

**Results-Based Management and  
Accountability Framework  
for the  
Capital Leasing Pilot Project  
under the  
*Canada Small Business Financing Act*  
(CSBFA)**

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# Introduction

## Background

The *Canada Small Business Financing Act* (CSBFA), which replaced the *Small Business Loans Act* (SBLA), came into force on April 1, 1999 and continues to facilitate access to asset debt-based financing for the establishment, expansion, modernization and improvement of small and medium sized business enterprises (SMEs). It does this by sharing the financial risk of lending to small businesses among the borrowers, lenders and tax payers. It is the federal government's single most important program to assist small businesses.

Unlike other government programs, most delivery and credit decisions are made by private sector participants. The CSBFA is delivered by a network of around 1,500 private sector lenders. Over the past 5 years, it has facilitated access to about \$14 billion in borrowing through about 134,000 loans to SMEs.

In 1998, a comprehensive review of the SBLA was conducted and the results led to the new CSBFA, which introduced changes to ensure that the program remains relevant to the needs of small businesses and can be financially self-sustaining with an improved administrative accountability framework.

The CSBFA also provides for the establishment and operation of a five-year pilot project to test the feasibility of extending the CSBFA program to capital leasing.

Since 1999, Industry Canada has conducted extensive research and consultations with a broad range of stakeholders across the country as part of the pilot project design and regulatory development process. As a result, the *Canada Small Business Financing [Establishment and Operation of Capital Leasing Pilot Project] Regulations* were published in the *Canada Gazette* Part II on December 19, 2001. The launch of the capital leasing pilot project is planned for April 1, 2002.

## Purpose of the Results-Based Management and Accountability Framework (RMAF)

One of the key elements of the design and implementation of the pilot project is the development of an RMAF to:

S monitor and evaluate the performance of the pilot project;

- S assess its feasibility in addressing the identified gaps during and at the end of the 5 years; and
- S inform the decision, at the end of the 5-year period, whether to include capital leasing as a permanent part of the CSBFA.

This RMAF will:

- S describe the pilot project profile, including its origin, rationale, operation, the roles and responsibilities of the main partners involved in delivering the pilot project and a description of the direct beneficiaries, agents and key stakeholders;
- S identify and determine appropriate activity and performance measures, data sources and data collection methodologies used to track progress, measure outcomes and support subsequent evaluation activities;
- S outline the evaluation items and questions (and their relative importance) related to achievement of strategic outcomes;
- S recommend on-going monitoring and evaluation activities and the approach for the end of pilot project evaluation;
- S describe the reporting strategy on outcomes during and at the end of the pilot project; and
- S outline the implementation and review process which is to be used in the implementation of the RMAF.

# Section 1. Profile of the Capital Leasing Pilot Project

## 1.1 Origin and Rationale

The CSBFA is a statutory, loan-loss sharing program between the government and participating lenders that facilitates access to financing for SMEs. The CSBFA provides the authority to make regulations for establishing and operating a five-year pilot project to test the feasibility of extending the CSBFA-type loss-sharing program to capital leasing and to determine whether it would be viable as a permanent addition to the core CSBFA program.

The CSBFA is the product of the 1998 Comprehensive Review of the SBLA that was undertaken to ensure the program: 1) continued to meet real SME needs; 2) was operating on a cost-recovery basis within the context of a risk-sharing model; and 3) had an appropriate evaluation and reporting framework. Other issues, including the expansion of the program to cover capital leasing, were also examined and the key findings from research and consultations were:

- small business representatives were supportive of the inclusion of capital leasing as it would provide them with an additional financing option that may be more relevant to their product cycles and financing needs;
- the capital leasing industry pressed to be included in the program and indicated that it considered firms with fewer than two years of operations requiring less than \$100,000 in financing as high risk (this represents at least 65% of the SBLA (and CSBFA) constituency);
- the leasing industry and small businesses also confirmed that a capital lease is a close substitute for a loan, arguing that capital leasing may provide a better form of financing for some SMEs and free up assets such as security for accessing additional working capital. As such, the SBLA (and its successor) may be distorting some SMEs' financing decisions.

Based on this information, and on the fact that this type of loss-sharing program for capital leases does not exist anywhere else, the purpose of the pilot project is to test the ability of the CSBFA-type program to address the following:

- S *a market gap*, especially for younger firms and start-ups, and those seeking leases of less than \$100,000; and
- S *a distortion* created by the CSBFA loan program in favour of loans, particularly in cases where capital leases make more economic sense to the small business seeking financing.

## 1.2 Objectives and Outcomes

The final outcome of the pilot project is to **increase opportunities for investments by SMEs through improved access to capital lease financing**. The viability of the pilot project, which will be a determining factor in the decision whether to include capital leasing permanently in the CSBFA program, will be measured primarily by its success in satisfying two key objectives set out for the CSBFA:

- S **Incrementality** - i.e. that the capital leases made under the pilot project would not have been made in the absence of it or would have been made under less favourable terms for the SME; and
- S **Cost-recovery** - i.e. that the pilot project will be independently cost-recoverable (i.e. separate from the core CSBFA loan program, where user fees will cover projected claims payments over the life of the capital leases made during the 5 years of the pilot project. Cost-recovery does not include administrative costs which are absorbed by Industry Canada.

In addition to these two objectives, a number of other outcomes related to the pilot project's design will determine its feasibility, including:

- S **strengthening of partnership with lessors;**
- S **increased awareness among lessors** of the existence of the pilot project as an additional financing product they can offer to SME clients;
- S **take-up by lessors;**
- S **increased awareness among SMEs** of the existence of the pilot project as one of the financing tools available to them; and
- S **effective and transparent administration** of the pilot project.

The pilot project's final outcome to **increase opportunities for investments by SMEs through improved access to capital lease financing** will contribute to Industry Canada's strategic objective to improve Canada's position as a preferred location for domestic and foreign investment. As well, through the monitoring of the leasing industry practices under the pilot project and the impacts of it, if any, on sustainable development<sup>1</sup> and on eco-efficiency, the pilot project will contribute to informing future policy decisions related to whether it should be included as a permanent part of the CSBFA.

## **1.3 Roles and Responsibilities**

### **1.3.1 Context**

The pilot project, like the CSBFA loan loss-sharing program, is a statutory program and, as such, has very few equivalents in government. Whereas most government programs see credit decisions being made by program managers who, thereby, manage the risk and the size of the program, this is not the case with this pilot project. The pilot project will be delivered by third parties - the lessors, who will make all the credit decisions and register capital leases with Industry Canada. Industry Canada does not directly control the size (except inasmuch as it has an overall cap on the size of the pilot project (maximum contingent liability of \$400 million)) or the risk of the lease portfolio.

