding the nature of the impact of the LIFP are as follows (number of responses indicated in brackets):

- The provision of micro-loans as a result of the LIFP has increased access to capital for SMEs in areas that are crucial to the growth of the western Canadian economy because the start up and expansion of all types of SMEs are important to economic growth (12);

- The agricultural value-added loan funds resulted in a significant increase in financing to the agricultural valued-added sector in western Canada (6);

- Some R & D development and innovation has been encouraged as a result of the LIFP (4);

- The impact of the LIFP on emerging sectors such as knowledge-based businesses and advanced technology has been limited due to the lower than anticipated number of loans to companies in these sectors (5).

4. Has the LIFP contributed to the expansion and diversification of the western Canadian economy?

As indicated in Table 3.28, the most frequent use of the LIFP funds is for the start-up of new companies. Approximately 56% of the companies that received financing from the small loan funds, and 37% of the companies that received financing from the large loan funds, indicated that the major use of the funds was for start-up purposes. The next most frequent response by companies that received LIFP funding is that the funds were for working capital/operating capital.

Table 3.28
What is the main use of the LIFP funds?

Main Use of Funds	Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
Start-up	56%	37%	50%
Expand production	20%	20%	20%
Working capital/operating costs	13%	27%	17%
Market development	0%	0%	0%
R & D	3%	10%	5%
Other	9%	6%	8%
Total	100%	100%	100%

The loan clients that received financing from the small loan funds have an average of 1.4 full-time and 1.1 part-time employees, while the large loan fund clients have an average of 20.6 full-time and 6.9 part-time employees. As indicated in Table 3.29, employment has increased for 59% of the small loan fund clients and for 84% of the large loan fund clients. Employment has remained the same for 41% of the small loan fund clients and 13% of the clients of the large loan funds. Employment decreased for only one of the sample clients.

Table 3.29
Has the number of people employed by the firm increased, decreased or stayed the same as a result of the loan financing and other assistance you received from the LIFP?

Response	Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
Increased	59%	84%	66%
Stayed the same	41%	13%	33%
Decreased	-	3%	1%
Don't know/no response	0%	0%	0%
Total	100%	100%	100%

The 66 loan clients that indicated their employment had increased as a result of the LIFP were also asked to indicate the increase in number of full-time and part-time employees. As indicated in Table 3.30, these loan clients indicated that employment has increased by a total of 300 full-time and 169 part-time jobs. The average increase in employment created per loan client is three full -time jobs and 1.7 part-time jobs. Some of the limitations to the data provided in Table 3.23 and 3.24 are that some respondents, particularly small loan clients, included the business owners, while others only included staff other than business owners in determining the change in employment of their business.

Table 3.30
Increase in number of employees due to the LIFP

Increase in number of employees	Number of Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
Full time employees			
1	28	3	31
2 – 5	9	11	20
6 – 10	1	5	6
11 – 20	-	3	3
More than 20	-	3	3
Total	38	25	63
Total increase in number of full time employees	**72**	**228**	**300**
Part time employees			
1	9	-	9
2 – 5	5	9	14
6 – 10	2	2	4
11 – 20	-	2	2
More than 20	-	1	1
Total	16	14	30
Total increase in number of part time employees	**44**	**125**	**169**

The average number of jobs created by the 70 small loan fund clients is 1.7 compared to 11.8 for the large loan fund clients. As indicated in Table 3.31, the survey findings indicate that the average amount of financing provided per job created by the small loan funds is $11,200 compared to $30,300 for the large loan funds.

Table 3.31
Comparison of jobs created by small versus large loan funds

Number of jobs created	Number of Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
Full time jobs	72	228	300
Part time jobs	44	125	169
Total	116	353	469
Average number of jobs created per sample loan client	1.7	11.8	4.7
Amount of LIFP financing provided	$1.3 million	$10.7 million	$12.0 million
Amount of financing per job created	$11,200	$30,300	$25,600

To develop an estimate of the incremental number of jobs created by the LIFP, the following factors have been taken into account:

- Statistical significance: By taking into account the standard deviation in the job creation data, the sample findings indicate that a typical LIFP loan client is estimated to create between 3.0 and 6.4 full time and part time jobs, based on a confidence level of 90%.

- Incrementality: The survey findings indicating that 16% of LIFP loan clients could have obtained financing from other sources if the LIFP had not existed have been used to determine the incremental rather than total number of jobs created by the LIFP loan clients. This finding is similar to capital providers surveyed who indicated that approximately 17% of their LIFP loan clients would have received the same amount of funding in the absence of LIFP support.

- Loan loss rates: As indicated previously, it was difficult to contact a number of the original sample of clients, particularly the sample loan clients where the loan was in default or already written off. While 14% of the initial sample of LIFP loan clients had loans that were written off or in default, the final sample contained only 2% of loan clients with loans that have been written off and 1% of loan clients with a loan in default. The initial sample containing 14% loan clients with loans in default or written off is similar to the estimated overall loan loss rate of 15% indicated in the previous chapter. For the purposes of this analysis, we have reduced the number of jobs created per loan client by 11% to take into account the fact that the final sample contained a lower than average number of loans that are written off.

- Sample size: As indicated previously, the loan financing of approximately $12 million provided to the final sample of 100 LIFP loan clients accounts for about 8.4% of the total LIFIP loan financing of $143.4 million from program inception to December 31, 2001. The sample findings have been extrapolated based on the amount of loan financing to estimate the total number of jobs created.

Based on the above factors, the incremental number of jobs created by the LIFP from inception to December 31, 2001 is estimated to range between 2,900 and 5,450, based on a confidence level of 90%. This estimate of job creation does not include the jobs that would have been lost if the LIFP had not existed.

As indicated in Table 3.32, approximately 57% (40 out of 70) micro-loan fund clients and 47% (14 out of 30) clients of the other loan funds indicated that no jobs would have been lost if financing for the project had not been provided by the LIFP. The relatively large proportion (54%) of respondents indicating that some jobs would have been lost if financing had not been provided by the LIFP is due to the fact that some respondents interpreted the question different than others. Some respondents, particularly those who started up their company with LIFP financing and where they could not have obtained financing from any other sources, stated that all of the jobs they had created would have been lost if financing had not been provided by the LIFP. Other respondents interpreted this question differently and included only the jobs that would have been lost because the company was in financial difficulty and would not have likely survived if LIFP financing would not have been available. Due to the different types of responses received, it is difficult to accurately calculate the number of jobs maintained as a result of the LIFP.

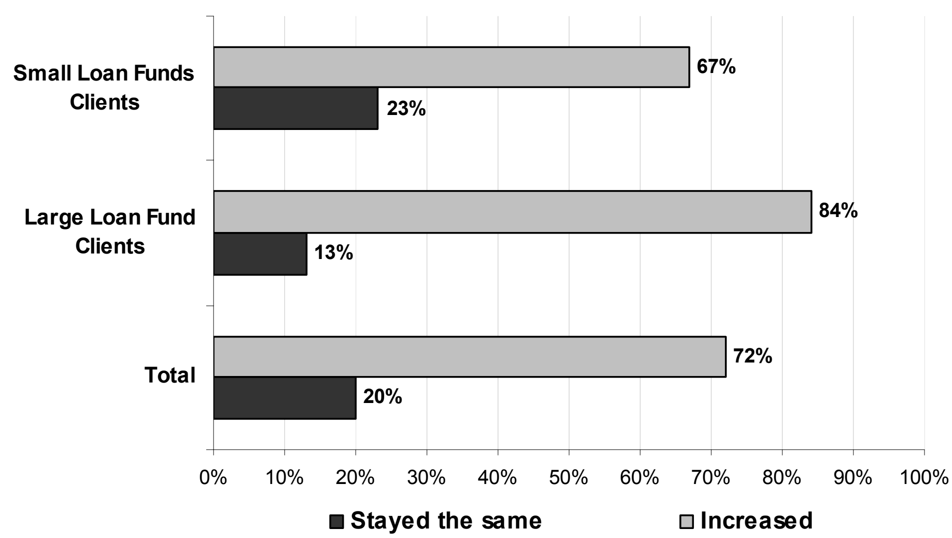
Table 3.32
How many jobs, if any, would have been lost if financing for the project had not been provided by the LIFP?

Number of jobs that would have been lost	Loan Clients Financed By: Small Loan Funds	Large Loan Funds	Total	% of Total Respondents
Full time employees				
1	20	2	22	48%
2 – 5	10	5	15	33%
6 – 10	-	4	4	9%
11 – 20	-	3	3	6%
More than 20	-	2	2	4%
Total	30	16	46	100%
Part time employees				
1	4	2	6	30%
2 – 5	6	3	9	45%
6 – 10	2	1	3	15%
11 – 20	-	1	1	5%
More than 20	-	1	1	5%
Total	12	8	20	100%

The gross sales revenues of the majority (78%) of small loan fund clients was less than $100,000 last year while 14% of these clients had sales revenues of between $100,000 and $250,000 during the last fiscal year. One half (50%) of the large loan fund clients had sales revenues of between $1 million and $5 million during their last fiscal year, 17% had sales revenues of $250,000 to $1 million and 13% had sales revenues between $5 million and $10 million.

As indicated in Table 3.33, 67% of the small loan fund clients and 84% of the clients of the large loan funds indicated that sales revenues have increased as a result of the LIFP.

Table 3.33
Have the sales revenues of the firm increased, decreased or stayed the same as a result of the LIPF loan financing and other assistance you received?



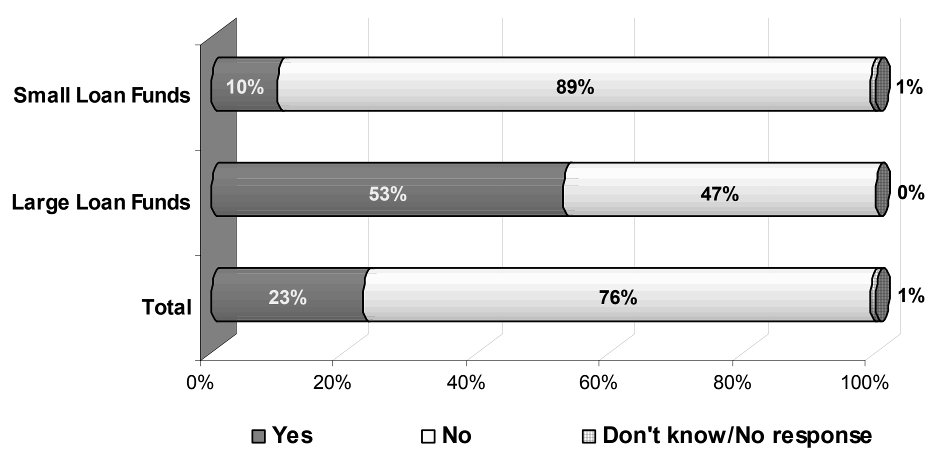
For those respondents indicating an increase in sales revenues due to WD's loan program, the average cumulative increase in sales revenues of the small loan funds clients is $76,100 as compared to approximately $2.1 million for the clients of the large loan funds (Table 3.34). Using the same methodology as that employed to determine the incremental number of jobs created, the incremental revenues generated by LIFP loan clients is estimated to range between $302 million and $762 million, based on a confidence level of 90%.

Table 3.34
Increase in sales revenues due to the LIFP

Cumulative increase in sales revenues ($000's)	**Loan Clients Financed By:**			**% of Respondents**
	Small Loan Funds	**Large Loan Funds**	**Total**	
Less than $25	15	-	15	21%
$25 – $49	7	-	7	10%
$50 – $99	6	1	7	10%
$100 - $499	9	6	15	21%
$500 - $999	-	6	6	8%
$1,000 - $5,000	-	7	7	10%
More than $5,000	-	3	3	4%
Don't know/no response	10	2	12	16%
Total	47	25	72	100%
Average increase in sales revenues ($000's)	**$76.1**	**$2,073.9**	**$841.9**	

Approximately 17% of the small loan fund clients and 60% of the clients of the large loan funds export goods and services outside of Canada. For those companies that export goods and services outside of Canada, the percentage of their sales revenues accounted for by exports is an average of 38% for small loan fund clients and 40% for clients of the larger loan funds. Export sales increased as a result of financing they obtained from WD's loan program for 23% of the sample loan fund clients (Table 3.35). However, export sales increased for 53% of large loan clients and only 10% of small loan clients.

Table 3.35
Have export sales revenues of your firm increased as a result of the financing you obtained from the LIFP?



For those respondents that indicated an increase in exports due to the WD program, the average increase in export sales was $50,800 for the small loan funds clients and $722,900 for the clients of the large loan funds. Using the same methodology as that employed to determine the total number of jobs created, the total incremental export revenues generated by LIFP loan clients is estimated to range between $85 million and $128 million, based on a confidence level of 90%.

As indicated in Table 3.36, 88% of the capital providers and 92% of WD staff indicated that the LIFP has contributed to the expansion and diversification of the western Canadian economy. Capital providers were asked to respond regarding the specific impact of the loan funds that they administered, while WD staff was asked to respond regarding the overall impact of the LIFP.

Table 3.36
Has the LIFP contributed to the expansion and diversification of the Western Canadian economy?

Response	Capital Providers			WD Staff
	Small Loan Funds	Large Loan Funds	Total	
Yes	88%	90%	88%	92%
No	0%	10%	6%	0%
Don't know/no response	12%	0%	6%	8%
Total	100%	100%	100%	100%

When WD staff were asked for the nature and extent of the contribution of the LIFP, the most frequent response given by 58%, or 14 out of 24, respondents is that the LIFP has had limited impact on the expansion and diversification of the western Canadian economy due to the relatively low number of loans provided and the lack of significant involvement in the program by the major banks. Some of the other most frequent responses received regarding the contribution of the LIFP to the expansion and diversification of the western Canadian economy are as follows (number of responses indicated in brackets):

- Some expansion of economy from both micro-loans and other loans because the base of small businesses has been increased (9);
- Jobs have been created (8); and
- Diversification of the economy through activities such as commercialization of R&D, development of export markets, and start-up/expansion of companies in emerging sectors (6).

When capital providers were asked to indicate the nature and extent of the contribution of the LIFP, the two most frequent responses by respondents were the creation of jobs and the start-up and/or expansion of SMEs which results in the expansion of the western Canadian economy. A few capital providers for the small loan funds indicated that their loan funds have not had much of an impact on diversification of the economy because most of the financing has been provided for companies in traditional sectors of the economy. Some other responses from capital providers of the large loan funds regarding the contribution of the LIFP to the expansion and diversification of the western Canadian economy are as follows (number of responses indicated in brackets):

- Diversification of the economy such as addressing gaps in value-added agricultural processing capability in western Canada (2);

- Increase in exports and displacement of products imported into western Canada (2);

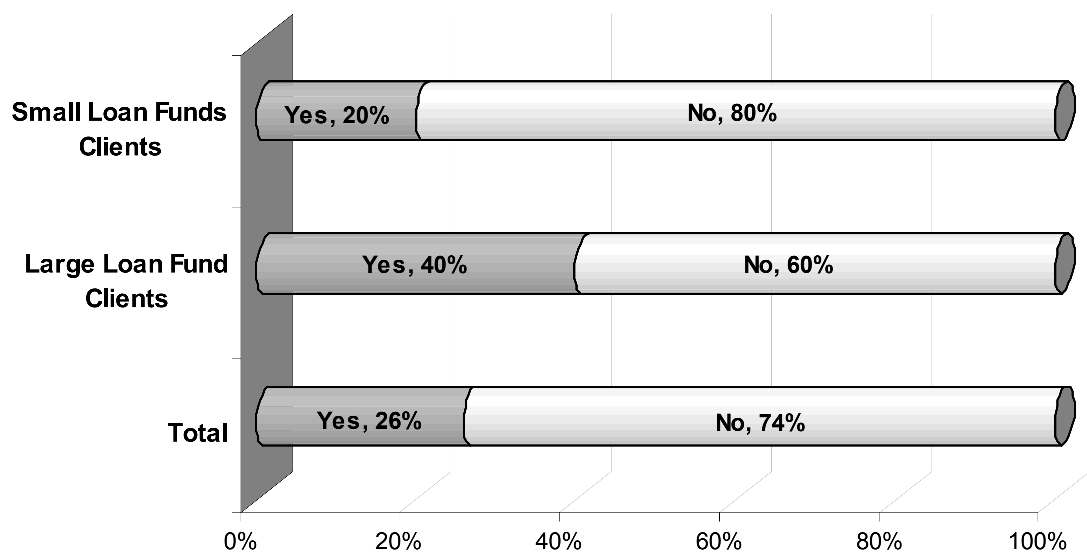
- Relatively limited impact due to number of loans provided (2); and

- Assisted some companies to grow faster (2).