As such, it is important to understand the following roles and responsibilities of Industry Canada and of the participating lessors, as agents delivering this pilot project.

### **1.3.2 Roles and Responsibilities of Key Players**

#### ***Industry Canada***

Industry Canada is responsible for:

- the design of the pilot project, including conducting research and consultations with stakeholders, determining the parameters and establishing regulations;
- the implementation of the pilot project, including developing the guidelines for the interpretation of the regulations, a Self-Learning Tool for lessors, as well as the awareness building campaign and marketing products for lessors and SMEs;
- the administration of the pilot project, including:
  - approving and designating organizations as lessors under the pilot project;

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<sup>1</sup> Sustainable Development is one of Industry Canada's strategic objectives.

- S developing and providing all the necessary information and training materials to approved and designated lessors;
  - S receiving and administering capital lease registrations, as well as collecting fee revenues that will be deposited in the Consolidated Revenue Fund (CRF);
  - S evaluating lessors' claims for losses on defaulted capital leases, including desk-audits of each claim submitted;
  - S ensuring lessors' compliance with the pilot project regulations, including possibly conducting an audit or examination of any lessor's documents, records and books of account; and
  - S paying/adjusting or rejecting claims for losses; and
- the monitoring and evaluation of the pilot project, including collecting and analysing data, implementing surveys and research and refining the forecasting model and, in 5 years, making a recommendation as to whether to include capital leases permanently under the CSBFA.

### ***Participating Lessors***

As with the core CSBFA lending program, small businesses will apply directly to approved or designated lessors (e.g. leasing companies, banks and credit unions) to access financing under the pilot project, and not to the government. These lessors acquire the equipment which they would then lease to eligible small businesses. In this context, the lessors are responsible for:

- applying to Industry Canada for approval or designation as lessor under the pilot project;
- training their credit managers and sales staff, as well as adjusting their systems to accommodate higher risk clients;
- informing their SME clients of the existence of the pilot project, when applicable;
- applying the same due diligence procedures (e.g. standard credit check) while applying adjusted risk criteria for CSBFA capital leases as for any other capital lease of the same amount;
- registering and administering the capital leases based on prescribed eligibility criteria and conditions set out in regulations;
- registering their security interest or publishing their rights in the leased equipment;
- remitting the fees collected from the lessees and reporting on outstanding capital leases;
- maintaining records/books in compliance with the pilot project regulations;
- realizing on registered security interests or rights, security and personal guarantees to minimize the losses, in the event of default; and
- submitting a claim (interim or final) for loss to Industry Canada.



### **1.3.3 Accountability**

Given the context and these roles and responsibilities, Industry Canada, through the Small Business Policy Branch and Small Business Loans Administration, is accountable for the following elements of the development, implementation and administration of the pilot project. Although these activities are presented by lead centre, a high level of collaboration and consultation exists between the two groups to ensure coherence and effectiveness.

#### ***Small Business Policy Branch (SBPB) is accountable for:***

- conducting research and surveys;
- pilot project design and regulations;
- conducting consultations with stakeholders;
- communication with SMEs and business associations;
- providing analysis and policy recommendations to the Minister related to the on-going performance of the pilot project, based on data collected from the SBLA;
- evaluating the performance of the pilot project at mid-term (formative evaluation) and at the 5th year (summative evaluation) and making a recommendation whether to include capital leases as a permanent part of the CSBFA;
- reporting to Parliament on the evaluation activities; and
- recommending any necessary changes to the Act or regulations as a result of the pilot project.

#### ***Small Business Loans Administration (SBLA) is accountable for:***

- developing the systems required for the administration of the pilot project;
- implementing the pilot project, including developing the guidelines and training materials for lessors;
- communication with leasing industry and participating lessors;
- approving and designating organizations as lessors under the pilot project;
- registering capital leases;
- collecting fees;
- auditing and paying claims for losses;
- collecting and analysing data on capital leases, lessors and lessees;
- developing and refining the cost-recovery forecasting model;
- providing data for and participating in the evaluations of the pilot project;
- reporting on pilot project activities and results through:
  - S internal reports and information reports to lessors;
  - S Reports on Plans and Priorities (RPP);
  - S Departmental Performance Reports (DPR);
  - S Main and Supplementary Estimates;

- S Annual Reports;
- S Public Accounts; and
- participating in reporting to Parliament on evaluation activities.

## **1.4 Beneficiaries, Agents and Stakeholders**

### **1.4.1 Beneficiaries**

The beneficiaries of the pilot project are for-profit small businesses operating in Canada with less than \$5 million in annual gross revenue. Not-for profit, charitable or religious organizations and farming businesses are excluded.

#### ***Profile of CSBFA beneficiaries***

Given the importance of equipment loans in the CSBFA programs, which represented about 60% of CSBFA loans in 2000-2001, the profile of the pilot project beneficiaries, the lessees, is expected to be very similar to that of the SBLA/CSBFA borrowers, that is:

- ***young*** — 65% of equipment loans went to businesses three years old or younger, and 50% to start-ups;
- ***small*** — 72% of SBLA/CSBFA borrowers have fewer than five employees;
- ***seeking small amounts*** — average overall loan size is \$80,310 and average equipment loans size is \$69,768; and
- ***key sectors*** — accommodation, food and beverage sector (17%), retail (15%), transportation and warehousing (12%), manufacturing (10%), agriculture (support activities), forestry, fishing & hunting (6 %), construction (6%), and professional, scientific & technical services (5%).

However, given the nature of the pilot project outlined above, none of these figures is to be considered a program performance target.

### **1.4.2 Agents**

The leasing companies approved or designated as lessors under the pilot project are the delivery agents of this pilot project, and therefore, are Industry Canada's direct agents for this pilot project.

***Profile of potential lessors, as pilot project delivery agents:***

Based on a study commissioned by Industry Canada, “Building and Verification of Capital Leasing Company Database” (Compas Inc., April 2001), the expected profile of potential lessors is as follow:

- ***number*** — there are about 660 firms involved in capital leasing in Canada. Of these, 277 are directly involved and 384 operate through a third party (e.g. lease funders and special trusts for the purpose of securitization);
- ***experience*** — 84% of these leasing companies directly involved in capital leases have been in business for at least five years, and 30% for the past 20 years;
- ***size*** — most of these leasing companies are relatively small with 74% with fewer than 50 employees and 84% with fewer than 100 employees;
- ***leasing volume*** — the annual amount of leases made seems to be divided almost equally between those who made \$1 million or more (32%), those who made under \$1 million in leasing activity (35%) and those who did not respond (33%); and
- ***distribution*** — that majority of leasing companies are located in Ontario (50%) and in the West (34%), followed by 13% in Quebec.