5. To what extent has the LIFP addressed gaps in the business skills and managerial expertise of LIFP loan clients?

As indicated in Table 3.37, 20% of the sample of small loan fund clients and 40% of the clients of the large loan funds were provided with business advisory services by WD staff while applying for a loan.

Table 3.37
When applying for the loan,
were you provided business information or business support services by WD staff?



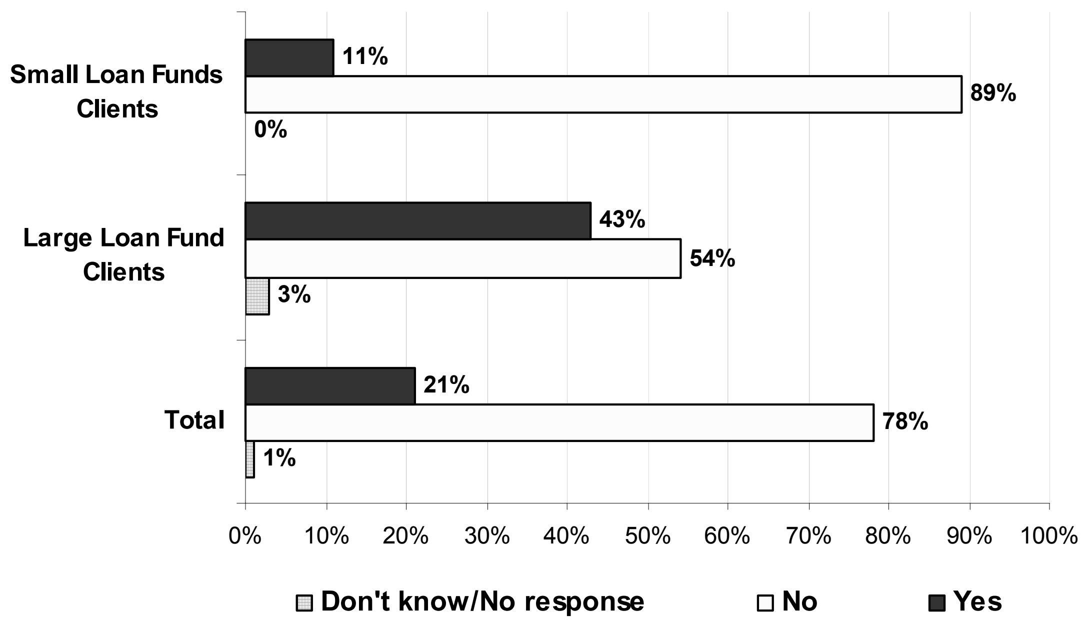
As indicated in Table 3.38, the most frequent responses regarding the types of business advisory and support services provided by WD staff to clients, prior to them applying for a loan, were assistance in preparing their business plan (16%), referrals to other sources of information (12%) and facilitated meetings with bank (8%)

Table 3.38
What is the nature of the business information and support services that were provided to you by WD staff prior to applying for your loan?

Response	Percentage of Total Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
Assisted them in preparing their business plan	14%	20%	16%
Referred them to other sources of information	10%	17%	12%
Facilitated meetings with the bank	4%	17%	8%
Assisted them in collecting business, marketing or sectoral information	6%	3%	5%
Referred them to other sources of financing	6%	0%	4%
Referred them to other organizations that might be able to help them	3%	7%	4%
Provided exporting advice	0%	3%	1%
Provided other advice	3%	0%	2%

As indicated in Table 3.39, 11% of the small loan fund clients and 43% of the clients of the large loan funds were provided with business information or business support services by WD staff since their loan had been approved.

Table 3.39
Has your firm been provided with business information or business support services by WD staff since your loan was approved?



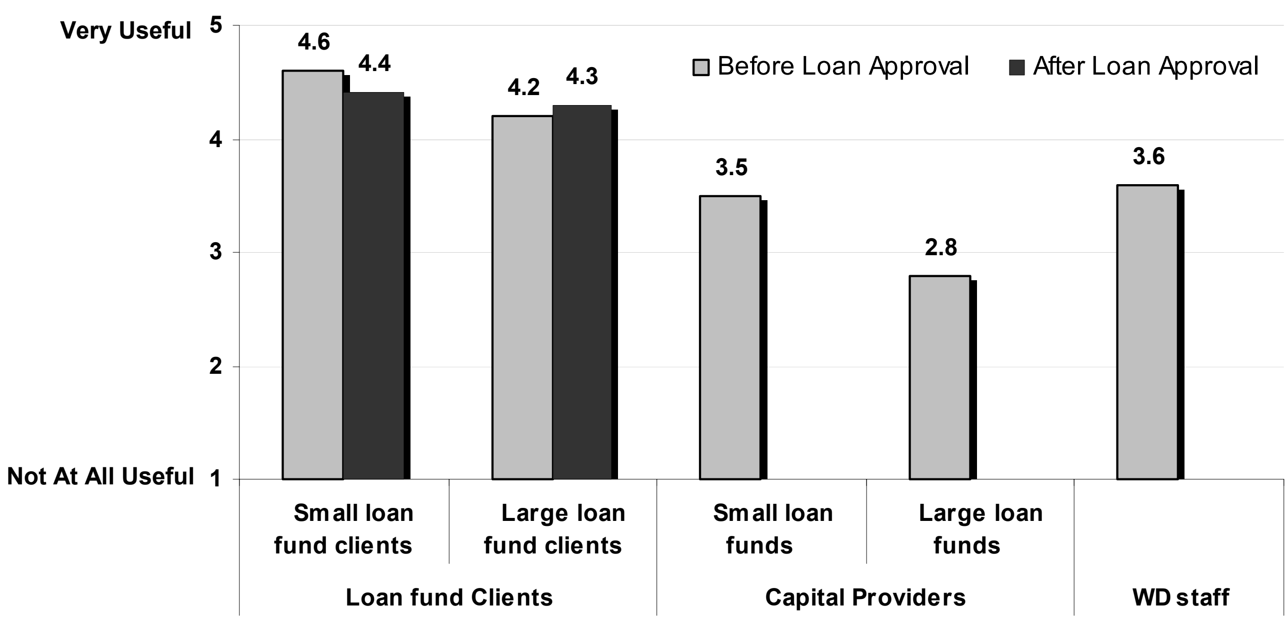
As indicated in Table 3.40, the most frequent responses regarding the types of business advisory and support services provided by WD staff to clients since the approval of their loan were referrals to other sources of information (13%), help in start-up phase (9%) and referrals to other sources of financing (5%).

Table 3.40
What is the nature of the business information and support services that were provided to you by WD staff since your loan was approved?

Response	Percentage of Total Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
Referred them to other sources of information	6%	30%	13%
Help in start-up phase	5%	4%	9%
Referred them to other sources of financing	1%	13%	5%
Assisted them in collecting business, marketing or sectoral information	3%	7%	4%
Encouragement and support	45	0%	4%
Assisted them in refining their business plan	1%	3%	2%
Referred them to other organizations that might be able to help them	0%	7%	2%
Provided exporting advice	0%	7%	2%
Provided other advice	3%	3%	3%

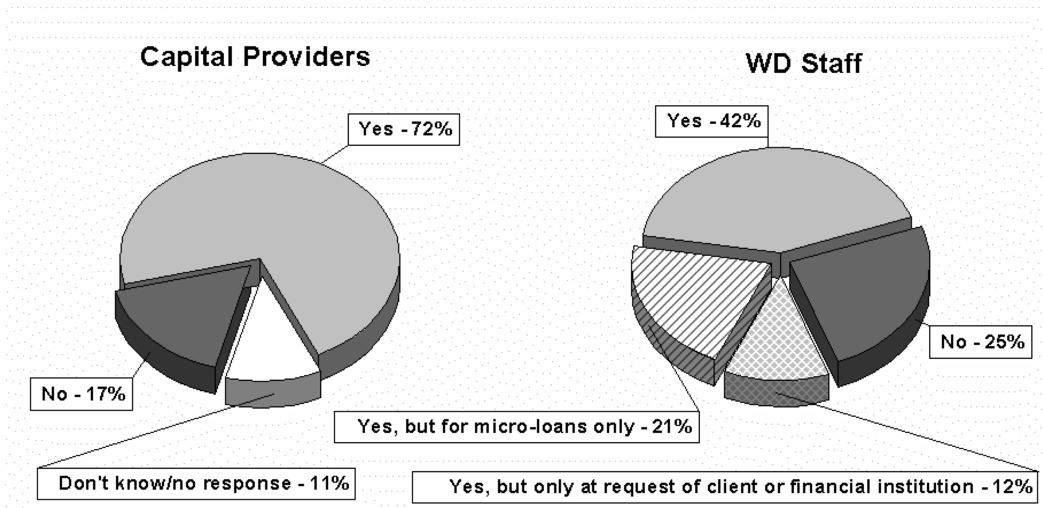
Respondents were also asked to indicate the usefulness of the business advisory services provided by WD staff to LIFP loan clients, on a scale of 1 to 5 where 1 is not at all useful and 5 is very useful. As indicated in Table 3.41, most respondents indicated that the business advisory services provided by WD staff are useful both before loan approval and after loan approval. Overall, the loan clients perceived the business advisory services to be more useful than the capital providers and WD staff interviewed.

Table 3.41
Average Rating of Usefulness of Business Advisory Services Provided by WD Staff



As indicated in Table 3.42, 72% of the capital providers and 42% of WD staff feel that WD staff should provide business advisory services to LIFP loan clients prior to loan approval. When capital providers were asked what business advisory services for which there exists the greatest need, the most frequent response was an assessment of gaps in the business plan (9 responses). Other types of services mentioned less frequently for which there exists a need include preparation of cash flow statements, marketing, competitive analysis and strategic planning. When WD staff were asked what business advisory services for which there exists the greatest need, the most frequent responses were an assessment of gaps in the business plan and advice on financing options. Other types of services required that were mentioned less frequently is the preparation of cash flow statements, marketing, competitive analysis and strategic planning.

Table 3.42
Do you feel that WD staff should provide business advisory services to assist firms to complete loan applications and accompanying business plans for LIFP loans?

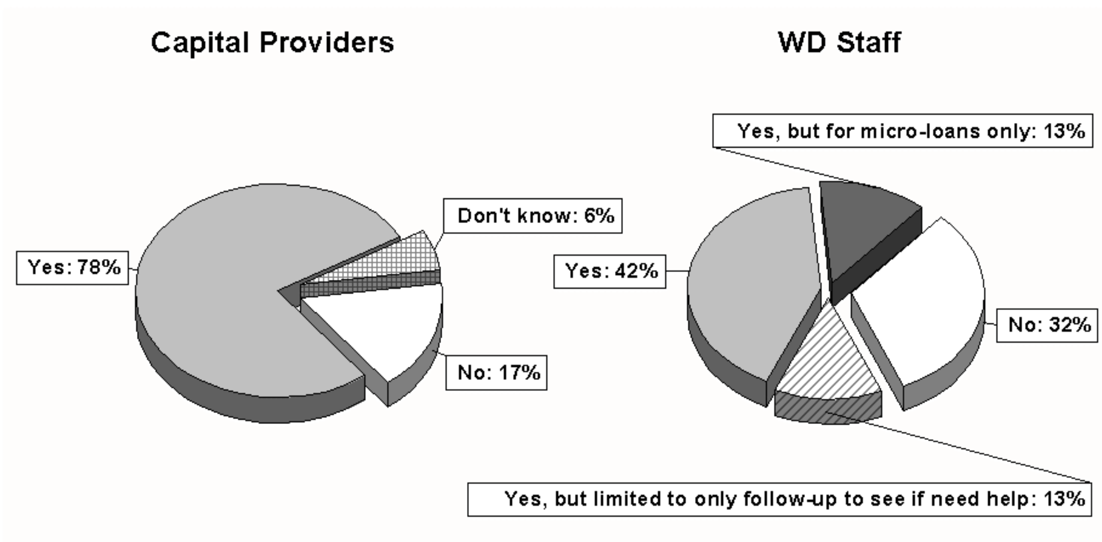


As indicated in Table 3.42, 21% of WD staff felt that business advisory services should be provided only to micro loan fund clients because WD staff are not qualified to review business plans of the larger more sophisticated companies and that these larger companies are capable of preparing a business plan or paying for the services of an independent consultant to prepare a business plan. One-quarter of WD staff does not feel that WD staff should provide business advisory services to assist firms to complete loan application forms and accompanying business plans for LIFP loans. Some of the most frequent reasons given by these respondents are as follows (number of responses indicated in brackets):

- The local Canada Business Service Centre should perform this function (3);
- Difficult for WD staff to perform this function because each financial institution has its own requirements/criteria and sufficient communication of this criteria to WD staff dos not exist (3); and
- WD staff is not qualified to perform this function and WD should partner with other organizations to provide this service (2).

As indicated in Table 3.43, 78% of the capital providers stated that WD staff should provide business advisory services to LIFP loan clients after loan approval. Most of the capital providers stated that WD staff should call on LIFP loan clients on a regular basis, varying from quarterly to annually. Some capital providers indicated that more frequent calls and greater attention should be devoted to loan clients that are in the start-up or early stage, as well as companies that experience problems, because these clients have a greater need for business advisory services. One of the stated benefits of increased follow-up by WD staff was that it would enhance the accuracy of the referral process because WD staff would be able to better ascertain which clients succeed. As indicated in Table 3.43, 17% of the capital providers indicated that WD staff should not provide business advisory service to LIFP loan clients after the loan has been approved. Some of the most frequent reasons for this response were that WD staff is not qualified in this area and consulting services were already provided, when necessary, to the BDC loan clients.

Table 3.43
Do you feel that WD staff should provide business advisory services to LIFP loan clients once the loan has been approved?



As indicated in Table 3.43, 42% of WD staff felt that WD staff should provide business advisory services to LIFP loan clients after the loan has been approved to address gaps in the business/management skills of LIFP loan clients. Approximately 13% of WD staff indicated that the assistance provided should be limited to a follow-up after loan approval (e.g. every six months) to see if clients need help, while another 13% of respondents indicated that business advisory services should be limited to only micro-loans clients. Approximately one-third of respondents indicated that WD staff should not provide business advisory service to LIFP loan clients after the loan has been approved. Some of the most frequent reasons for this response were that it required too much resources/time of WD client services officers, WD staff lack skills to perform this function and WD should partner with other organizations/individuals such as mentors, retired business executives or the Canada Business Service Centre to perform this function.

When capital providers were asked about the business advisory services provided by their staff to firms applying for an LIFP loan, the most frequent response (12 respondents) was that the business plan was reviewed and any gaps in the business plan were pointed out. Four respondents indicated that they don't provide any more business advisory services than that provided to regular clients, which consists primarily of due diligence of the loan application and business plan. Four respondents indicated that they also refer their clients to WD and other organizations (i.e. local economic development organizations, CBSC, private consultants) to obtain assistance in preparing their business plans. In the case of BDC, consulting services are provided to some companies to assist in the preparation of their business plans and the client pays for these consulting services.

The extent of business advisory services provided to loan clients varies considerably from one financial institution to another. Two-thirds of the 18 capital providers indicated that they provide one-on-one support/mentoring to their loan clients on subjects such as planning for growth, market research, gaps in management skills, cash flow management, etc. (Table 3.44).

Table 3.44
What is the nature and extent of business advisory services provided by the staff of financial institutions to firms after they have been approved for an LIFP loan?