While this is the expected profile, as the pilot project participation is optional for lessors, actual results will likely vary.

***Definition of lessor:***

Given this possible profile of potential lessors, the following definition of lessor was developed to permit a broad range of leasing companies to participate in the pilot project and to ensure a simple but secure process to approve or designate organizations as lessors under the pilot project:

- a) a member of the Canadian Payments Association (CPA);
- b) a member of a central cooperative credit society that is a member of the CPA;
- c) a leasing company or lease funder operating in Canada and who maintains:
  - i) a rating of “BBB” or better issued by a Canadian bond rating agency; or
  - ii) a participation in a securitization program approved by a Canadian bond rating agency; and
- d) any other organization designated by the Minister (based on a Policy of designation of lessors).

Based on this definition and on the expected profile of the leasing industry, it is estimated that there could be up to 400 potential lessors who could participate in the pilot project.

These would include current CSBFA lenders, such as the major Banks and some credit unions. It would also include most leasing companies or lease funders and any other small or large organization that has at least five years experience in capital leasing in Canada and that is sound financially.

Given that the pilot project will be a new program, that capital leasing is a new market and that Industry Canada does not control lessors' decision to participate in the pilot project, Industry Canada hopes that a minimum of 10% of the 400 potential lessors (or 40) will choose to participate. This number represents a "progress marker" that Industry Canada will monitor during and at the end of the 5-year pilot project as part of the evaluation strategy.

### **1.4.3 Stakeholders**

Stakeholders were key in the development of the pilot project design and regulations and will continue to play an important role during the implementation of the pilot project.

Stakeholders with a direct interest in the pilot project include:

- Canadian Finance and Leasing Association (CFLA), representing about 175 leasing companies and other key industry players, including lawyers and experts from the leasing industry;
- Canadian Bankers Association (CBA), representing the major banks and financial institutions;
- Credit Union Central of Canada (CUCC), representing most credit unions in Canada;
- Caisses Populaires Desjardins, representing the caisses populaires in Quebec;
- Business associations, such as the Canadian Federation of Independent Business, (CFIB), Canadian Chamber of Commerce and the Information Technology Association of Canada (ITAC), which represent Canadian SMEs;
- other government departments, such as Finance, Treasury Board and the Privy Council Office, and other organizations, such as the Canadian Business Services Centres (CBSCs), regional agencies, such as the ACOA, FedNord; and
- Parliamentarians, as representatives of Canadian tax payers.

## 1.5 Delivery Approach

As explained earlier, the capital leasing pilot project is a demand-driven, third-party delivered program, where the participating lessors make all the credit decisions and register capital leases with Industry Canada. As such, Industry Canada does not directly control the participation of lessors, the size or risk of the pilot project. As a result, Industry Canada must build awareness among lessors and SMEs to ensure that they are aware of this new financing product available to SMEs.

To reach the agents that will deliver this pilot project - the lessors, and targeted beneficiaries, Industry Canada will undertake the following activities or products:

- development and implementation of an awareness building campaign for leasing companies and SMEs in Canada, including the following:
  - S development and distribution of a brochure to inform and invite leasing companies to participate in the pilot project; and
  - S development and distribution of a pamphlet for SMEs providing information of possible sources of financing, including the CSBFA and the pilot project;
- development and implementation of an annual marketing plan to ensure continuous communication efforts throughout the 5 years of the pilot project;
- production of training materials for lessors and other documents or bulletins to inform participating lessors of any adjustments or interpretations of the regulations;
- on-going discussions with participating lessors to ensure that training materials are adequate and to assess the implementation of the pilot project; and
- periodic consultations with stakeholders to determine effectiveness of pilot project design and implementation.

## 1.6 Pilot Project Design

The following summarizes the key parameters of the pilot project and how it will operate. The key requirements of the capital leasing pilot project are provided in detail in Annex A. These are also defined in the regulations.

***Eligibility:*** Under the proposed capital leasing pilot project, approved or designated lessors can register capital leases on equipment (new or used) made to an eligible small business (i.e. operating in Canada with less than \$5 million in annual gross revenue) for up to a maximum of \$250,000 (including all SBLA/CSBFA loans and capital leases) and for a

maximum term of 10 years.

**Maximum imputed rate of interest rate:** The maximum imputed rate of interest that lessors will be permitted to charge is 13.25% plus the Government of Canada bond rate (including the 1.25% administration fee).

**Loss-sharing ratio:** For these eligible capital leases registered under the pilot, the government will pay up to 85% of the eligible losses, after realization on all security and guarantee, and up to a maximum liability for each lessor determined by a cap on claims rules, outlined in Annex A.

**User fees:** Revenues needed to cover claims costs are generated by the following fees:

- a **registration fee** of 2 percent applied to the financed cost of the equipment, paid by the lessee up-front or financed in the capital lease and remitted by the lessor with the registration; and
- an **administration fee** of 1.25 percent applied to the end-of-month outstanding balance of the lease and paid by the lessee through the payments and by the lessor quarterly.

**Control mechanisms:** Given the nature of the pilot project, which is delivered by third-parties, mechanisms are used to control the cost and size of the pilot project. These are:

- **desk-audits of claims** - to ensure that capital leases were eligible to be registered and that lessors took all necessary measures and exercised due diligence to minimize the loss; and
- **contingent liability ceiling** - to limit the size of the pilot project. Based on the \$2.1 billion of projected leasing activities, the contingent liability ceiling represents a theoretical maximum of the Minister's liability. Once the program reaches this amount, fixed at \$400 million for the 5-year pilot project, no more capital leases will be registered.

## **1.7 Resources**

### **1.7.1 Cost-Recovery**

As indicated earlier, the lessors will use their resources to finance equipment which they will lease to eligible SMEs. The pilot project design is intended to recover, through the user fee revenues, its claim costs over the life of the capital leases made during the five years. As such, no funding is allocated for the pilot project. However, there are a number of factors which make projection of revenues and costs uncertain. Among these “unknowns” is the fact that the pilot is targeting a market and client segment not currently served by the leasing industry. As such, Industry Canada cannot accurately predict the behaviour of lessors, small businesses, or lease funders in terms of take-up, due diligence and loss experience. In light of these “unknowns”, the projected revenues (estimated at \$122 million) and claims costs (estimated at \$116 million) are based on the 40-year experience with equipment loans under the loan loss-sharing program, as well as on the results of the research and consultations.

These are realistic, but prudent, projections and provide for some leeway (surplus of about \$6.32 million) for unknowns related to the behaviour of lessors and lessees, take-up and default, loss and realization rates. In calculating the projected revenues and costs, the following key assumptions were made:

- S total capital leasing activity of \$2.1 billion;
- S default rate of 12%; and
- S realization rate of 15%.

These projections, as well as the assumptions used in the forecasting model will be monitored and analysed closely during the 5 years and may be subject to recommendations to adjust the administration of the program or to refine the design or forecasting model.

### **1.7.2 Administrative Costs**

Note that administrative costs to Industry Canada related to the implementation and operation of the pilot project are not included in the cost-recovery model outlined above. Estimates are that the pilot project could represent an incremental administrative costs to Industry Canada of \$700,000 annually, including up to 5 full-time employees (FTE). These costs will be funded through Industry Canada’s budget and will be incremental to the existing budget and staff. These cost estimates do not include the costs related to ongoing data collection, additional research and the evaluation strategy outlined in Section 4, which are estimated at \$100,000 annually, and will also be funded through Industry Canada’s budget.

## **1.8 Planned Results & Final Outcome**

With the extension of the CSBFA program to capital leases, the reach of the CSBFA will be expanded and SMEs, in particular younger and smaller firms, will have an **improved access to equipment capital lease financing**. With this new tool available to them, small businesses should be able to make better use of their limited capital to invest, innovate, enhance their businesses and grow. Through increased opportunities for investments by SMEs, the pilot project will contribute to Industry Canada's strategic objective **to improve Canada's position as a preferred location for domestic and foreign investment**.



## **Section 2. Logic Model**

### **2.1 Key Elements**

The logic model provided in Table 1 describes the linkages between the following elements:

- S activities which are developed and carried out by the program;
- S outputs which are the direct result of these activities;
- S immediate and intermediate outcomes which are results experienced by the targeted beneficiaries created through collaboration with co-deliverers; and
- S final outcomes which are longer term impacts or results.

A more detailed description of the elements follows:

#### **2.1.1 Activities / Outputs**

Activities are what program staff carry out in order to achieve objectives. Activities can include planning, communication, and service delivery. Activities typically result in costs due to use of staff or financial resources. These costs need to be broadly described as well as the activities performed.

Outputs are the deliverables, including products and services, resulting from activities, and are controlled by activities. Outputs can include presentations and advice produced without paper records, and they can include documented reports, or other physical evidence that is preserved over time. Outputs are considered to flow outside of a program function to clients, recipients and/or partners/stakeholders outside the service, program or policy delivery operations.

Activities and outputs should be placed into context when determining key priorities, which may be accomplished by examining both the needs / opportunities and the desired outcomes or results. This exercise may aid in determining which activities and outputs must occur to lay a foundation for results.

### **2.1.2 Immediate and Intermediate Outcomes**

Immediate outcomes occur in the partners, clients, recipients, and others directly reached and influenced by the capital leasing pilot project. Normally, immediate outcomes include the short-term effects on those who are directly affected by the program or policy, such as changes in awareness, acceptance and behaviour. These early outcomes represent the short-term outcomes of the Pilot Project's activities and outputs. The intermediate outcomes follow logically and sequentially from the immediate outcomes. In many cases, they are second stage effects which result from the beneficiary group's early behaviour change. They can include changes to those clients directly reached by the program or policy, as well as others in the target group influenced by the behaviour of program recipients or clients.

### **2.1.3 Final Outcomes**

Finally, as the program or policy continues to make its influence felt over time, on a larger and larger group, the intermediate outcomes described above lead to end outcomes. The end outcomes of a program or policy occur at the far end of the results chain, following direct and intermediate outcomes after many years. These results are subject to many influences and factors and are at best only indirectly influenced by the activities and outputs of the capital leasing pilot project. Final outcomes are directly linked to the mandate or objectives set for the pilot project. Final outcomes should also be conditioned by existing needs, opportunities or gaps. Existing conditions can include social, economic, political, technological and environmental conditions or states summarized as problems, gaps or opportunities.

## **2.2 Interpretation**

It is important to note that, although the activities and outputs presented in the logic model are closely related to each other, the attribution of outputs and outcomes - immediate, intermediate and final, is more difficult to establish. As such, attribution has not been identified between intermediate and final outcomes presented in the logic model. There is, however, a chronological order (from top to bottom) under which the immediate and intermediate outcomes should normally occur. As well, the impact of the pilot project on the overall access to capital financing by SMEs should be relatively simple to determine based on the number and value of capital leases made during the 5 years of the pilot project. Section 3 deals with performance measurements of the outputs and outcomes presented in the logic model.

As indicated earlier, Industry Canada is responsible to develop the pilot project design and regulations and to implement and administer it to ensure that it will achieve its objectives and outcomes. However, there are factors which are outside Industry Canada's control or influence which may impact on the extent to which the pilot project will achieve its final outcome or which may need to be monitored in the overall context of the pilot project environment and impacts. These factors are outlined below:

- ***Demand-Driven, Third-Party Delivered Pilot Project*** - Given that the pilot project will be delivered by approved and designated lessors, Industry Canada does not control the lessors's decision to participate in the pilot project, nor the number of capital leases that they will register under the pilot project. As well, a downturn on the demand for capital lease financing by SMEs and/or behaviour changes from lenders and lessors with respect to SME financing could also impact on the effectiveness of the pilot project to achieve its outcomes. However, in designing the pilot project, Industry Canada conducted extensive consultations with small business and industry representatives to ensure that the pilot project took into account, where possible, their suggestions related to costs of financing, administrative procedures and leasing industry practices.
- ***Market Forces*** - The equipment financing and leasing industry is a highly competitive industry which has evolved and grown rapidly over the past few years and will likely continue to do so for the upcoming years. As such, significant market forces and industry changes may have an impact on both the demand and supply of capital lease financing, as well as on other sources of equipment financing. As a result, and in addition to monitoring the performance of the capital leasing pilot project, Industry Canada will monitor the evolution of the equipment financing market to evaluate its impacts on SME financing products and services and the ongoing need for the capital leasing pilot project. This will be done using the information that will be provided by the SME Financing Data Initiative, which is a comprehensive data collection and analysis initiative on the state of financing for all SMEs implemented by Industry Canada, Statistics Canada and the Department of Finance.
- ***Economic Factors*** - Industry Canada has little control over the impacts that any fluctuation of the economic growth may have on the pilot project activities - a slowdown (i.e. recession) or increase in the economic growth may increase or decrease the pilot project's activities and, as a result, impact on its outcomes. These will also be subject to monitoring and analysis over the 5 years of the pilot project.