Response	Number of Responses
Small loan fund capital providers	
Mentoring (one-on-one support)	5
Annual review, more often if needed	1
Networking sessions (e.g. marketing)	1
Refer them to professional accounting and consulting services	1
Minimal	1
No response	1
Total	10
Large loan fund capital providers	
General coaching and mentoring (e.g. planning for growth, market research, general management)	7
Detailed semi-annual or annual review, more contact if problem occurs	3
Assessing gaps in management	2
Help in managing cash flow	2
Sectoral assistance	2
Refer them to professional accounting and consulting services	2
Provide consulting services paid for by client	2
No response	3
Total	23

As indicated in Table 3.45, 84% of micro-loan fund clients and 70% of clients of the large loan funds are satisfied or very satisfied (i.e. rating of 4 or 5) with the level of service obtained from the financial institution that processed their loan applications. The average rating of satisfaction is slightly higher for the small loan fund clients (4.3) compared to the large loan fund clients (3.8).

Table 3.45
How would you rate the level of service that you obtained from the financial institution that provided you with an LIFP loan?

Rating of Level of Service	Percentage of Total Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
1 Not at all satisfied	7%	17%	10%
2	3%	3%	3%
3 Somewhat satisfied	6%	10%	7%
4	17%	27%	20%
5 Very satisfied	67%	43%	60%
Total	100%	100%	100%
Average rating (scale of 1 to 5)	**4.3**	**3.8**	**4.2**

For respondents that were not satisfied with the level of service obtained from the capital provider, the most frequent reasons given by these respondents for not being satisfied are as follows (number of responses indicated in brackets):

- Cumbersome and lengthy process (4);
- Lack of understanding of program by staff of financial institution (2); and
- Frequent changes in staff of the financial institution (2).

WD staff and capital providers were asked to indicate their responses regarding the impact that the LIFP has had in addressing gaps in the business skills and managerial expertise of LIFP loan clients on a scale of 1 to 5, where 1 is no impact and 5 is a major impact. As indicated in Table 3.46, the average rating of WD staff and capital providers is 2.5 and 3.2, respectively, which indicates that the LIFP has had limited impact in addressing gaps in the business skills and managerial expertise of SMEs, particularly LIFP loan clients. Overall, the capital providers of small loan funds felt that the LIFP has had a considerably higher impact in addressing gaps in the business skills and managerial expertise of SMEs than the other capital providers and WD staff.

Table 3.46
To what extent has the LIFP addressed gaps in the business skills and managerial expertise of SMEs, particularly LIFP loan clients?

No.	Response	WD Staff	Capital Providers		
			Small Loan Funds	Large Loan Funds	Total
1.	No impact	13%	0%	10%	6%
2.	Minimal impact	33%	0%	30%	17%
3.	Some impact	33%	25%	30%	28%
4.	Significant impact	13%	25%	20%	22%
5.	Major impact	0%	25%	0%	11%
6.	Don't know	8%	25%	10%	16%
Average (scale of 1 to 5)		**2.5**	**4.0**	**2.7**	**3.2**

For the small loan capital providers that indicated the LIFP has had some impact in addressing gaps in business skills and managerial expertise, the most frequent responses given regarding the activities undertaken to address gaps in business skills and managerial expertise were as follows (number of responses indicated in brackets):

- Provide mentorship to loan clients (3);
- Refer clients to federal/provincial government representatives to get assistance in preparing a business plan (2); and
- Send clients to get training or purchase professional services, if required, to address gaps in business skills and management expertise (2);

For the capital providers of the large loan funds that indicated the LIFP has had some impact in addressing gaps in business skills and managerial expertise, the most frequent responses given regarding the activities undertaken to address gaps in business skills and managerial expertise were as follows (number of responses indicated in brackets):

- In the case of BDC, these gaps are addressed partially by BDC consulting services (2);
- Provide sector intelligence to clients (2); and
- Provide advice on how to be successful (2).

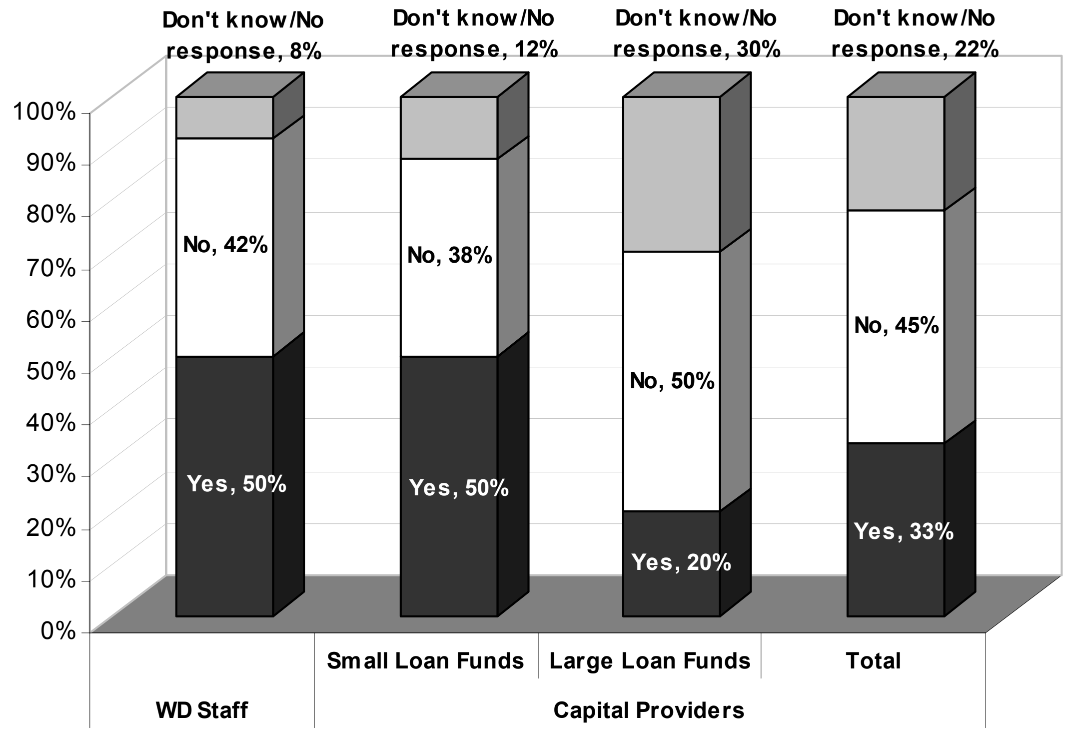
For the WD staff that indicated the LIFP has had some impact in addressing gaps in the business skills and managerial expertise, the most frequent responses given regarding the specific gaps in business skills and managerial expertise that have been addressed were as follows (number of responses indicated in brackets):

- Advice on business plan (8);
- Advice on how to prepare a loan application (3); and
- Assessment of financing requirements (2).

6. Does there exist sufficient awareness and promotion of the LIFP loan funds to maximize program participation?

The capital providers and WD staff surveyed have mixed views regarding whether there exists sufficient awareness and promotion of the LIFP loan funds to maximize program participation. As indicated in Table 3.47, the largest proportion of WD staff (50%) felt that there has been sufficient awareness and promotion, while the largest proportion of capital providers (45%) stated that sufficient awareness and promotion of the loan funds to maximize program participation does not exist. In general, a higher proportion of the capital providers of small loan funds than the capital providers of the large loan funds felt that there exists sufficient awareness and promotion of the LIFP loan funds.

Table 3.47
Does there exist sufficient awareness and promotion of the LIFP loan funds to maximize program participation?



The respondents that felt there has been sufficient awareness and promotion of the LIFP were asked to indicate what have been the most effective means of obtaining awareness and promoting the program. The most frequent responses from capital providers and WD staff are as follows (number of responses indicated in brackets):

Capital Providers

- Distribution of brochures through branches of the financial institution (3);
- Regular contacts with staff at branch level to keep them aware of the program (2);
- Promotions at business fairs and conferences (2); and
- Joint advertising with WD (2).

WD Staff

- Marketing and promotion by staff of financial institutions at the branch level (7); and
- Word of mouth (4).

The respondents that did not feel there was sufficient awareness and promotion of the LIFP were asked to indicate what steps should be undertaken to increase awareness. The most frequent responses obtained from capital providers and WD staff was as follows (number of responses indicated in brackets):

Capital Providers

- Regular contact between WD staff and bank staff at branch level to ensure bank staff are more aware of and devote sufficient attention to the program (2);
- Greater distribution of brochures to staff and clients of financial institutions (2);
- Put the individual loan programs on WD's website (2);
- Greater networking by WD staff to proactively promote the program (2); and
- Joint marketing strategy by WD and financial institution to promote the program (2).

WD Staff

- Have a person dedicated in each financial institution to promote the program to ensure that bank staff at branch level are more aware of and devote sufficient attention to the program (7);
- Greater distribution of brochures to staff and clients of financial institutions (5);
- Greater use of WD website and publications to promote the program (5):

The financial institutions, rather than WD, appear to be the most effective channel of creating awareness and promoting the LIFP loan funds. As indicated in Table 3.48, 39% of small loan fund clients and 53% of clients of large loan funds became aware of LIFP loan funds through financial institution staff. The second most frequent source of awareness of LIFP loan funds by small loan fund clients was referrals by other government organizations, particularly government self-employment programs.

Table 3.48
How did you find out about LIFP loan funds?

Source	**Percentage of Total Loan Clients Financed By:**		
	Small Loan Funds	**Large Loan Funds**	**Total**
Financial institution staff	39%	53%	43%
Referred by other government organizations/WD partners	29%	3%	21%
Referral by friend/business associate	9%	10%	9%
Referral by other financial institution	7%	14%	9%
WD staff	9%	0%	6%
Referral by other organization	5%	3%	5%
Financial institution advertisement	1%	7%	3%
WD advertisements/brochures/ website	1%	3%	2%
Don't know/no response	0%	7%	2%
Total	100%	100%	100%

7. Were there unexpected or negative impacts from the LIFP?

The most frequent responses obtained from WD staff regarding the unexpected or negative impacts of the LIFP are as follows (number of responses indicated in brackets):

- Unmet expectations/frustration of some clients due to high refusal rates by banks (7);
- Lower-than-expected uptake of some loan funds, particularly knowledge-based funds (4);
- More involvement in micro-loans than initially anticipated (3);
- Not doing as much business counselling as originally anticipated (3);
- Some clients misunderstood the program and felt that it was subsidizing the banks (3);
- Some clients misunderstood the program and thought that it provided a 100% government guarantee (3);
- Termination of the program by two banks (2); and
- Resistance to change by the banks to finance higher risk ventures was greater than expected (2).

The most frequent responses obtained from capital providers regarding the unexpected or negative impacts of the LIFP are as follows (number of responses indicated in brackets):

- Lower-than-expected uptake of some loan funds such as francophone funds and sector funds (5);
- Higher than expected loan losses of some loan funds (3);
- Expected more support from WD in pre-screening loan applications and after care (2);
- Higher-than-expected uptake of some micro loan funds (2);
- Expected a higher level of communication and collaboration with WD (2);
- Some clients misunderstood the program and thought it provided them with a grant (2);
- More work than anticipated to report results to WD (2);
- More time spent managing micro-loan clients than expected (2);
- Referrals by WD sometimes not appropriate (2); and
- Very expensive and time-consuming to set up procedures to review micro-loan applications (2).

D. Cost Effectiveness/Suggested Program Modifications

The following paragraphs summarize the survey responses dealing with the cost effectiveness and suggested modifications to the LIFP program.

1. What modifications, if any, should be considered to the current program design and delivery methods to increase the effectiveness (including cost effectiveness) of the LIFP?

As indicated in Table 3.49, the most frequent suggestions from loan clients regarding how to improve the LIFP are to provide more business advisory services, such as how to start a business, follow-up support and general advice to business, and to increase awareness of the program.

Table 3.49
What suggestions do you have to improve the LIFP?

Response	Percentage of Total Loan Clients Financed By:		
	Small Loan Funds	Large Loan Funds	Total
More business information and advice	12%	10%	11%
Increase awareness of WD loan program	9%	7%	8%
More follow-up support	6%	3%	5%
Financial institution staff more knowledgeable about WD program	4%	7%	5%
Increase maximum size of loans	4%	7%	5%
Lower interest rates	1%	10%	4%
Faster loan application response times	3%	3%	3%
Provide loan funding directly	0%	7%	2%
Other	10%	0%	7%

The most frequent responses by capital providers of small loan funds regarding what modifications should be considered to the current program design and delivery methods are listed below (number of responses indicated in brackets):

- Increase the loan loss ratio (4). One respondent indicated that the loan loss ratio of 20% should be increased; two respondents indicated that the loan loss ratio of 10% for operating loans should be increased to 20%; and one respondent indicated that write-offs from overdrafts should be considered eligible as loan losses.

- Examine possible modifications to the program such that the micro-loans are profitable for credit unions (3). Some specific options suggested include compensation for administration costs and increasing the loan loss ratios.

- Increase the maximum loan size of the micro-loan funds to enable financial institutions to better serve existing businesses (2).

- WD should be more involved in after care either by having their staff do it or by partnering with an organization to perform this function (2).

- WD should assist financial institutions to reduce the paperwork and decrease the time that they currently spend on reporting results to WD (e.g. provide reporting templates, standardized MIS systems, etc.) (2).

- WD should encourage greater collaboration and sharing of information between credit unions in order to identify best practices (2). One respondent suggested that WD should organize a meeting of all partners to share experiences (e.g. loan approval methods, most appropriate repayment terms, etc.).

- WD could fund a research program to develop a scoring tool than can be used as a first step by credit unions in the loan application review process because there currently exists too much reliance on character-based lending (1).

- WD should fund a research program to determine the most appropriate small business management support to be provided once loans are approved (e.g. background research paper on mentoring, development of a tool that could be used by financial institutions, etc.) (1).

The most frequent responses by capital providers of the large loan funds regarding what modifications should be considered to the current program design and delivery methods are listed below (number of responses indicated in brackets):

- Increase the loan loss ratio (4). Two respondents indicated that the loan loss ratio should be increased to 20%, while the other two respondents indicated that the loan loss ratio should be higher than 20%.

- WD should assist financial institutions to reduce the paperwork and decrease the time that they currently spend on reporting results to WD (3). One respondent also suggested compensating banks for the administration costs incurred.

- Combine sector funds into one fund that has more flexible terms and conditions than current sector funds (3). Some specific areas where respondents indicated there should be greater flexibility were eligible sectors, interest rate and the amortization period of the loan.

- WD should be more involved in after care either by having their staff do it or by partnering with an organization to perform this function (2).

The most frequent responses by WD staff regarding what specific modifications should be considered to the current program design and delivery methods are listed below (number of responses indicated in brackets).

- Continue with micro-loan funds but revisit the need for the loan funds with low take-up rates (16). Several respondents specifically questioned the need for some of the sector funds with low take-up rates while a few respondents questioned the need for the francophone funds which have had limited take-up to date.

- Increase the degree of communication with staff of financial institutions to better understand their loan approval criteria, improve take up rates and increase collaboration between staff at the local level (11).

- Explore opportunities to increase maximum loan size of credit union loan fund partners, as banks are not interested in providing loans less than $200,000 (7).

- Increase the amount of business counselling/after care provided to loan clients to increase their success rates (6). Some options suggested by respondents included establishing mentorship programs, contracting out this function, and using WD staff.

- Increase the current degree of risk sharing by WD to ensure continued participation in the program by the banks and credit unions (5). Some respondents suggested that consultation should be undertaken with financial institutions to explore benefits and impacts of increased risk sharing, such as increasing the current loan loss ratios, and greater use of instruments such as warrants to increase the return and reduce the risk to the financial institutions.

- Explore the potential for equity funds to increase the amount of equity financing available to small-and medium-sized businesses in western Canada (3).

- Improve current management information and client tracking systems to enhance information/feedback provided from loan fund partners to WD client service officers and other WD staff (4). As an illustration, WD client service officers need better feedback regarding which clients are actually approved for funding to refine which clients should be referred to financial institutions.

- Encourage financial institutions to dedicate a person to be responsible for the program and to promote the program internally to staff at the branch level (3).