- ***Sustainable Development*** - As part of Industry Canada's objective to promote sustainable development, the Steering Committee for the RMAF agreed that the pilot project might provide an opportunity to examine the impact it might have on sustainable development (e.g. upgrade of equipment with more innovative and environmentally-friendly equipment and/or recycling of used equipment) and related issues. Although sustainable development is not part of the logic model, Industry Canada's monitoring and evaluation activities will include specific questions on the impacts the pilot project might have on sustainable development and an examination of the leasing companies' normal practices (if any) relating to sustainable development.

The proposed capital leasing pilot project is intended to operate on a cost recovery basis over the life of the capital leases made during the 5 years of the pilot project. However, it must be understood that information related to the number and participation of leasing companies, capital lease activity, defaults, realization and loss rates in the leasing industry is scarce. Therefore, the proposed design and forecasting model are based on the best research, industry statistics, stakeholder consultations and other evidence available to Industry Canada, which need to be tested. As such, Industry Canada will monitor the pilot project activity and results during the 5 years so that appropriate recommendations and adjustments can be made to the forecasting model, design or administration of the pilot project.

The logic model below outlines only those activities under Industry Canada's control and which can be used to influence the lessors' decision to participate in the pilot project and to modify their behaviour with respect to small business clients so that the pilot project can achieve its final outcome **to increase opportunities for investments by SMEs through improved access to capital lease financing.**

**Table 1: Logic Model**

| OPERATIONS (HOW?)   |   | BEHAVIOURAL CHANGE (WHAT?)  |   | STATE (WHY?)  |
|---|---|---|---|---|
| ACTIVITIES  | OUTPUTS   | IMMEDIATE OUTCOMES  | INTERMEDIATE OUTCOMES                     | FINAL OUTCOMES  |
| Establishment of 360 feedback mechanisms  | Working groups, meeting reports, stakeholder correspondence, bulletins/notices to lessors   | Increased knowledge of the pilot project by lessors and SMEs, and of the leasing industry by IC   | Strengthening of Partnership with Lessors | Increased opportunities for investments by SMEs through improved access to capital lease financing for SMEs |
| Pilot Project Design and Regulations  | Regulations, Guidelines, How-to-Guide, Systems  |   |   |   |
| Development and implementation of Awareness campaign and products                                     | Marketing plans, Pamphlet for SMEs, Invitation to participate   | Increasing use of the pilot project by lessors over the 5 years                                   | Awareness of Lessors and SMEs             |   |
| Development and implementation of Policy of Designation of Lessors                                    | Policy of Designation of Lessors, Letter to lessors to inform them of Ministerial approval or designation decision                  | Lessors approved or designated  | Take-up by Lessors                        |   |
| Evaluation of lessors' applications   | Framework and recommendations   |   |   |   |
| Receive, review registration documents and register capital leases                                    | Registered capital leases and number sent to lessors  | Increased information to lessors, SMEs, administrators, Parliamentarians and central agencies     | Incrementality                            |   |
| Collect, monitor and report on fees   | Fee revenues deposited in CRF and published in Main Estimates   |   |   |   |
| Receive, evaluate & audit claims  | Claim summary forms   | Increased knowledge of the pilot project by lessors   | Cost-recovery                             |   |
| Pay, adjust or reject claims  | Claim payments & adjustments, Letter for claim rejections/ reductions and published in Main Estimates                               |   |   |   |
| Portfolio monitoring, collecting, analysing data, implementing surveys and refining forecasting model | Analysis & necessary responses  | Implemented necessary changes to design and administration of pilot project and forecasting model | Effective & Transparent Administration    |   |
| Development of reports  | RPP, Main Estimates, DPR, Annual Reports, Public Accounts, other internal administrative reports and information reports to lessors | Increased information to administrators, lessors, SMEs and Parliamentarians                       |   |   |

## Section 3. Performance Measurement Strategy

Table 2 outlines Industry Canada's plan for the ongoing, formative and summative measurement of performance, including the identification of:

- activity measures for the outputs presented in the logic model (Table 1);
- performance indicators (quantitative and qualitative) for the outcomes presented in the logic model; and
- a measurement strategy describing how these activities and indicators will be collected, how often and who is responsible for the collection.

As outlined in the logic model, the outputs are the deliverables, including products and services, resulting from activities and leading to the achievement of the expected outcomes (immediate, intermediate and final). As such, performance measurement for these outputs are mostly quantitative activity measures, as opposed to qualitative and quantitative performance indicators. However, some qualitative measures have been identified to collect early feedback from stakeholders on the effectiveness of some of these outputs. As we move to immediate, intermediate and final outcomes, the performance measurement strategy clearly identifies and focuses on qualitative performance indicators.

**Table 2: Performance Measurement Strategy**

|   | Element   | Activity Measure  | Data Source/<br>Collection method   | Responsibility | Timing & Frequency of Measurement |                         |                      |
|---|---|---|---|----------------|-----------------------------------|-------------------------|----------------------|
|   |   |   |   |                | Ongoing<br>(Annual)               | Formative<br>(Mid-term) | Summative<br>(Final) |
|   | <b>OUTPUTS</b>  |   |   |                |                                   |                         |                      |
| 1 | Working groups, meeting reports, shareholder correspondence, bulletin/notice to lessors (See #12) | S number and frequency of meetings                                      | S minutes and correspondence (lessor bulletin database)                               | SBPB/SBLA      | ✓                                 |                         |                      |
|   |   | S level of working groups   | S stakeholders feedback (informal discussions and/or mini-survey)                     | SBPB/SBLA      | ✓                                 | ✓                       | ✓                    |
|   |   | S number of documents produced  | S internal tracking   | SBPB/SBLA      | ✓                                 |                         |                      |
|   |   | S opinion/views re effectiveness and usefulness of meetings and reports | S stakeholders feedback (informal discussions and/or mini-survey)                     | SBPB/SBLA      |                                   | ✓                       | ✓                    |
| 2 | Regulations, Guidelines, How-to-Guide, Systems (See #12 & #13)                                    | S number of documents distributed/ requested                            | S internal tracking of documents distributed/calls to info-line and visits to website | SBLA           | ✓                                 |                         |                      |
|   |   | S quality of information provided on registration and claim             | S internal tracking   | SBLA           | ✓                                 |                         |                      |
|   |   | S number of registrations/claims rejected                               |   |                |                                   |                         |                      |
|   |   | S number of modifications to guidelines                                 | S internal tracking<br>S lessors feedback (informal discussions and/or mini-survey)   | SBLA           | ✓                                 | ✓                       | ✓                    |
|   |   | S number of proposed modifications to regulations post-launch           | S internal tracking<br>S lessors feedback (informal discussions and/or mini-survey)   | SBPB/SBLA      | ✓                                 | ✓                       | ✓                    |