- Consider revisions to the terms and conditions of the LIFP loan funds to make them more acceptable (3). Some specific modifications suggested were a lower interest rate, increase in the maximum amortization period of the loan, and an increase in the maximum sales revenues of the company.

- Encourage greater sharing of experiences and identification of best practices of the credit unions that are involved in the program (3).

- Undertake benefit cost analysis to assess whether WD should provide additional business counselling and after care assistance to LIFP loan clients after loan approval (2).

- Increase profile of the program within WD to obtain a better understanding of the strategic value and rationale for the program (2).

- Utilize the WD website and publications to a greater extent to promote the program (2).

Some suggestions provided by small business financing experts regarding the design of the LIFP are summarized below (number of responses indicated in brackets):

- WD should consider working with venture capital companies to provide more equity financing to early-stage companies and companies that require less than $500,000 in equity financing (4);

- Rather than banks and credit unions, WD should consider working with venture capital organizations to provide subordinated debt financing to SMEs, as venture capital organizations are more experienced in dealing with high risk ventures (3);

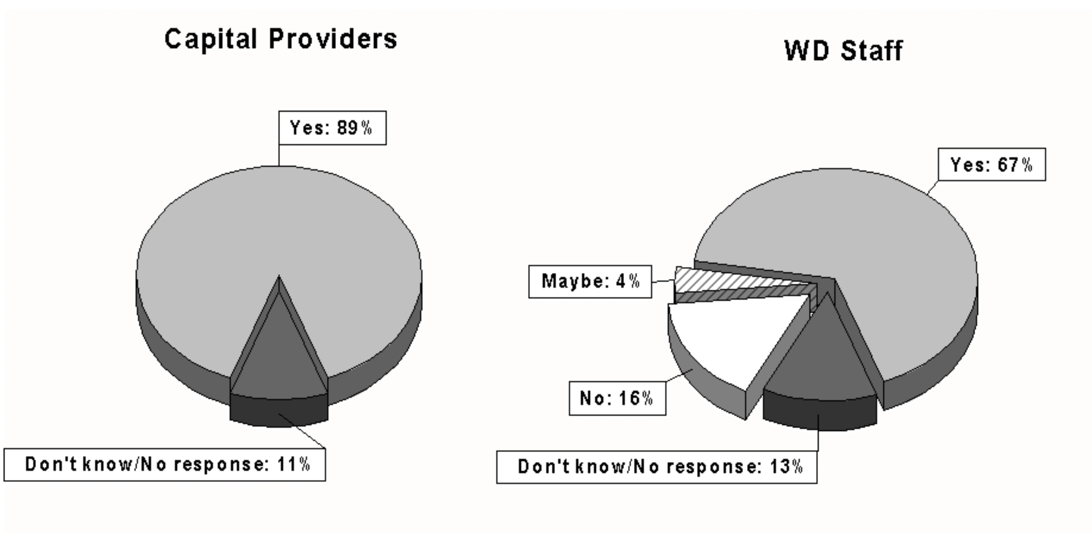
and

- Reduce the capital gains tax to encourage greater investment of venture capital in SMEs (2).

2. Is the LIFP the most cost-effective way to increase access to debt financing for small- and medium-sized businesses in the areas targeted by the LIFP?

As indicated in Table 3.50, 89% of the capital providers and 67% of WD staff indicated that the LIFP is the most cost-effective way to increase access to debt financing for small-and medium-sized businesses in the areas targeted by the LIFP. The most frequent reasons given by WD staff regarding why the LIFP is a cost-effective program were that that program administration costs are low, the capital of the financial institutions is used primarily instead of WD's money, and the staff of the financial institutions are utilized instead of WD staff for reviewing loan applications, monitoring loans and collecting loan payments. The most frequent reasons given by capital providers regarding why the LIFP is a cost-effective program were that it is much more effective than direct lending because it results in low administration costs by WD, leverages the capital provided by WD, and utilizes the lending expertise of the financial institutions.

Table 3.50
Is the LIFP the most cost-effective way to increase access to debt financing for small-and medium-sized businesses in the areas targeted by the LIFP?

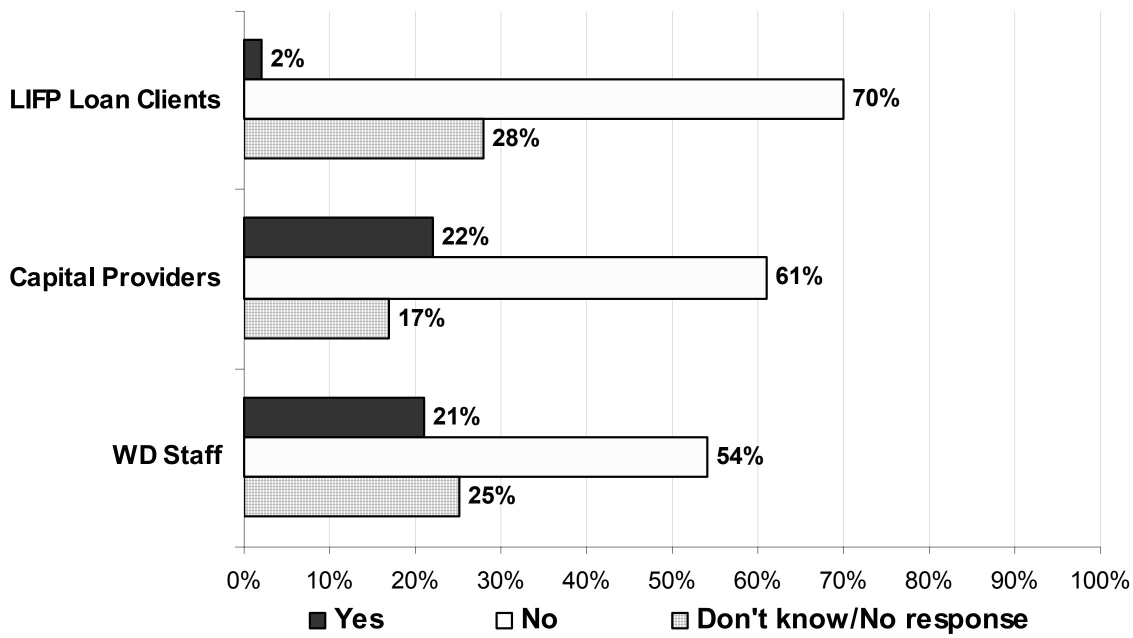


The LIFP is cost effective because it results in considerable leveraging of WD funds. The $21 million in WD booked funds has leveraged $145.4 million in capital provided by banks and credit unions. Using a similar methodology to estimate the incremental number of job created by the LIFP, the incremental amount of other project financing raised by LIFP clients is estimated to range between $52 million to $71 million, based on a confidence level of 90%. As a result, the leveraging ratio of WD booked funds is estimated to range between 9.7 and 10.7 to 1.

3. Does the LIFP duplicate other loan programs and services?

As indicated in Table 3.51, most of the loan clients, capital providers and WD staff indicated that the LIFP does not duplicate other loan programs and services. Most respondents acknowledged that, while there are a number of complementary programs, the target market and focus of the LIFP program was unique. Of the respondents that indicated the LIFP does duplicate other loan programs and services, the most frequent responses given regarding which programs overlap with the LIFP were Canada Small Business Financing Program administered by financial institutions and provincial government financial assistance programs.

Table 3.51
Does the LIFP duplicate other loan programs and services?



IV. Comparison With Other Programs

This chapter provides a comparison of the LIFP with other programs and services available to small-and medium-sized businesses in western Canada. In addition, it briefly summarizes recent studies regarding the need for financing and business advisory services of small-and medium-sized businesses.

A. Sources of Financing Available to SMEs in Western Canada

Small- and medium sized businesses (SMEs) are the backbone of the western Canadian economy. SMEs are responsible for half of all private sector employment. In 1999, there were a total of 699,237 SMEs in western Canada, which account for about 36% of the total of 1,967,777 SMEs in Canada.[1] SMEs are defined as those firms in Canada that have annual sales revenues of $50 million or less and have fewer than 500 employees.

Access to capital is one of the most critical components in the success of an SME. A business that can obtain financing quickly and at a reasonable cost has a much greater chance of succeeding. The following paragraphs briefly describe some of the key sources of financing available to small- and medium-sized businesses in western Canada.

1. Financial Institutions

A key source of financing for SMEs is debt financing provided by the financial services industry. According to a 1998 SME survey by Thompson Lightstone & Company, one-half of all small-and medium-sized businesses in Canada borrow from a financial institution.[2] This study also indicates that the other major sources of financing for SMEs are as follows:

- Retained earnings (51%);
- Supplier credit (48%);
- Personal savings (45%);
- Personal lines of credit (37%);
- Personal credit cards (36%);
- Leasing (28%);
- Personal loans (25%);
- Business credit cards (22%);
- Government lending agencies/grants (13%);
- Loans from employees, friends and relatives (13%); and,
- Public equity (2%) and venture capital (2%).

As indicated in Table 5.1, seven of the largest banks provided a total of $24 billion in financing to SMEs in Western Canada, as of June 30, 2001. The financing provided by these banks to SMEs in western Canada accounted for 34% of the total of $71 billion in financing provided to SMEs throughout Canada. Considering that SMEs in western Canada account for 36% of all SMEs in Canada, SMEs in western Canada received slightly less than their proportionate share of financing from seven of Canada's largest banks. The definition of SMEs used for this analysis is businesses that received less than $1 million in financing from the financial institution.

Table 5.1

[1] Business Registrar Division, Statistics Canada. 1999.
[2] Thompson Lightstone & Company Ltd. "Small and Medium Sized Businesses in Canada: An Ongoing Perspective of Their Needs, Expectations and Satisfaction with Financial Institutions". 1998.

Financing Provided to SMEs in Western Canada
By Seven of the Largest Banks as at June 30, 2001

Region	Number of Customers	Total Amount Outstanding ($ Millions)	% of Total Value of Financing
Manitoba and Saskatchewan	43,261	$5,436	8%
Alberta	103,566	8,504	12%
British Columbia and Territories	118,523	10,333	14%
Western Canada	265,350	24,273	34%
Total Canada	819,276	$70,833	100%

Source: Canadian Bankers Association: Seven Bank Aggregate – Regional Synopsis

As indicated in Table 5.2, only 4% of the total loan financing provided to SMEs in western Canada by seven of the largest banks is for loans less than $25,000.

Table 5.2
Size of Loan Financing Provided to SMEs in Western Canada
By Seven of the Largest Banks as at June 30, 2001

Lending Amount	Total Amount Outstanding ($ Millions)	% of Total
$0 - $24,999	$1,038	4%
$25,000 - $49,000	1,449	6%
$50,000 - $99,000	2,932	12%
$100,000 - $249,000	6,292	26%
$250,000 - $499,999	5,845	24%
$500,000 - $999,999	6,717	28%
Total	$24,273	100%

Source: Canadian Bankers Association: Seven Bank Aggregate – Regional Synopsis

2. Federal Government Loan Programs

Unfortunately, banks cannot meet all of the financial needs of SMEs. This is where a variety of public sector programs come into play to help small businesses increase their access to capital. The major involvement by government in SME financing markets is to develop programs and incentives aimed at eliminating or alleviating the gaps that are not being serviced adequately by the private financial services sector. The following paragraphs provide a brief overview of some federal and provincial government financing programs that are available to small businesses in western Canada.

a. Canada Small Business Financing (CSBF) Program

The Canada Small Business Financing (CSBF) program was initiated on April 1, 1999 by the Canada Small Business Financing Act (CSBFA). The CSBFA replaced the Small Business Loans Act (SBLA) that had been in place since 1961. The objective of the CSBF Program is to help new and existing SMEs obtain affordable term financing for the purchase and improvement of fixed assets. The program is a joint initiative between the Government of Canada and private sector lenders. The federal government is responsible for 85% of the loan defaults while the lenders are responsible for the remaining 15%. The result is that financing is more accessible, and business owners do not have to provide personal assets as security to support their business financing requirements.

Chartered banks, caisses populaires, Alberta Treasury branches, most credit unions, and many trust, loan and insurance companies are authorized to make CSBF loans directly to small business owners. Eligible businesses are those with annual gross revenues that do not exceed $5 million. Farming and charitable or religious enterprises are not considered eligible businesses.

CSBF loans may be used to finance:

- The purchase or improvement of real property or immovables;
- The purchase of leasehold improvements or improvements to leased property; and
- The purchase or improvement of new or used equipment.

The maximum value of loans a borrower may have outstanding under the CSBF Program cannot exceed $250,000. Loan proceeds may be used to finance up to 90% of the cost of the asset. Lenders are obligated to take security on the assets financed.

The period in which a loan must be repaid generally coincides with the expected economic life of the asset being financed, up to a maximum of 10 years. Under the CSBFA, borrowers may chose between:

- Floating rate loans, where the interest rate cannot be more than 3 percent over the lender's prime lending rate; and
- Fixed rate loans, where the interest rate cannot be more than 3 percent over the lender's residential mortgage rate for the applicable term.

The above interest rate guidelines include an annual administration fee of 1.25% payable by the lender to the federal government. In addition, lenders are required to pay a one-time loan registration fee of 2 percent of the loan amount to the federal government. This registration fee may be recovered from borrowers.

During the fiscal year 2000/01, a total of 3,877 CSBF loans were made in western Canada for a total value of $316 million. As indicated in Table 5.3, approximately 27% of the total value of CSBF loans made in Canada in 2000/2001 was for SMEs in western Canada. Considering that western Canada accounts for 36% of all SMEs in Canada, the share of total CSBF financing received by western Canada SMEs is considerably is lower than that received by SMEs in the rest of Canada.

Table 5.3
CSBF Loans Made In 2000/2001

Region	Number of Loans	Value of Loans ($ Millions)	% of Total Value of Loans
British Columbia	1,111	$ 91.8	7.9%
Alberta	1,615	142.9	12.3%
Saskatchewan	670	45.7	3.9%
Manitoba	481	35.6	3.1%
Western Canada	3,877	316.0	27.2%
Canada	14,429	$1,162.6	100.0%

Source: Small Business Loans Administration Data, 2000-2001.

b. Business Development Bank of Canada (BDC)

Business Development Bank of Canada is a complementary lender to commercial financial institutions; it also offers venture capital and consulting services. BDC's mandate was recently modified to focus on the financing requirements of SMEs in knowledge-based industries and exporting, while continuing to support the traditional sectors. To satisfy this mandate, BDC has implemented a performance indicator with the aim of having 50% of all new financing go to knowledge-based industries and exporters over the long term. The following paragraphs briefly describe the loans and other types of financing provided by BDC to SMEs:

- **Term Loans**: Flexible loans are provided for a wide range of projects including the acquisition of fixed assets, expansion and the purchase of existing businesses and of any specialized assets. In some cases, a BDC term loan may be used to complement working capital depleted by capital expenditures or to finance sales growth. Term loans are offered at both floating and fixed rates for up to 20 years.

- **Micro Business Program**: The Micro Business program supports the growth and development of some of the smallest innovative micro businesses. The program provides two years of follow-up mentoring and continued management support as well as term financing of up to $25,000 to new businesses, and up to $50,000 to existing companies whose business proposals demonstrate potential for growth and strong prospects for success. BDC designs a customized management support plan tailored to each business' specific needs and provides access to BDC counsellors in a small group setting or on a one-on-one basis. The counselling is mandatory and fee based.

- **Young Entrepreneur Financing Program**: This program is aimed at giving start-up entrepreneurs between the ages of 18 and 34 a solid foundation for building a new business. Term financing of up to $25,000 and 50 hours of tailor-made business management consulting is available to help ensure that entrepreneurs with commercially viable business proposals get their businesses off the ground.

- **Cultural Industries Development Fund (CIDF)**: This fund is designed for existing businesses operating in book, magazine and music publishing, sound recording, and film and multi-media production. The CIDF is a flexible tool intended for dynamic businesses with a high potential for success and the desire to improve their market position. The loans offered by CIDF range up to $250,000, with a total commitment of $1 million over time.

- **Productivity Plus Loan**: The Productivity Plus loan is a flexible financial product designed to help well-established manufacturing companies enhance their productivity by acquiring new or used equipment, provided it is modern. Productivity Plus loans are typically in excess of $100,000 and can range as high as $5 million. They include a flexible repayment schedule to allow the equipment to reach its optimal productivity.

- **Innovation Loan**: The Innovation loan is designed for entrepreneurs who wish to ensure that their company continues to grow and develop. This loan finances the working-out and implementation of innovation strategies, namely in training compliance with International Organization for Standardization (ISO) standards, research and development, and the purchase of intangible assets. Established small businesses may apply for an Innovation Loan of up to $100,000, and entrepreneurs may combine the loan with a Working Capital for Exporters loan of up to $250,000. Both loans include flexible repayment terms.

- **Working Capital for Exporters**: This loan is designed for established businesses that wish to enhance their export initiatives. Working Capital for Exporters loans of up to $250,000 are available for financing increased exports, and include flexible repayment terms to ensure the long-term viability of a business. Working Capital for Exporters also offers customized consulting services to help small businesses manage their export development.

- **Working Capital for Growth**: Working Capital for Growth is designed to support growth by topping up conventional sources of short-term financing. Working capital loans of up to $100,000 are based on cash flow requirements, inventory levels and receivables.

- **Tourism Investment Fund**: This fund is designed for today's growth-minded and innovative tourism operators who wish to enhance the quality of their installations, and their ability to respond to the needs of the tourism industry. The Tourism Investment Fund offers consulting services enabling businesses to better manage and strengthen their growth potential, and term loans ranging from $250,000 to $10 million.

- **Growth Capital for Aboriginal Business**: BDC's Growth Capital for Aboriginal Business provides loans for a variety of purposes including acquiring fixed assets, financing franchise fees and covering start-up costs. The loans may be as high as $25,000 for start-ups and $100,000 for existing businesses. Growth Capital for Aboriginal Business offers flexible repayment terms to suit a business' cash flow requirements.

- **BDC Connex**: BDC Connex is a virtual branch of the BDC that offers a complete line of financial products, including the Visa Global Line of Credit. The Visa Global Line of credit is a credit tool worth up to $50,000 that combines the practicality of a credit card with the flexibility of a chequing account, having no set-up fees, no monthly fees and no chequing fees.

- **Techno.net Loan**: The Techno.net loan is designed to help small businesses take up the challenge of electronic commerce and establish a lead position for themselves. Existing small businesses can apply for financing from $25,000 to $50,000 to meet the various costs related to the implementation of a web solution.

- **Subordinate Financing**: An innovative form of financing that combines the characteristics of term financing and venture capital. Businesses with strong growth potential and high-quality management may be eligible for quasi-equity financing between $250,000 and $5 million for expansion and market development projects. Repayment is flexible and is tied to cash flow projections.

- **Venture Capital**: BDC considers capital investments at any stage of a company's life cycle, from seed to growth, from acquisition or expansion to turnaround. Small businesses in leading edge industries with a strategic market position and a dynamic management team committed to sustained growth are eligible for initial investments ranging from $500,000 to $5 million with the average transaction being between $1.5 million and $2.0 million.

As indicated in Table 5.4, BDC authorized a total of $272 million in loans to businesses in western Canada, which is 17.7% of the total of $1.5 billion in loans authorized by BDC in Canada in 2000/2001. By considering that western Canada accounts for 36% of all SMEs in Canada, western Canadian SMEs received less than one-half of their share of total BDC financing.

Table 5.4
Loans Authorized by BDC in 2000/2001

Region	# of Customers	Loans Authorized ($ millions)	% of Total Loans Authorized
Manitoba	210	$18.2	1.2%
Saskatchewan	349	26.8	1.7%
Alberta	634	110.2	7.2%
British Columbia	659	116.9	7.6%
Western Canada	1,852	272.1	17.7%
Total Canada	7,995	$1,538.0	100.0%

Source: Business Development Bank of Canada Annual Report 2000/2001.

c. Community Futures Program

Under the Community Futures Program, WD provides operating and investment funds to 90 Community Futures Development Corporations (CFDCs) that serve non-metropolitan communities across western Canada. Most CFDCs are involved in delivering three loan programs: the General Loan Fund, the Entrepreneur with Disabilities Program (EDP), and the Western Youth Entrepreneur Program (WYEP). A description of each of these loan programs is provided in the following paragraphs.

- **General Loan Fund**: CFDCs can lend a maximum of $125,000 to new or existing businesses to assist entrepreneurs who may have trouble accessing capital from traditional lenders. The loans are fully repayable, negotiated at competitive interest rates (e.g. 2% above prime for lower risk loans and 3% above prime for higher risk) and carry no prepayment penalty.

- **Entrepreneurs with Disabilities Program (EDP)**: The Entrepreneurs with Disabilities Program provides entrepreneurs with disabilities, who are unable to obtain financing from a traditional financial institution, access to business loans up to $125,000. The terms of the loans are designed to be patient and flexible, repayable at competitive rates and specifically tailored to address each individual entrepreneur's needs.

- **Western Youth Entrepreneur Program (WYEP)**: This program provides loans, loan guarantees and equity investments in businesses owned and operated by youth in rural areas of western Canada. The maximum amount of assistance for any one business is $25,000. Assistance under the program must be repaid within 5 years and normal interest rates charged by the CFDCs apply.

CFDCs have made 10,016 loans totaling $240.3 million in Western Canada over the five-year period from 1996/97 to 2000/01. As indicated in Table 5.5, the General Loan fund has accounted for 87% of the total value of loans provided by the three different loan programs.

Table 5.5
Funding Provided by CFDC Loan Funds From 1996/97 to 2000/2001

Loan Program	Amount ($million)
General	$208.3
Western Youth Entrepreneur Program	17.6
Entrepreneurs with Disabilities Program	14.4
Total	$240.3

Source: Ference Weicker & Company Impact Assessment of Community Futures Program

d. Women's Enterprise Initiative (WEI)

WD created the Women's Enterprise Initiative (WEI) to enhance the overall strength and number of women entrepreneurs in Western Canada. The initiative started gradually with the first Women's Enterprise Centre opening in Manitoba in 1994, followed by Saskatchewan and Alberta in 1995 and British Columbia in 1996.

The Women's Enterprise Initiative contains a Loan Fund program through which conditionally repayable loans are disbursed to each province (for a total of $20 million over five years), to be used as a capital base for offering loans to qualifying entrepreneurs. The Loan Fund has somewhat unique characteristics to each province, but the common link is to be a lender to women entrepreneurs. In BC, the WEI is considered the lender of last resort to high-risk entrepreneurs (as seen by the traditional financial institutions).

As indicated in Table 5.6, the Women's Enterprise Initiative provided a total of 663 loans of a total value of $16.1 million from inception to March 31, 2001. The value of loans approved is highest in Alberta.

Table 5.6
Number and Value of Loans Provided by Women's Enterprise Initiative From Inception to March 31, 2001

Province	Number of Loans	Value of Loans ($ Millions)
British Columbia	233	$ 4.2
Alberta	189	4.8
Saskatchewan	138	4.1
Manitoba	103	3.0
Total	663	$16.1

Source: Women's Enterprise Initiative Statistical Report for 2000/2001.

e. Technology Partnerships Canada (TPC)

Technology Partnerships Canada (TPC) targets investment in high-tech research conducted in three key industry sectors:

- environmental technologies;
- enabling technologies (advanced manufacturing and processing technologies, advanced materials processes and applications, biotechnology, and information and communications technologies); and
- aerospace and defense industries

The following activities are eligible for TPC-shared funding:

- industrial research;
- pre-competitive development; and
- studies

TPC targets the above sectors and activities because of their strategic influence on other industries.

In fiscal year 2000/2001, TPC approved $499 million in repayable R&D investment sharing for 28 Canadian research and development projects. These investments leveraged additional commitments worth $2.7 billion in innovation spending by TPC's private sector partners. SMEs account for more than two-thirds of TPC projects approved and they received 44% of total TPC funding in 2000/2001.[3]

f. Aboriginal Business Canada (ABC)

Aboriginal Business Canada (ABC) is a branch of Industry Canada that provides support to Aboriginal entrepreneurs seeking to start or expand their own businesses or to improve existing ones by giving them access to financing and information that will help them enhance their management skills. Financial assistance in the form of repayable or non-repayable contributions is available toward the costs of:

- Developing business plans and undertaking feasibility studies;
- Establishing new businesses or joint ventures;
- Increasing technology use through the acquisition of equipment;
- Marketing activities designed to expand sales; and
- Business support such as management and technical training.

Through Aboriginal Business Canada, Industry Canada has provided $32 million in funding to more than 10,000 Aboriginal business projects.[4]

g. Farm Credit Canada (FCC)

FCC is Canada's largest agricultural term lender, offering flexible financial solutions to primary producers and agri-businesses. FCC lends money for any farm-related purpose – land, buildings, equipment, land improvements, quota, livestock or agri-business. A variety of loan products are available as well as capital leases as an alternative to loans. FCC also supports farmer-controlled diversification initiatives and value-added agricultural operations on the farm and beyond the farm gate. During the 2000/01 fiscal year, FCC made13,289 new loans for a total value of $1.8 billion.[5]

3. Provincial Government Programs

The following paragraphs provide some examples of loan programs provided by provincial governments in western Canada.

a. Business Start Program (Manitoba)

Business Start is designed to promote the success of new business start-ups by ensuring that entrepreneurs have fully researched their ideas by means of a comprehensive business plan, by offering business training and counselling, and by providing access to funding through a loan guarantee. The loan component is delivered by participating financial institutions and is guaranteed by the Government of Manitoba. The program provides a five-year loan guarantee of up to $10,000.

[3] "Investing in Our Future – Annual Report 2000-2001" Technology Partnerships Canada, an Agency of Industry Canada.
[4] Industry Canada Departmental Performance Report 2000-01, Appendix A-4: Investment.
[5] Farm Credit Canada Annual Report 2000-01.

b. Small Business Loans Association Program (Saskatchewan)

A Small Business Loans Association Program is formed by the incorporation of four or more community-based interest groups into an Association. The objective of the Association must be the creation and development of new businesses and assisting existing businesses, by providing capital to lend to these businesses. The Department of Industry and Resources of the Government of Saskatchewan may make interest-free advances of up to $100,000 to any one Association. The Association may make loans to existing and start-up businesses to a maximum of $10,000 per borrower.

c. Northern Development Fund (Saskatchewan)

The Northern Development Fund contains a set of initiatives to stimulate economic development in Northern Saskatchewan and encourage diversification and job creation. The Northern Development Fund includes a loan program and grants for research and development and community economic development. The loan program focuses on businesses related to the resource industry, businesses contributing to northern economic diversification, essential retail and service businesses, fishing, trapping and wild rice harvesting.

d. The Alberta Opportunity Company (AOC)

The Alberta Opportunity bank is a provincial crown corporation that offers term loan assistance, export and regular guarantees to Alberta businesses when financing is unavailable from conventional sources. During the fiscal year ending March 31, 2001, AOC helped entrepreneurs start or expand their business by providing 267 loans, bank and export guarantees totaling $39.4 million.[6]

4. Venture Capital

Venture capitalists have been key players in addressing the financing needs of fast-growing higher-risk businesses. The characteristic that sets venture capitalists apart from other sources of traditional financing is their willingness to assume greater risks, thus filling a critical gap in the financing available to SMEs. Venture capital may come from private investors, firms specialized in venture capital or the investment branches of deposit taking institutions, and can range from the injection of seed capital for the development of new products to the acquisition of already-established companies.

As indicated in Table 5.7, the total amount of venture capital invested in western Canada SMEs in 2001 was $679 million, which is 13.9% of the total of $4.9 billion in venture capital invested in Canada. Considering that western Canada has 36% of all SMEs in Canada, the amount of venture capital invested in western Canada businesses is proportionately much less than the amount of venture capital invested in SMEs in the rest of Canada.

[6] Alberta Opportunity Company Annual Report 2000-01.

Table 5.7
Venture Capital Investment Activity by Region in 2001

Region	Number of Investments	Amount Invested ($ Millions)	% of Total Invested
British Columbia	278	$502	10.3%
Alberta	68	119	2.4%
Saskatchewan	10	13	0.3%
Manitoba	81	45	0.9%
Western Canada	437	679	13.9%
Canada	2,282	$4,874	100.0%

Source: Macdonald and Associates Limited

Table 5.7 does not include the informal investment activity of angels or private investors. Angel investors are typically professional investors, retired executives with expertise and money, or high net worth individuals who are simply looking for investment opportunities. Studies by the Canadian Bankers Association (1998) and the Canadian Labour Market and Productivity Centre (1995) have found in their surveys of SMEs, that informal venture capital or angel investors represent the most frequent source of external equity financing for SMEs. One study indicated that the size of the Canadian angel market is estimated at $500 million to $1 billion per year.[7]

B. Gaps in Financing for SMEs

The previous section indicates that the LIFP does not significantly duplicate other loan programs and services. While some other government loan programs do exist that provide financing to SMEs in western Canada, most of these programs either target specific groups (e.g. Aboriginal or young entrepreneurs), target specific sectors (e.g. agriculture) or are available only in one province. As an illustration, two similar programs are the Community Futures Program and Women's Enterprise Initiative, but these two programs are available to only non-urban and female entrepreneurs, respectively. Two other similar loan programs are the loans provided by the Business Development Bank of Canada (BDC) and CSBF Program. However, CSBF and BDC loans differ from LIFP loans in that they are more secured and are of lower risk.

Other studies have also found that while several government programs have similar objectives, they do not significantly overlap. The National Liberal Caucus Task Force Report on the Future of the Financial Services Sector concluded that federal government agencies appear to be pursuing distinctly different strategies to address small business financing gaps in their regions".[8] Similarly, a study by Roy B. Norton entitled "The Current Market for Small Business Financing" found little overlap between the BDC programs and the SBLA.[9]

Several studies have concluded that, despite the existence of federal and provincial government programs, significant gaps in SME financing remain. These studies indicate that many of Canada's smallest, youngest and fastest growing businesses still find it difficult to get adequate financing for their businesses. The major difficulty facing small firms at the early stages of their development is the lack of bankable assets, which may be used as collateral to secure traditional financing.

As banks are traditionally risk averse, they tend to avoid early-stage, high-risk ventures. Consequently, while still an important financing vehicle, traditional loan financing is not often sufficiently available to meet the needs of entrepreneurs at the early stages of their business development. Venture capitalists, on the other hand, will assume greater risk, but invest most often

[7] Lefton, Jay A. "Venture Capital in Canada: Focus on Small and Medium Technology Enterprises".
[8] "The National Liberal Caucus Task Force on the Future of the Financial Services Sector" p. 77.
[9] Norton, Roy B. "The Current Market for Small Business Financing."

in firms that are rapidly developing and highly profitable.

A CFIB banking survey, entitled Banking On Entrepreneurship, released in March 2001, found that, while loan activity over $200,000 has increased substantially, loan activity under $200,000 has remained stable since 1988.[10] This study also indicated that one in five SMEs is unable to obtain the necessary level of financing and, of the "under-financed" group, 31% are young high performers (in business for 10 years or less with revenue growth over 20% for 3 years). The CFIB study states that these findings are troubling not only for small business but for the whole economy. The report also states that access to financing is more severe among the smallest and youngest firms, which indicates that the job-creation ability for the vast majority of businesses in Canada has yet to be fully unleashed.

SECOR recently conducted a survey of 13 representatives from major financial institutions in Canada. The SECOR study stated that the lending criteria of financial institutions have not changed since 1995 and may in fact have been tightened as a result of the introduction of credit scoring and centralized risk management.[11] The representatives of financial institutions surveyed in the study generally agreed that SMEs at the start-up stage still have difficulty in getting access to debt financing. This view is echoed in the Thompson Lightstone survey of SMEs. The Thompson Lightstone survey also states that small knowledge-based businesses have the hardest time obtained financing.[12]

The National Liberal Caucus Task Force on the Future of the Financial Services Sector states that that the most serious gaps in SME financing, in terms of the type of capital, are those related to working capital and equity financing, which are closely linked together, as inadequate equity financing is a major cause of working capital shortages.[13] On a sectoral basis, the Task Force report states that knowledge based and exporting industries have experienced financing problems due to the nature of their assets and their large needs for working capital financing. Among the regions of the country, the report states that the greatest SME market gaps exist in regions that are the furthest from major financial centers. The Task Force report also states that the proportion of SME financing to total business financing by the chartered banks has continued to decline to 25.3% as at March 31, 1998 as compared to 26.8% as at March 31, 1996. In addition, this report indicated that the loan loss ratio of SMEs is lower, if not the same, than that of large borrowers.