|   | Element  | Activity Measure   | Data Source/<br>Collection method   | Responsibility | Timing & Frequency of Measurement |                         |                      |
|---|--|--|---|----------------|-----------------------------------|-------------------------|----------------------|
|   |  |  |   |                | Ongoing<br>(Annual)               | Formative<br>(Mid-term) | Summative<br>(Final) |
|   |  | S number of modifications to system post-launch  | S internal tracking<br>S lessors feedback (informal discussions and/or mini-survey)   | SBLA           | ✓                                 | ✓                       | ✓                    |
|   |  | S opinion/views of users re quality of regulations and guidelines  | S lessors feedback (informal discussions and/or mini-survey)  | SBPB/SBLA      |                                   | ✓                       | ✓                    |
| 3 | Marketing plans, pamphlet for SMEs, invitation to participate (See #12 & #13)  | S number, type, size of client reached (info distributed/requested)  | S SME distribution list   | SBPB           | ✓                                 |                         |                      |
|   |  | S number, type, size of lessor seeking to participate  | S lessor database   | SBLA           | ✓                                 |                         |                      |
|   |  | S level of awareness of SMEs and lessors (e.g. nb. of SMEs and lessors aware of the pilot project)   | S stakeholders feedback (informal discussions and/or mini-survey)<br>S SME awareness survey (e.g. survey of client and non-client SMEs) | SBPB/SBLA      |                                   | ✓                       | ✓<br>✓               |
| 4 | Policy of Designation of Lessors, letter to lessors to inform them of Ministerial approval or designation decision (See #14) | S number of requests for additional information  | S lessor database   | SBLA           | ✓                                 |                         |                      |
|   |  | S comparative risk analysis of lessors   | S lessor database<br>S SBLA database  | SBLA           |                                   | ✓<br>✓                  | ✓<br>✓               |
|   |  | S number, type, size of lessor approved or designated  | S lessor database   | SBLA           |                                   | ✓                       | ✓                    |
|   |  | S level of satisfaction with decisions and process (e.g. extent to which lessors are satisfied with process, processing time, decisions, etc.) | S lessors feedback (informal discussions and/or mini-survey and/or survey)  | SBLA           |                                   | ✓                       | ✓                    |



|   | Element   | Activity Measure   | Data Source/<br>Collection method  | Responsibility | Timing & Frequency of Measurement |                         |                      |
|---|---|--|--|----------------|-----------------------------------|-------------------------|----------------------|
|   |   |  |  |                | Ongoing<br>(Annual)               | Formative<br>(Mid-term) | Summative<br>(Final) |
| 5 | Framework and recommendations<br>(See #14)  | S processing time of approval or designation (e.g. no. days between reception of applications and letter sent to lessors)        | S internal tracking/lessor database  | SBLA           | ✓                                 |                         |                      |
|   |   | S number of recommendations proportional to applications received  | S internal tracking/lessor database  | SBLA           | ✓                                 |                         |                      |
|   |   | S level of satisfaction within IC and from lessors   | S lessors feedback (informal discussions and/or mini-survey and/or survey) | SBLA           |                                   | ✓                       | ✓                    |
| 6 | Registered capital leases and registration number sent to lessors<br>(See #15)                | S number of registrations received: (by lessor type, size and sector, by firm size, age and sector and by lease size)            | S SBLA database  | SBLA           | ✓                                 |                         |                      |
|   |   | S processing time (e.g. no. days between the reception of the registration form and the mailing of the registration number)      | S SBLA database  | SBLA           | ✓                                 |                         |                      |
|   |   | S level of satisfaction with process (e.g. extent to which lessors are satisfied with registration forms, processing time, etc.) | S lessors feedback (informal discussions and/or mini-survey and/or survey) | SBLA           |                                   | ✓                       | ✓                    |
| 7 | Fee revenues deposited in consolidated revenue fund and published in Main Estimates (See #15) | S aggregate revenues<br>S firm-level revenues (by size, age and sector)  | S SBLA database  | SBLA           | ✓                                 |                         |                      |
|   |   | S accuracy of forecasts (e.g. extent to which the forecasts are comparable with actual results)                                  | S SBLA database  | SBLA           | ✓                                 |                         |                      |

|    | Element   | Activity Measure  | Data Source/<br>Collection method   | Responsibility | Timing & Frequency of Measurement |                         |                      |
|----|---|---|---|----------------|-----------------------------------|-------------------------|----------------------|
|    |   |   |   |                | Ongoing<br>(Annual)               | Formative<br>(Mid-term) | Summative<br>(Final) |
| 8  | Claim summary forms (See #12)   | S number of claims processed (by lessor type, size and sector, by firm size, age and sector and by lease size)<br>S rationale for default<br>S time to default<br>S processing time                                   | S SBLA database   | SBLA           | ✓                                 |                         |                      |
|    |   | S level of satisfaction with process (e.g. extent to which lessors are satisfied with claim forms, processing time, etc.)   | S lessors feedback (informal discussions and/or mini-survey and/or survey)      | SBLA           |                                   | ✓                       | ✓                    |
| 9  | Claim payments and adjustments, letter for claim rejections/reductions, and published in Main Estimates (See #12) | S aggregate claims expenditures (by lessor type, size and sector and by lease size)<br>S firm-level revenues (by size, age, sector of firm, by lease size and sector)<br>S processing time<br>S accuracy of forecasts | S SBLA database   | SBLA           | ✓<br>✓<br>✓<br>✓                  |                         |                      |
|    |   | S level of satisfaction with process (e.g. extent to which lessors are satisfied with claim forms, processing time, payments, etc.)   | S stakeholders feedback (informal discussions and/or mini-survey and/or survey) | SBLA/SBPB      |                                   | ✓                       | ✓                    |
| 10 | Analysis and necessary responses (See #16)  | S accuracy of forecasting model   | S table of actual vs. forecasts   | SBLA           | ✓                                 | ✓                       | ✓                    |
|    |   | S degree to which analysis & recommendations solved problems  | S track issues raised, responses and impact                                     | SBLA/SBPB      | ✓                                 | ✓                       | ✓                    |