In June 2000, the Angus Reid Group conducted an assessment of financing needs and issues of Canadian SMEs. This study indicated that SME access to financing has either stayed the same or become more difficult over the last five years.[14]

A Business Development Bank of Canada report entitled "Supporting Small Business Innovation" released in 2001 indicates that there still exist major gaps in SME financing.[15] This report identifies the following four key financing gaps in the marketplace for SMEs, including:

- Risk gap, resulting from a general unwillingness of conventional lenders to provide financially riskier loans even at higher interest rates.

- Size gap, resulting from the higher relative costs involved in preparing and assessing small amount business loans.

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[10] "Banking on Entrepreneurship: Results of the CFIB Banking Survey", March, 2001.
[11] SECOR "Recent Developments in SME Debt Financing: The Supply Side."
[12] Thompson Lightstone & Company Ltd. "Small and Medium Sized Businesses in Canada: An Ongoing Perspective". 1998.
[13] "The National Liberal Caucus Task Force on the Future of the Financial Services Sector" p. 76.
[14] Angus Reid Group "Financing Services to Canadian Small and Medium Sized Enterprises" June 2000.
[15] "Supporting Small Business Innovation: Review of the Business Development Bank of Canada".

- Flexibility gap, resulting from the lack of flexibility in tailoring repayment terms and conditions to a company's growth and revenue streams; and

- Knowledge gap, reflecting lenders' reluctance to provide loans to KBIs because of entrepreneurs lack of tangible assets to secure a loan and lenders' lack of industry knowledge

In summary, while there are a wide variety of sources of financing available to SMEs in western Canada, gaps in financing still appear to exist. Consequently, programs such as the LIFP are still required to address these gaps in financing.

C. Sources of Business Advisory Services

While financing is important to the success of a small business, running a successful business takes more than capital. The ability to access and utilize business advisory services has become key ingredients in terms of SMEs being able to effectively operate in an increasingly challenging and competitive business environment. Several loan programs provide business advisory services in conjunction with financing to increase the success rate of their loan applicants. Some examples of agencies in Canada that provide business advisory services in conjunction with loans are as follows:

- Business Development Bank of Canada

  BDC provides customized consulting services to loan applicants and other businesses in four key areas: growth, quality, export and e-business. BDC consulting services have been designed to offer effective, personalized and affordable solutions that help entrepreneurs improve their skills in an increasingly competitive, knowledge-based, global economy. Some specific types of consulting services provided by BDC include expert diagnostic and feasibility evaluations, market intelligence, marketing and research, quality improvement, process improvement, benchmarking, ISO and Hazardous Analysis Critical Control Point (HACCP). During the 2000/01 fiscal year, BDC undertook 1,130 consulting interactions with small-and medium-sized businesses in western Canada.[16]

- Community Futures Development Corporations (CFDCs)

  CFDCs provide a range of business, counseling and information services to loan and non-loan clients. CFDCs directly assist entrepreneurs in starting, expanding or modernizing their businesses. Technical support services offered include assistance with business plans, financial planning and counselling, and export readiness and supplier development. CFDCs also provide training in areas such as self-employment skills, marketing, bookkeeping and computer literacy, as well as provide access to business information and other services. During the 2000/2001 fiscal year, each of the 90 CFDCs in western Canada provided an average of 6,500 business services to clients in their communities.

- Women's Enterprise Initiative (WEI)

  WEI provides business advisory services to both loan clients as well as other female entrepreneurs. These services include business planning, assessing markets,

[16] Business Development Bank of Canada 2001 Annual Report.

preparing financial projections and addressing the wide array of issues that face women entrepreneurs. WEI provided business advisory services to a total of 4,698 clients in the 2000/01 fiscal year.

- Aboriginal Business Canada

  Aboriginal Business Canada (ABC) provides business services and support to Canadian status and non-status Indians, Inuit and Metis individuals, associations, partnerships or other legal entities that are wholly or partly-owned or controlled by Aboriginal people, on or off reserve. Financial support is available towards the cost of business planning, establishment or expansion, marketing and consulting/business advisory services.

In addition to the above sources of business advisory services, other programs such as those offered by Canada Business Service Centres offer business advisory services to help strengthen and improve small business success. While many of these programs are targeted at specific groups, such as women, youth or Aboriginal entrepreneurs, many programs are open to all small businesses that are in need of assistance. The following paragraphs provide some examples of other sources of business advisory services available in western Canada.

a. Canada Business Service Centres (CBSCs)

CBSCs provide “single window” access to information on government business services, programs and regulations. There are CBSCs in every province in western Canada. The goal of the CBSCs is to provide business people with access to accurate, timely and relevant information and referrals. CBSCs reduce the complexity of dealing with various levels of governments by serving as a central resource for Canadian business information.

Each CBSC offers a combination of products and services tailored to meet the needs of its distinctive client base. In 2000/01, client volumes serviced by CBSCs in Western Canada totaled 265,532 for officer-assisted interactions and 304,601 for self-serve transactions. [17] Almost 84% of interactions were with individuals interested in establishing a business, while 4% of clients had recently started a business and 12% already had an established small business.

b. Self Employment Program (HRDC)

The Self Employment (SE) program is funded by Human Resource Development Canada (HRDC) and is available throughout Canada. Participants in the SE program receive business training and access financial assistance while getting their new business up and running. The program is designed to reduce some of the financial concerns of self-support for new entrepreneurs who are taking their first step towards self-employment. Program participants benefit from flexible income support, small business management skills training, and access to capital and one-on-one service.

In BC and Manitoba, program participants must be currently receiving Employment Insurance, have had a regular Employment Insurance claim within the past three years, or have had either a maternity or paternity Employment Insurance Claim within the past five years. In Alberta and Saskatchewan, eligible applicants are not limited to those eligible for Employment Insurance but also include those receiving provincial benefits (i.e. provincial welfare benefits in Alberta or Saskatchewan Assistance Plan Benefits).

c. Regional Economic Development Authority – REDA Initiative

[17] Western Economic Diversification Canada Annual Report 2000-01 Appendix IV.

Saskatchewan's 28 Regional Economic Development Authorities (REDAs) offer a coordinated, co-operative approach to provincial economic development. Several regions have established regional enterprise centres, which provide assistance to people starting or expanding a small business.

d. Canadian Youth Business Foundation

The Canadian Youth Business Foundation (CYBF) is a private sector, not-for-profit organization that provides business assistance to assists young entrepreneurs, 18 to 34 years of age, to pursue their ambitions of building successful enterprises. Loans of up to $15,000 are available to qualified candidates unable to raise funding elsewhere. Candidates must have a feasible business plan, choose a local mentor, and demonstrate experience or training appropriate to their business idea. CYBF provides a structured mentoring program called Entre Nous for young entrepreneurs who receive a start-up loan and an online mentoring service called Odyssey http://odyssey.cybf for aspiring young entrepreneurs who live outside of a CYBF community and/or who do not require start-up financing. Voluntary mentors are experienced managers and business owners from the community. A training program and resource materials provide a foundation for the mentor and young entrepreneur to establish and maintain a successful mentoring relationship.

To date, 642 new businesses have been started with the financial and mentoring support of CYBF, creating over 830 new jobs. CYBF has over 1,000 volunteers participating in its mentor program and on loan approval committees.

e. The Raj Manek Business Mentorship Program

The Raj Manek Business Mentorship Program is run entirely by volunteers and provides one-to-one business mentoring for one year to Saskatchewan business owners. The mentors are experienced business owners and senior executives who have owned or managed a business for a minimum of five years and wish to help other business owners. The protégés are business owners who have already been in business full-time and who are interested in improving their business.

D. Need for Business Advisory Services

A variety of studies in both the US and Canada have indicated that finance related difficulties appear most frequently as reasons for small business failure, closely followed by managerial problems.[18] A 1997 Statistics Canada Survey found that lack of management skills was the leading factor contributing to the failure of firms that are less than 5 years old.[19] The business environment today is far more challenging than in the past. Management of small businesses has become increasingly complex in today's fast-paced and knowledge-based economy. The list of required skills business owners must possess is extensive and, in many cases, owners/operators lack the experience and business skills necessary to successfully plan, start up and operate their small businesses.

In striving to become more competitive, small companies often need technical assistance in laying the foundation for a successful business. Goal setting, business plan development, cash flow management, and strategic planning are all areas where the experience and expertise of business counselors and mentors prove helpful. Specific areas where businesses often need assistance include:

- Strategic planning;

[18] Festervand, Troy A., and Jack E. Forrest, "Small Business Failures: A Framework for Analysis". Middle Tennessee State University.
[19] Statistics Canada " Failing Concerns: Business Bankruptcy in Canada" 1997.

- General bookkeeping and accounting practices;
- Finance;
- Advertising and promotion,
- Market research; and
- Human resources.

The current range of business advisory services is primarily oriented to the start-up entrepreneur, with few programs targeted to businesses once they are up and running. As an illustration, a study by the Community Economic Development Centre at Simon Fraser University found that the most common types of business information available included:

- How to start a business and business planning;
- Financing;
- Contacts and directories; and
- Government programs and services.[20]

The SFU study indicated that gaps in information content for established businesses include more in-depth information on sources of capital, new business opportunities, changes in the business environment, regulatory changes, new government programs, and mentoring and informal networking opportunities. In addition, the study recommended that service providers focus more on "aftercare" to ensure the ongoing success of the entrepreneur and business.

E. Benefits of Business Advisory Services

Business advisory services have been proven to improve business operations and/or reduce the rates of failure of new businesses. In general, studies have found that financing, mentoring and access to information are some of the key ingredients necessary to grow an entrepreneurial venture and ensure sustainability. These studies have also indicated that significant benefits exist from supplementing financial assistance with business advisory services, particularly mentoring and one-on-one counselling. The following paragraphs summarize the results of some studies regarding the benefits of business advisory services.

- A 1994 study concluded that small business assistance programs generate primary benefits to clients and secondary benefits to the economy at large.[21] This study stated that business assistance programs attempt to transfer basic skills such as product development, marketing strategies, basic operations, record keeping, personnel management and legal services. Examples of the potential benefits of these programs include:

    - Revitalized urban centers
    - Increased access to financial assistance
    - Increased formation of small business
    - More diversified economic base
    - Improved business growth
    - Technological growth
    - Increased employment

- A Youth Entrepreneurship study, undertaken for the Atlantic Canada Opportunities Agency (ACOA) found that incorporating a mandatory training component as part of the process of accessing capital is key to ensuring that young entrepreneurs obtain the skills they need to

[20] "Assessing the Business Information Needs of Aboriginal Entrepreneurs in British Columbia". Community Economic Development Centre – Simon Fraser University. October, 2000.
[21] Wood, William C. (1994). "Primary benefits, secondary benefits, and the evaluation of small business assistance programs". *Journal of Small Business Management*, 32 (July), 65-75.

foster the long-term success of their business ventures.[22]

- In the report "A Youth Entrepreneurship Strategy for British Columbia – A Blueprint for Action", follow-up/post start-up business support was identified as a gap in service delivery. The study found that "limited post-training assistance support is available to guide and encourage the post start-up activities of young entrepreneurs".[23] A concern that was identified was the lack of business after-care support that provincial and federal programs provide to young entrepreneurs. The study recommended that a mentorship program for young entrepreneurs be developed as a priority within the region.

- A study entitled the Economic Impact of Small Business Development Center Counseling Activities in South Carolina: 1996-1997 showed that clients received substantial benefits from using Small Business Development Centre services, including the following:

    - The average growth rate for businesses receiving counseling surpassed the growth rate for the average South Carolina business: SBDC established business clients' average sales increased 20.1% after counseling, while the average increase for South Carolina businesses was only 8.0%; and

    - The benefit-to-cost estimate for the value of the program was 7.56 to 1.00.[24]

- The study entitled The Economic Impact of Small Business Development Centre Counseling Activities in North Dakota 1998-1999 indicated that the average increase in sales per business for SBDC assisted businesses was 106.4%, and for all North Dakota businesses the average increase was 5.9%.[25] The study also stated SBDC-assisted businesses increased employment by 48.4%, while employment for all North Dakota businesses increased only 2.0%.

- A study of the impact of SBDC consulting programs in Georgia and South Carolina found that percentage sales, profits and employment growth were higher for SBDC small business clients than for the average of all other businesses within a state.[26]

- A study entitled Economic Impact of Small Business Development Center Counseling Activities in Minnesota: 1998-1999 found that for every $1 put into Minnesota's SBDC program, small business clients gain access to over $55 in capital and equity investments.[27]

- A study of nearly 6,000 Iowa small businesses which received SBDC assistance in 1994 revealed that SBDC clients grew faster, created more jobs and made more profits than businesses which did not take advantage of SBDC services.[28] State income and sales tax revenues from SBDC client companies averaged substantially higher than those from non-client businesses. According to the study, SBDC client companies garnered $116.3 million in investment funding in 1994, well above the average rate for all Iowa businesses. Client companies also increased employment four times as much as non-SBDC client companies. The 1994 SBDC clients created 2,650 new jobs in the state, one of the best returns per

[22] ACOA, Corporate Research Associates
[23] "A Youth Entrepreneurship Strategy for British Columbia – A Blueprint for Action"
[24] Chrisman James, J. "The Economic Impact of Small Business Development Center Counselling Activities in South Carolina: 1996-1997".
[25] Chrisman, James, J. "The Economic Impact of Small Business Development Center Counselling Activities in North Dakota 1998-1999".
[26] Chrisman J., Nelson, F. Hoy, and R. Robinson, "The Impact of SBDC Consulting Activities," Journal of Small Business Management, July 1985, pp. 1-12.
[27] Chrisman J. "Economic Impact of Small Business Development Center Counselling Activities in Minnesota: 1998-1999".
[28] Chrisman J. "The Economic Impact of SBDC Counselling Activities in Iowa: 1994-1995".

dollar spent on all economic development programs.

- The NSW Department of State and Regional Development initiated one of the world's first government-sponsored, formal mentoring programs for women in small business in 1995. A survey was conducted by the NSW Department for State and Regional Development of the 18-mentor/mentoree partnerships who completed the 1995 Pilot for Women in Business Mentoring program.[29] Results indicated that:

    - 74% of the participants increased their annual turnover during the 6-month period;
    - 52% increased the number of their employees;
    - 60% increased the return on their investment;
    - 70% increased their market share;
    - 96% reported an increase in their personal and business skills and business confidence; and
    - 92% of participants reported an improved response to the changing business environment.

Although it has widely been accepted that there is a positive correlation between management skills and business performance, relatively little research has actually been conducted to support this position. For example, several studies that we reviewed argue that the odds of business survival increase with the number of training courses in which managers participate, and that new businesses that utilize support services during their conception experience higher growth and survival rates than those that do not; however, these studies tend to rely on anecdotal evidence and the opinions of service providers rather than the results of any empirical research.

The most interesting research that has been conducted is a series of studies of small-and medium-sized enterprises conducted by Statistics Canada, under the leadership of John Baldwin, Director of the Micro-Economic Analysis Division. The first study, *Strategies for Success* (published in 1994 based on a survey conducted in 1992), provides an overview of the strategies and activities of a group of small-and medium-sized enterprises (fewer than 500 employees and $100 million in assets) that were growing during the late 1980s.[30] It involved a survey of 904 businesses. The purpose of the study was to identify differences inherent in firms, which are growing fast versus those, which are growing slowly. The study concludes that innovation is the key to success but general and financial management provide the core capabilities of a firm. The owner's objectives for the business are also judged to be of more importance than his or her skill levels in determining business growth and performance level.

In contrast to many of the other studies reviewed, the *Strategies for Success* study finds that, if anything, use of management development training programs is negatively correlated with high performance; this does not mean that training is counter-productive, but it does mean that high performing companies do not engage in more training activities than do poorer performers. Furthermore, the less successful firms were more likely to have utilized government training and procurement programs than had the more successful firms. The study concludes that a certain level of management skills is essential for business survival, but beyond that, there are other factors (primarily innovation) that determine the rate of growth of a business.

Another Statistics Canada study, *Failing Concerns: Business Bankruptcy in Canada (1997)*, involved a survey of 550 corporations that went bankrupt.[31] The purpose of the study was to ascertain the primary reasons for business failure. Some of the major findings and conclusions

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[29] Benton, Ian. "Mentor Magic for Women". Dynamic Small Business Magazine. February 2002.
[30] Baldwin, John "Strategies for Success", 1994.
[31] Statistics Canada "Failing Concerns: Business Bankruptcy in Canada" 1997.

from the study included:

- Internal and external factors are almost equally responsible for firm failure. Examples of external factors include economic downturn and increases in competition. Even where bankruptcy can be attributed in large part to external factors, internal weaknesses are an important contributing factor.

- Lack of management skills was found to be primarily an internal factor for the failure of entrant firms (firms that are less than five years old). The management of small, young firms is most at risk because their management has often not yet developed the experience and knowledge necessary to run a business. Of particular concern is management's lack of knowledge, lack of vision, poor use of outside advisors, and underdeveloped general management and financial management skills.

- Even as firms age and management experience increases, knowledge and vision remain critical deficiencies that contribute to failure. The report notes that the management of new firms face a learning curve. In the early stages of life, internal deficiencies are so prevalent that most bankruptcies occur for these reasons. Management must master the basic internal skills - general and financial management, control, communications, supervision of staff, and market development - or it will fail solely or primarily from the weight of these problems. As a surviving firm grows, a new set of problems arise that are associated with the increased complexity of running an older and often larger firm. As the firm ages managerial issues such as the poor use of outside advisors, lack of emphasis on quality, an unwillingness to delegate responsibilities, departure of key personnel and personal problems associated with the owner/manager become relatively more important factors contributing to failure.

- The chances of bankruptcy could have been reduced by attracting adequate equity and making greater use of outside expertise. The study notes that investors and creditors have a difficult time evaluating new firms. Managers must be trained in both general and financial management skills so that they can demonstrate the worth of that firm by attracting investors.

A number of studies have been undertaken which attempt to correlate business performance with specific skills including:

- Eggers and Leahy, *Entrepreneurship Leadership in the US* (1994);
- Cannon, Eggers, Leahy and Grant, *Entrepreneurship Success Factors: Linking Leadership and Growth*;
- Holmes, Butler and Lennon, *Small Business: A Review of Training Needs* (1995); and
- Orser, Gasse and Riding, *Factors Relating to SME Growth: A Review of Research Findings* (1996).

Generally, these studies have divided a sample of firms into better and poorer performers based on one or more performance criteria. Examples of performance criteria utilized in these studies are profitability, market share, increase in revenues, total revenues, and labour productivity. The groups of better and poorer-performing companies are then compared to identify what attributes, behaviours or skills differentiate them.

The skills that are identified by more than one study as being linked to superior business performance are, in no particular order:

- Self motivation;

- Trade and industry knowledge and experience;
- Vision;
- Financial management;
- Planning;
- Delegating;
- Communications; and
- Innovating.

Other skills that are also identified, but less frequently, are:

- Organizing;
- Marketing;
- Customer/vendor relations;
- Relationship building;
- Ability to adapt to change; and
- Motivating others.

In addition to these management and leadership skills, factors related to success were identified to include effective cash flow management, utilizing a niche marketing strategy, having a simple organizational structure, monitoring the external environment, reinvesting retained earnings, and focusing on productivity and quality improvements.

In summary, the results of research studies in Canada, the US and abroad indicate that business advisory services provide significant positive impacts to new and growing businesses and contribute to the overall size and growth of firms. In general, these studies have indicated that some of the most effective types of business advisory services include mentoring and one-on-one counselling.

F. Comparison of Cost Effectiveness of LIFP

As indicated in Table 5.8, the LIFP is very cost-effective compared to other loan programs. The annual administration costs of the LIFP as a percentage of the total value of loans outstanding is estimated to be approximately 1.3%, which is lower than that of the Community Futures Program (2.7%) or the Business Development Bank of Canada (2.9%). The relatively low loan administration costs of the LIFP are due to the fact that most of the lending activities related to the LIFP are undertaken by financial institutions. Table 5.8 indicates only the LIFP administration costs incurred by WD and does not include the loan administration costs incurred by partner financial institutions involved in the program.

Table 5.8
Comparison of LIFP Loan Administration Costs With Other Programs

Program	Annual Loan Administration Costs ($ Millions)	Value of Loans Outstanding ($ Millions)	Annual Administration Costs as % of Loans Outstanding
LIFP	$0.9*	$65.5*	1.3%*
Community Futures	$4.1	$151.6	2.7%
Business Development Bank of Canada	$159.0	$5,412.4	2.9%

* Includes only WD administration costs and does not include costs of the financial institutions.

The major assumptions and sources of information for the data provided in Table 5.8 are as follows:

1. The WD staff interviewed was asked to indicate what percentage of time they and their staff devoted to the LIFP. Based on the responses, the total amount of time devoted by WD staff to the LIFP was estimated to be approximately 9.6 equivalent-person years. Of this total, the amount of time devoted by the staff of Capital Services Secretariat and other WD staff that are the primary WD contact for the loan fund partners was estimated to be approximately 2.3 equivalent-person-years. The majority of this time was spent in dealing with the capital providers/loan fund partners and the administration of the program. The remaining 7.3 equivalent-person-years were devoted primarily by the Client Services officers in each province. The majority of this time was spent with individual LIFP clients in activities such as reviewing their business plans and assisting them in obtaining financing. To determine the annual LIFP program administration costs, we have multiplied by 9.6 person-years devoted to the program by average salary and overhead costs of $87,750 per person to obtain the estimated total annual program administration costs of approximately $850,220 per year. We have assumed that average salary costs are $65,000 per person and have assumed that overhead costs would be approximately 35%.

2. The value of loans outstanding of $65.5 million indicated for the LIFP is obtained by subtracting estimated total loan repayments from the total value of $145.5 million in loans approved as of March 31, 2002.

3. The estimated annual loan administration costs of $4.1 million per year for the Community Futures Program in western Canada are based on the recent impact analysis of the program undertaken by Ference Weicker & Company, which indicates that approximately 25% of total annual operating costs are devoted to lending activities. The average annual operating costs of the Community Futures Program in the last five years have been approximately $16.5 million per year. The impact analysis also indicated that the current value of loans outstanding of the Community Futures Program is approximately $151.6 million, obtained by subtracting the total investment funds of $202.1 million from the cash on hand of approximately $50.5 million.

Table 5.9 indicates that the estimated loan losses as a percentage of the total value of loans approved are higher for the LIFP (estimated to be 15% overall) than that of the Community Futures Program (9.0%), Business Development Bank of Canada loans (provision for losses of 6.6%), Small Business Administration Loans Administration loans (5.6%), and loans made by the Women's Enterprise Initiative in western Canada (6.8%).

Table 5.9
Comparison of LIFP Loan Loss Rates of LIFP With Other Programs

Program	Loan Losses as % of Value of Loans Approved	Provision of Loan After Care
LIFP	10% (WD) 15% (overall)	Limited
Community Futures	9.0%	Yes
Business Development Bank of Canada	6.6%*	Yes
Canadian Small Business Financing Program	5.6%	No
Women's Enterprise Initiative	6.8%	Yes

* BDC's provision for losses rather than actual losses.

Some of the factors that need to be taken into account when comparing the loan loss rates of the LIFP are as follows:

1. The level of risk of the loans made by the Business Development Bank of Canada and the CSBF loans made by participating financial institutions are generally lower than LIFP loans which contributes to the lower loan loss rates of these two programs compared to the LIFP.

2. The two loans programs contained in Table 5.9 that are most similar to the small loan funds of the LIFP in terms of loan size, nature of loan and level of loan risk are the Community Futures Program and the Women's Enterprise Initiative. The lower loan loss rates of the Community Futures Program and the Women's Enterprise Initiative, as compared to the LIFP, can be partially explained by the fact that both of these program provide loan after care services to their loan clients which increases the success rates of their clients.

3. The level of risk of the large loan funds of the LIFP is likely higher than most of the loan programs shown in Table 5.9, which partially explains the higher loan loss rates of the LIFP. As an illustration, one of the reasons that the Business Development Bank of Canada is participating in a LIFP large loan fund is to provide loans that are of a higher risk than their conventional loans.

In summary, it is difficult to compare loan loss rates of different loan programs because the level of risk varies from program to program. However, it appears feasible to reduce the loan loss rates of the LIFP by increasing the amount of loan after care provided. More detailed analysis is required to accurately determine the likely reduction in loan loss rates that could be achieved by the provision of more after care services to LIFP loan clients.

V. Summary

This chapter summarizes the key findings, conclusions and recommendations of the evaluation of the Loan Investment Fund Program.

Key Findings and Conclusions

The following paragraphs summarize the key evaluation findings and conclusions regarding the relevance, success and cost-effectiveness of the LIFP.

Relevance of the LIFP

1. Does the LIFP continue to be accurately focused on addressing an actual need?

The study findings indicate that the LIFP does address an actual need. Approximately 88% of WD staff and 78% of capital providers/loan partners interviewed indicated that the LIFP does address a need and that the LIFP is necessary to provide a safety net to encourage conventional lenders to provide financing to higher risk ventures. Approximately 82% of the small business financing experts surveyed indicated there are gaps in the loan financing available to SMEs while the remainder did not know or did not respond. In addition, a number of recent studies have confirmed that gaps exist in the financing available to SMEs.

Some of the specific gaps in financing being addressed by the LIFP include the following:

- Loans of less than $50,000 to start-up and expanding small businesses as conventional lenders are not very interested in providing loans of this amount;

- Financing for start-up and early stage companies that cannot get financing due to inadequate security and management expertise; and

- Knowledge-based and growth-oriented companies that have difficulty in obtaining financing from conventional lenders.

2. Should the LIFP continue?

Strong support exists for the LIFP to continue because it addresses the financing needs of SMEs that are starting up or expanding, and it encourages financial institutions to do riskier loans. Over 94% of WD staff, capital providers/loan partners and LIFP loan clients surveyed stated that the LIFP should continue. Furthermore, 64% of small business financing experts indicated that the Government of Canada should influence private sector financial institutions to do lending to eliminate the gaps in financing available to SMEs, 7% of respondents felt that the Government of Canada should intervene directly by providing loan financing to SMEs, while the remaining 29% of respondents did not know or did not respond.

3. Is the LIFP still needed for current government policy?

The consensus of WD staff interviewed is that the LIFP is still needed for current government policy because WD has a mandate for economic development and one of the key areas to stimulate economic development is increasing the access to financing by SMEs. Other studies have also demonstrated the importance of SMEs to the growth of the western Canadian economy, which is central to the mandate of Western Economic Diversification Canada. As an illustration, a recent study has indicated that one-half of all western Canada's jobs are in small business.

4. Are the LIFP mandate and objectives adequately stated?

The program objectives need to be revised to take into account the large involvement of the program in micro loan funds, which was not originally anticipated. While they do make a significant contribution to the economy, the micro loan funds are not aligned with the program is objective to increase access to capital to SMEs in emerging industries and in targeted areas (i.e. R&D commercialization, knowledge-based soft asset companies, traditional value-added and export-oriented firms). The micro loan funds are also not aligned with the program objective to increase access to capital to targeted groups (i.e. Aboriginal and rural entrepreneurs and youth).

Success of LIFP

5. To what extent did the LIFP move banks and credit unions into providing capital for higher risk ventures?

The LIFP has resulted in some change in moving banks and credit unions into providing capital for higher risk ventures. Capital providers and WD staff were asked to indicate to what extent the LIFP has moved banks and credit unions into providing capital for higher risk ventures, on a scale of 1 to 5, where 1 is no change and 5 is a major change. The average response of the capital providers and WD staff was 3.6 and 3.3, respectively, which indicates that some change has occurred. Some of the specific changes that have occurred in moving banks and credit unions into providing capital for higher risk ventures are as follows:

- Credit unions became involved to a much greater extent in the provision of micro-loans;
- Greater involvement by financial institutions in providing financing to higher risk businesses such as start-ups and companies with limited equity; and
- Greater involvement in providing financing to knowledge based businesses and higher risk ventures (e.g. pre-positive cash flow companies, businesses at the pre-commercialization stage, etc.) that would have never received financing in the past.

In addition, the majority of WD staff, capital providers and LIFP loan clients indicated that the terms and conditions of the LIFP loans are more flexible than conventional bank loans. Some of the specific terms and conditions in which respondents indicated that the LIFP loans are more flexible than conventional loans are in the security taken, level of risk, repayment schedule, loan purpose and the amount of equity of the loan applicant.

6. Has the LIFP increased access to capital for small-and medium-sized enterprises in emerging industries and in areas that are crucial to the growth and competitiveness of the western Canadian economy?

The LIFP has increased access to capital for small-and medium-sized enterprises in emerging industries and areas that are crucial to the growth and competitiveness of the western Canadian economy. The total value of LIFP loans provided to SMEs from program inception to March 31, 2002 is approximately $145.4 million. Of this total, the $123.4 million in loans approved by the sector loan funds has been primarily for SMEs in emerging industries such as knowledge-based businesses, information technology, manufacturing, advanced technology, and agricultural value-added processing. Most of the remaining $22.0 million in loans provided by the other loan funds are made to SMEs in the largest sectors of our current economy.

Most of the LIFP financing is incremental. Approximately 49% of sample LIFP loan clients indicated that they could not have obtained financing from other sources if WD's loan program had not been available. An additional 28% of loan clients indicated that they could have obtained financing from other sources but either not as much financing or with more restrictive terms and conditions. Only 16% of respondents indicated that they could have obtained financing from other sources. These findings are similar to the responses by capital providers, which stated that, on average, 17% of their LIFP loan clients would have received the same amount of funding in the absence of LIFP support.

The LIFP has also enabled some SMEs to subsequently gain access to conventional financing. Approximately 69% of the LIFP loan clients felt that the loan financing and other assistance they obtained from the LIFP have been important in enabling them to gain access to conventional financing. In fact, 21% of the sample LIFP loan clients received supplemental financing from the same financial institution since they obtained LIFP financing.

Approximately 92% of WD staff and 67% of capital providers indicated that the LIFP has increased access to capital for small-and medium-sized enterprises in emerging industries and in areas that are crucial to the growth and competitiveness of the western Canadian economy. The specific impacts of the LIFP in increasing access to capital mentioned by these respondents include the following:

- The provision of micro-loans has increased access to capital for SMEs in areas that are crucial to the growth of the western Canadian economy because the start-up and expansion of all types of SMEs are important to economic growth;

- The LIFP has allowed financial institutions to take increased risks and provide debt capital financing to SMEs that would not have been able to access financing;

- The LIFP has enabled companies that would have had difficulties in obtaining financing the opportunity to start-up or expand their operations; and

- The impact of the LIFP on emerging sectors such as knowledge-based businesses and advanced technology has been limited, due to the lower–than-anticipated number of loans to companies in these sectors.

The impact of the LIFP in increasing access to capital has been reduced by the limited number of loans and the lower-than-expected take-up rate of most of the sector loan funds, particularly those targeted to the emerging sectors of the economy. The total of $145.4 million in financing provided by the 1,516 LIFP loans made to date does not result in a major increase in the total amount of financing provided by financial institutions to SMEs. As an illustration, the seven largest banks provided approximately $24 billion in debt financing to 269,000 SMEs in western Canada as of June 30, 2001.