|    | Element   | Activity Measure   | Data Source/<br>Collection method   | Responsibility | Timing & Frequency of Measurement |                         |                      |
|----|---|--|---|----------------|-----------------------------------|-------------------------|----------------------|
|    |   |  |   |                | Ongoing<br>(Annual)               | Formative<br>(Mid-term) | Summative<br>(Final) |
|    |   | S level of satisfaction of process and responses   | S internal and stakeholders feedback (informal discussions and/or mini-survey and/or survey)                                  | SBLA/SBPB      |                                   | ✓                       | ✓                    |
| 11 | RPP, Main Estimates, Dept. Perf. Report, Public Accounts, Annual Reports, Other reports (See #15) | S frequency of reporting   | S SBLA database   | SBLA           |                                   | ✓                       | ✓                    |
|    |   | S quality of input into departmental reports   | S stakeholder discussions   | SBLA/SBPB      |                                   | ✓                       | ✓                    |
|    |   | S level of satisfaction of stakeholders re quality and usefulness of internal and annual reports | S stakeholders feedback/mini-survey on internal and annual report<br>S analysis of ongoing use of internal and annual reports | SBLA/SBPB      |                                   | ✓<br>✓                  | ✓<br>✓               |

|    | Element   | Performance Indicator  | Data Source/<br>Collection method  | Responsibility | Timing & Frequency of Measurement |                         |                      |
|----|---|--|--|----------------|-----------------------------------|-------------------------|----------------------|
|    |   |  |  |                | Ongoing<br>(Annual)               | Formative<br>(Mid-term) | Summative<br>(Final) |
|    | <b>IMMEDIATE OUTCOMES</b>   |  |  |                |                                   |                         |                      |
| 12 | Increased knowledge of the pilot project by lessors and SMEs, and the leasing industry by IC (See #1,2,3,8) | S level of awareness of stakeholders (e.g. nb. of SMEs and lessors aware of the pilot project)<br>S level of satisfaction with and effective use of guidelines, how-to-guide | S survey of lessors and SMEs<br>S discussion/correspondence/consultation with lessors and internally | SBPB/SBLA      |                                   | ✓                       | ✓<br>✓               |

|    | Element  | Performance Indicator   | Data Source/<br>Collection method                              | Responsibility            | Timing & Frequency of Measurement |                         |                      |
|----|--|---|--|---------------------------|-----------------------------------|-------------------------|----------------------|
|    |  |   |  |                           | Ongoing<br>(Annual)               | Formative<br>(Mid-term) | Summative<br>(Final) |
| 13 | Increased use of the pilot project by lessors over the five years (See #2,3)                             | S number of CSBFA leases registered   | S SBLA database  | SBLA                      | ✓                                 |                         |                      |
| 14 | Lessors approved or designated (See #4,5)  | S number of lessors approved or designated  | S lessor database  | SBLA                      | ✓                                 |                         |                      |
|    |  | S level of awareness of lessors of the requirements for designation (e.g. nb. of lessors aware of the requirements and quality of documents received)               | S internal tracking<br>S survey of lessors                     | SBLA<br>SBPB/SBLA         |                                   | ✓                       | ✓<br>✓               |
|    |  | S level of satisfaction of stakeholders with the process (e.g. extent to which lessors are satisfied with application process, requirements, processing time, etc.) | S internal tracking<br>S survey of lessors                     | SBLA<br>SBPB/SBLA         |                                   | ✓                       | ✓<br>✓               |
| 15 | Increased information to lessors, SMEs, administrators, Parliamentarians and central agencies (See #6,7) | S number of documents produced/<br>distributed  | S internal tracking of<br>documents/docket statistics          | SBLA                      | ✓                                 |                         |                      |
|    |  | S number of calls to info-line  | S CBSC/info-line statistics                                    |                           | ✓                                 |                         |                      |
|    |  | S number of e-mails   | S e-mail statistics  |                           | ✓                                 |                         |                      |
|    |  | S number of website visits  | S website statistics   |                           | ✓                                 |                         |                      |
|    |  | S level of awareness of stakeholders (e.g. nb. of stakeholders, SMEs and lessors aware of the pilot project)  | S internal tracking<br>S survey of lessors<br>S survey of SMEs | SBLA<br>SBPB/SBLA<br>SBPB |                                   | ✓                       | ✓<br>✓<br>✓          |

|    | Element   | Performance Indicator   | Data Source/<br>Collection method                                   | Responsibility               | Timing & Frequency of Measurement |                         |                      |
|----|---|---|---|------------------------------|-----------------------------------|-------------------------|----------------------|
|    |   |   |   |                              | Ongoing<br>(Annual)               | Formative<br>(Mid-term) | Summative<br>(Final) |
| 16 | Implemented necessary changes to design and administration of pilot project and forecasting model (See #10) | <p>S level of satisfaction of lessors and internal satisfaction</p> <p>S the extent to which information collected is effectively being used for modifying the design, administration and forecasting model</p> | <p>S internal tracking</p> <p>S survey of lessors using program</p> | <p>SBLA</p> <p>SBPB/SBLA</p> |                                   | ✓                       | <p>✓</p> <p>✓</p>    |
|    | <b>INTERMEDIATE OUTCOMES</b>  |   |   |                              |                                   |                         |                      |
| 17 | Strengthening of Partnership with Lessors   | S opinion and level of satisfaction of lessors  | S survey of lessors   | SBPB/SBLA                    |                                   |                         | ✓                    |
| 18 | Awareness of Lessors and SMEs   | S level of awareness of SMEs and lessors (e.g. nb. of SMEs and lessors aware of the pilot project)  | <p>S survey of lessors</p> <p>S survey of SMEs</p>                  | <p>SBPB/SBLA</p> <p>SBPB</p> |                                   |                         | <p>✓</p> <p>✓</p>    |
| 19 | Take-up by Lessors  | <p>S number of lessors approved or designated</p> <p>S number of CSBFA leases registered</p>  | <p>S lessor database</p> <p>S SBLA database</p>                     | SBLA                         | <p>✓</p> <p>✓</p>                 |                         |                      |
|    |   | S satisfaction level of lessors   | S survey of lessors   | SBPB/SBLA                    |                                   |                         | ✓                    |
| 20 | Incrementality  | S CSBFA leases vs. non-CSBFA leases   | S research report   | SBPB                         |                                   |                         | ✓                    |
| 21 | Cost-Recovery   | S revenues to costs/forecasting model   | S SBLA database   | SBLA                         | ✓                                 |                         |                      |
| 22 | Effective and Transparent Administration  | S level of satisfaction of stakeholders   | S survey of lessors (those using program)                           | SBPB/SBLA                    |                                   |                         | ✓                    |
|    |   | S level of awareness (e.g. nb. of lessors aware of guidelines)  | S mini-survey of lessors  | SBPB/SBLA                    |                                   | ✓                       |                      |

|    | Element  | Performance Indicator   | Data Source/<br>Collection method    | Responsibility | Timing & Frequency of Measurement |                         |                      |
|----|--|---|--------------------------------------|----------------|-----------------------------------|-------------------------|----------------------|
|    |  |   |                                      |                | Ongoing<br>(Annual)               | Formative<br>(Mid-term) | Summative<br>(Final) |
|    | <b>FINAL<br/>OUTCOMES</b>                                |   |                                      |                |                                   |                         |                      |
| 23 | Improved Access to<br>Capital Lease<br>Financing by SMEs | S number of leases registered to SMEs<br>S profile of SMEs that benefited from the<br>pilot project | S SBLA database<br>S research report | SBLA<br>SBPB   | ✓                                 |                         | ✓                    |