The $23.6 million in new LIFP loans approved in 2000/2001 is considerably less than the $272 million in new loans made by the Business Development Bank of Canada and the $316 million in loans guaranteed by the Canada Small Business Financing Program (CSBF) during the same period. However, it must be recognized that most of the financing provided by conventional banks as well as BDC and the CSBF Program is of lower risk than the loans provided by the LIFP.

A more accurate proxy of the demand for higher risk loans can be obtained by examining the venture capital market. As an illustration, the total amount of venture capital invested in western Canada in 2001 was $679 million. This figure does not include the investment in SMEs by angel investors which research has suggested ranges between $900 million and $1 billion per year in

Canada.

7. Has the LIFP contributed to the expansion and diversification of the western Canadian economy?

The LIFP has contributed to the expansion and diversification of the western Canadian economy. The survey of 100 sample loans clients indicates that:

- One half of the sample loan clients use LIFP funds for start-up purposes while the remaining used the financing to enhance their existing businesses.

- About two-thirds of the loan clients indicated that employment had increased as a result of loan financing and other assistance received from the LIFP.

- Approximately 72% of the sample loan fund clients indicated that sales revenues have increased as a result of WD's loan program.

- Exports increased for 23% of the sample loan clients.

The incremental impacts of all LIFP clients from program inception to the end of December 31, 2001 are estimated to be as follows, based on a confidence level of 90%;

- Creation of between 2,900 and 5,450 jobs (this estimate does not include the jobs that would have been lost if the LIFP had not existed);

- Incremental revenues ranging between $302 million and $762 million; and

- Incremental exports ranging between $85 million and $128 million.

Approximately 88% of the capital providers and 92% of WD staff indicated that the LIFP has contributed to the expansion and diversification of the western Canadian economy. Some respondents indicated that the impact of the LIFP has been limited by the relatively low number of loans and the lower-than-anticipated uptake of some sector loan funds.

8. To what extent has the LIFP addressed gaps in the business skills and managerial expertise of LIFP loan clients?

The individual loan fund agreements state that WD has a responsibility to provide business advisory services to loan applicants before and after loan approval. However, only about 26% of the sample of loan fund clients were provided with business advisory services by WD staff prior to loan approval, while 21% of sample loan fund clients were provided with business advisory services since their loan was approved. For the loan clients that received business advisory services from WD staff, most respondents indicated that the business advisory services provided by WD staff were useful.

The types of business advisory services provided by financial institutions to loan fund clients consist primarily of a review of the business plan prior to loan approval while the business advisory services provided after loan approval vary considerably from financial institution. The case studies of a sample of 12 loan clients indicated that the extent of business advisory services provided by some financial institutions is quite limited due to the large caseload of the loan client officers.

WD staff and capital providers were asked to indicate their responses regarding the impact that the LIFP has had in addressing gaps in the business skills and managerial expertise of LIFP loan clients, on a scale of 1 to 5, where 1 is no impact and 5 is a major impact. The average rating of WD staff and capital providers is 2.5 and 3.2, respectively, which indicates that the LIFP has had a limited impact in addressing gaps in the business skills and managerial expertise of loan clients. A number of respondents indicated that the impact of the LIFP has been reduced due to the limited proportion of LIFP loan clients that have received business advisory services from WD staff.

The study findings indicate that the impact of the LIFP could be enhanced by devoting additional resources to address the business skills and managerial expertise of LIFP loan clients. Approximately three-quarters of the capital providers and more than two-thirds of WD staff indicated that business advisory services should be provided by WD staff to LIFP loan clients prior to and after loan approval in order to increase the success rate and enhance performance of LIFP loan clients. Other studies have demonstrated that the success rates of loan clients can be enhanced by the provision of business advisory services.

9. Were there unexpected or negative impacts from the LIFP?

Some of the most significant unexpected or negative impacts of the LIFP are as follows

- More involvement in micro-loan funds than initially anticipated;
- Lower than expected uptake of some loan funds, particularly knowledge-based funds and francophone funds;
- Higher than expected loan losses of some loan funds;
- WD staff not doing as much business counselling as originally anticipated;
- Termination of the program by two banks; and
- More time spent with loan clients and reporting results to WD than initially anticipated by some financial institutions.

Cost Effectiveness/Alternatives

10. Does WD's loan program duplicate other loan programs and services?

Most LIFP loan clients, capital providers and WD staff respondents stated that the LIFP does not duplicate other loan programs and services. Some respondents acknowledged that while there are a number of complementary programs, the target market and focus of the LIFP program is unique.

The LIFP plays an important role by complementing other WD programs. As an illustration, the micro loan funds of the LIFP complement the Community Futures Program because they provide financing to SMEs in urban locations while the Community Futures Program assists businesses in rural locations. The LIFP has also been effective in raising capital to enable some CFDCs to provide larger than normal loans as well as provide a dedicated pool of capital to assist the clients of the francophone economic development organizations funded by WD.

A review of other programs indicates that the LIFP does not significantly duplicate other loan programs and services. While there do exist some other government loan programs that provide financing to SMEs in western Canada, most of these programs either target specific groups (e.g. Aboriginal, female or young entrepreneurs), target specific sectors (e.g. agriculture) or are available only in one province. Some of the most similar loan programs that are universally available throughout western Canada are the loans provided by the Business Development Bank of Canada

(BDC) and CSBF Program. CSBF and BDC loans differ from LIFP loans in that they are more secured and are of lower risk.

11. Given alternatives, is the LIFP the most cost-effective way to increase access to debt financing for small-and medium-sized businesses in the areas targeted by the LIFP?

The study findings indicate that one of the key advantages of the LIFP is that it is a very cost-effective method of increasing access to debt financing by SMEs. Approximately 80% of the capital providers and two-thirds of WD staff indicated that the LIFP is the most cost-effective way to increase access to debt financing for small-and medium-sized businesses in the areas targeted by the LIFP. Similarly, 64% of the small business financing experts indicated that the Government of Canada should influence financial institutions rather than be involved in direct lending to SMEs because it results in greater leveraging of capital and utilizes the lending expertise of financial institutions.

The $21 million in WD booked funds has leveraged $145.4 million in capital provided by banks and credit unions. The amount of other project financing raised by LIFP clients is estimated to range between $52 million and $71 million, based on a confidence level of 90%. As a result, the leveraging ratio of WD booked funds is estimated to range between 9.7 and 10.7 to 1.

Based on a review of other programs, the annual administration costs of the LIFP, as a percentage of the value of loans outstanding, are estimated to be approximately 1.3%, which is lower than that of the Community Futures Program (2.7%) or the Business Development Bank of Canada (2.9%). The relatively low loan administration costs of the LIFP are due to the fact that most of the lending activities related to the LIFP are undertaken by financial institutions.

12. What modifications, if any, should be considered to the current program design and delivery methods to increase the effectiveness, including cost effectiveness, of the LIFP?

The most frequent responses obtained by WD staff, capital providers and LIFP loan clients regarding what modifications should be considered to the current program design and delivery methods are listed below:

- Continue with micro-loan funds but revisit the need for the loan funds with low take-up rates.
- Increase the degree of communication between WD staff and the staff of financial institutions to better understand their loan approval criteria, improve take-up rates and increase collaboration between staff at the local level.
- Encourage financial institutions to dedicate a person to be responsible for the program and to promote the program internally to staff at the branch level.
- Increase the current degree of risk sharing by WD to ensure continued participation in the program by the banks and credit unions. The option suggested most frequently is to increase the current loan loss ratios.
- Increase the amount of business counseling/after care provided by WD to loan clients to increase their success rates. Some options suggested by respondents include establishing mentorship programs, contracting out this function, and using WD staff to a greater extent.

- Encourage greater sharing of experiences and identification of best practices of the financial institutions involved in the program.

- Standardize and streamline the reporting requirements of financial institutions to reduce the paperwork and decrease time they currently spend on reporting results to WD.

- Increase the maximum loan size of the micro-loan loan funds to increase the capital available to SMEs, particularly those that want to expand their operations.

Several of the small business financing experts surveyed indicated that WD should work with more venture capital organizations to provide subordinated debt or equity financing to SMEs, as venture capital organizations are very experienced in dealing with high risk ventures. These respondents, as well as recent studies, have indicated that there exists a gap in equity financing to SMEs, particularly early stage companies and other companies that require less than $500,000 in equity financing.

Recommendations

Based on the study findings and conclusions, our recommendations to enhance the effectiveness of the Loan Investment Fund Program are as follows:

1. Continue with and possibly expand the current number and types of loan funds.

The current range of loan funds is necessary to enable the program to increase access to capital for small-and medium-sized enterprises in emerging industries and in areas that are crucial to the growth and competitiveness of the western Canadian economy. Most of the funds with low take-up rates, with the exception of the francophone funds, have been terminated or have expired. The francophone loan funds provide WD with a cost-effective means of providing access to capital for a specific target group.

One possible area of expansion is to work with more venture capital organizations to provide subordinated debt or equity financing to SMEs, particularly early-stage companies and other companies that require less than $500,000 in financing. Another possible area of expansion is to provide micro loan funds in urban areas such as Calgary that are not currently served by a micro loan fund.

2. Conduct detailed benefit cost analysis to determine the most appropriate manner and extent to which business advisory services should be provided before and after loan approval by WD to increase the success rate of LIFP loan clients.

The study findings indicate that the provision of additional business advisory services by WD could enhance the impact of the LIFP by reducing the loan loss rates and increasing the employment and revenues generated by LIFP loan clients. Some of the different methods of providing business advisory services that should be explored include use of WD staff, contracting out this function, partnering with other organizations, and the establishment of mentorship programs to provide mentors with experience in different industry sectors.

3. Organize regular meetings of WD staff, capital providers and other loan partners to share best practices and resolve common issues.

These meetings should be held at least annually and more frequently if necessary. Some examples of the topics and issues identified as a result of the evaluation that should be discussed at these meetings include the following:

- Opportunities to standardize and streamline the reporting requirements of financial institutions to reduce the paperwork and time they currently spend on reporting results to WD.
- Most appropriate approach to increase the degree of communication between WD staff and the staff of financial institutions to improve the referral activities, maximize take up rates and enhance the collaboration between staff at the local level.
- Sharing of best practices regarding the manner in which LIFP loan funds are administered by the financial institutions (e.g. loan approval methods, repayment terms, loan fund promotion, etc.).
- Enhancement and coordination of the business advisory services provided to loan applicants by WD and the financial institutions.
- Collaboration in projects of mutual benefit (e.g. more detailed research on the impacts of micro loan programs, research to determine the type and extent of after care support that should be provided by financial institutions to LIFP loan clients, development of a scoring tool that can be used by financial institutions in the micro loan application review process, etc.).
- Assessment of the need to increase the maximum loan size of the micro loan funds to enhance the capital available to SMEs, particularly small businesses that want to expand their operations.

4. Undertake a more detailed assessment of the adequacy of current degree of risk sharing by WD to ensure continued participation in the program by the banks and credit unions.

This assessment is required because, of the 18 financial institutions that have provided most of the capital to date, two banks have already terminated their loan fund agreements, two financial institutions indicated that they are not likely to renew their agreement while four organizations indicated that they may be willing to renew their loan fund agreement.

5. Revise the objectives of the LIFP.

The objectives should be revised to account for the involvement of the program in micro loans, which was not initially anticipated at the start of the program. In particular, the objectives should recognize that the scope of the program extends beyond the provision of capital to emerging industries, specific areas (i.e. R&D commercialization, knowledge-based soft asset companies, traditional value-added and export-oriented firms) and specific groups (i.e. Aboriginal and rural entrepreneurs and youth).

APPENDIX 1

LIST OF INDIVIDUALS CONTACTED

WD Staff

- **WD Senior Management**

  - Orville Buffie
  - Jim Saunderson
  - Brant Popp
  - Ardath Paxton Mann
  - Doug Maley
  - Jim Fleury

- **Staff of Capital Services Secretariat and other WD staff that are the primary WD contact for the loan fund partners**

  - George Skinner
  - Ron Sellen
  - Linda Moyle
  - Dave Woynoroski
  - Ed Wiens
  - Wayne McAlpine

- **Client Services officers in each province that assist LIFP clients as well as other WD clients**

  - Roland Gagne
  - Brian Peacock
  - Jag Trana
  - Lisa Legault
  - Gordon Rauscher
  - Tom Hefner
  - Brian Reimer

- **Director of Client Services in each province**

  - Derryl Millar
  - Pat Perry
  - Wendy Stuart-Fagnan
  - Frank Eichgruen

- **Other WD Staff**

  - Les Gibson

Capital Providers/Loan Fund Partners

- **Representatives of capital providers**

  - Assiniboine Credit Union (John Harmacy)
  - BDC (Wellington Hollbrook and Terry Quinn)
  - Beamont Credit Union (Camille Berube)
  - Capital City Savings & Credit Union (Al Swanson)
  - Columbia Basin Trust (Dave Strachan)
  - CIBC (Wes Becker and Tim Gillespie)
  - Coast Capital (Detlef Becker)
  - Ecotrust (Pieter van Gils)
  - FCC (Lyndon Carlson)
  - First Nations Bank (Angelo Torcha)
  - Page Credit Union (Mark Lane)
  - Royal Bank (Blair Rausch)
  - Saskatoon Credit Union (Martin Chicilo)
  - TD Bank (Richard Leary)
  - VanCity Capital Corporation (Lee Davis)
  - VanCity Credit Union (Vicky Scully)

  Note: Mike Phillips of Working Opportunity Fund was also contacted, but did not complete a detailed survey questionnaire.

- **Representatives of Community Futures Development Corporations and the Community Futures Development Association of British Columbia who are involved in the deliver of specific loan fund agreements (i.e. WOF, ICBC and Columbia Basin Trust funded agreements)**

  - CFDABC (Ron Trepannier)
  - CFDC Central Kootenay (Paul Wiest)
  - CFDC Fraser Fort George (Dan Zurowski)
  - CFDC Nadina (Jerry Botti)
  - CFDC North Okanagan (Jean-Marc Lacasse)
  - CFDC Okanagan-Similkameen (Mary Ellen Heidt)
  - CFDC S.E. Region BC (Ken Goldsmith)
  - CFDC Strathcona (Marc Crane)
  - CFDC Sunshine Coast (Al Mulholland)
  - CFDC Thompson Country (Phil Lindsay)

- **Representatives of the provincial francophone economic development organization in each province.**

  - La Chambre Economique de l'Alberta (Frank Saulnier)
  - CDEM (Daniel LaBossiere)
  - Societe de Development Economique Columbie-Britannique (Donald Cyr)
  - Conseil de la Cooperation de la Saskatchewan (Robert Therrien)

Small Business Financing Experts

- **Venture Capital Representatives**
    - Grant Kook, President and CEO, Golden Opportunities Fund, Saskatchewan's first labour sponsored venture capital fund
    - Don McCannel, McCannel Financial Group, Saskatchewan
    - Jim Engdahl, Partner, Tamarack Group (corporate finance), Saskatchewan
    - Susan Millar, President and CEO, Inno-Centre, Alberta
    - Mike Phillips, Senior Vice President, Working Opportunity Fund, British Columbia
    - Bob Chaworth-Musters, Annesley Financial Inc., organizer of Angel Forum, British Columbia
    - Ken Bicknell, Vice President, Ensis Growth Fund, Manitoba
    - Maury Parsons, investor, company mentor, educator, Alberta
    - Marlin Stangland, Financial Consultant, Saskatchewan
    - Mike Volker, Industry Liaison Officer, Simon Fraser University, British Columbia (also publisher of small business financing newsletter; organizer of Vancouver Enterprise Forum)
- **Academics**
    - Brooke Dobni, Professor, College of Commerce, University of Saskatchewan
    - Tom Allan, Professor, College of Agriculture, University of Saskatchewan
    - Dr. James Brander, Director, Entrepreneurship and Venture Capital Research, University of British Columbia, British Columbia
    - Jim Chrisman, Professor in Family Business and Entrepreneurship, University of Calgary, Alberta
    - Douglas J. Cumming, Faculty of Business, University of Alberta
- **Other**
    - Suzette McFaul, Enterprise Facilitator New Westminster, British Columbia
    - Russell Marcoux, owner of several companies in Saskatchewan