## Section 4. Evaluation Strategy

### 4.1 Evaluation Items

The Treasury Board Secretariat's Evaluation Policy (2001) notes that the following types of questions or items should be addressed in an evaluation:

- Does the policy, program or initiative continue to be consistent with departmental and government-wide priorities, and does it realistically address an actual need? (relevance)
- Is the policy, program, or initiative effective in meeting its objectives within budget and without unwanted outcomes? (success)
- Are the most appropriate and efficient means being used to achieve objectives relative to alternative design and delivery approaches? (cost-effectiveness)

Relevance then, looks at the rationale and ongoing need of an initiative. Success or progress concerns the extent to which the outcomes presented in the logic model have been achieved. Cost-effectiveness is tied to relating resources expended to performance in terms of outputs and results.

The key items that should be considered in evaluating Industry Canada's capital leasing pilot project are identified below according to TBS's issue typology.

#### 4.1.1 Rationale - *Is there an ongoing need to facilitate access to capital lease financing to the target group?*

- Is there a need for the capital leasing pilot project among SMEs (especially those under 2 years old and those seeking less than \$100,000)?
- To what extent was the capital leasing pilot project meeting the needs of SMEs?
- Is there a continuing need for the federal government to be involved in capital leasing? Are there other similar programs (federal and/or provincial) that cover capital leasing? Should the government continue the capital leasing pilot project?
- Should the CSBFA be amended to include capital lease financing?

#### **4.1.2 Objectives Achievement / Impacts and Effects - *to what extent has the capital leasing pilot project achieved its intended objectives? What have been the impacts, both intended and unintended, of the capital leasing pilot project?***

- To what extent were the capital leases made under the pilot project incremental?<sup>2</sup> To what extent were capital leases provided under the pilot project made on more favourable terms than traditional leases as a result of the pilot project?
- To what extent is the capital leasing pilot project cost-recoverable (i.e., separate from the core CSBFA program and excluding administrative costs)? Given activities and early evidence of claims, does the forecast suggest that cost recovery can be achieved?
- To what extent did the capital leasing pilot project balance the loans aspect of CSBFA to level the playing field between the leasing and lending industries?
- Has the capital leasing pilot project strengthened partnership with lessors?
- To what extent are lessors aware of the pilot project? To what extent have lessors participated in the pilot project? What is the profile of lessors participating in the pilot project?
- Were the Guidelines and the How To Guide clearly understood by lessors?
- Has the capital leasing pilot project had an impact on participating lessors' practices?
- Are SMEs (especially start-ups and younger firms) aware of the capital leasing pilot project? To what extent have SMEs participated in the pilot project? Are they aware that their capital leases were facilitated by the capital leasing pilot project? What is the profile of SMEs participating in the pilot project?
- Did the regulations and the Lessor Designation Policy create any unexpected barriers (e.g. administrative burden) to participation by SMEs and/or lessors? If so, what are they?
- What impact has the capital leasing pilot project had on job creation? Job displacement? Job improvement?
- What, if any, has been the impact of the pilot project on sustainable development and on

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<sup>2</sup> Incrementality has been defined under the CSBFA as follows:

- Provides credit where otherwise credit might not be granted;
- Provides for a capital lease on more favourable terms (maturity, interest rate, governance) than would otherwise have been granted;
- Provides for credit on a more timely basis than otherwise;
- Facilitated or initiated the working relationship between a business borrower and a leasing institution; or
- Provided for a broader financing package than would otherwise have been available.



eco-efficiency? For example, have the capital leases been used to purchase equipment that is more environmental or have they been used to purchase/recycle used equipment? What were the participating lessors' practices (e.g. due diligence), if any, related to sustainable development?

**4.1.3 Cost Effectiveness/ Alternatives - *Was the capital leasing pilot project well designed and implemented, or are there significant modifications which need to be made to increase its efficiency and effectiveness?***

- If the capital leasing pilot project were to be included in the CSBFA, are there changes that should be made to improve the capital leasing pilot project's performance and likelihood or level of success (e.g., structural changes such as securitisation/lease funding, administrative changes, etc.)?
- Are there alternative ways of delivering the capital leasing pilot project to better meet its objectives?
- Were the human, system and financial resources used to deliver the capital leasing pilot project being used effectively to deliver the initiative and to achieve its objectives? (Are there major resource gaps or redundancies?)

## **4.2 Data Requirements**

In accordance with best practices, the proposed evaluation strategy for the future formative and summative evaluations of the capital leasing pilot project involves the use of multiple lines of evidence and complementary research methods. The suggested methods make use of the on-going monitoring and evaluation system as well as a number of additional methodologies. The three primary sources of data requirements are administrative, primary and secondary data.

### **4.2.1 Administrative Data**

At the time of an evaluation, the data collected in the context of on-going performance measurement would be reviewed and analyzed as it relates to various evaluation questions or items. This would include:

- internal databases (e.g., SBLA database, lessors database);
- documents (e.g., planning documents, reports of special studies, etc.); and

- project files.

#### 4.2.2 Primary Data Collection

Primary data will need to be collected to obtain information not available through existing sources. These could include:

- interviews with program staff and managers;
- interviews with other Industry Canada staff and managers
- interviews with stakeholders;
- survey of SMEs; and
- survey of lessors.

#### 4.2.3 Secondary Data Collection

For some of the evaluation items identified in the previous section, secondary data may be available to provide credible information on trends, points of comparison, etc. This could include data from Statistics Canada, information available through industry associations, or others.

#### 4.2.4 Linkage of Evaluation Items to Data Requirements

The table 3 below summarizes the proposed data collection methods by evaluation item or question. Also indicated in the table is the proposed timing for each evaluation item (e.g., covered in the formative and/or summative evaluation).

**Table 3: Evaluation Strategy**

| Evaluation Item  | Data Collection Method  | Timing                 |
|--|---|------------------------|
| <b>Rationale</b>   |   |                        |
| Is there a need for the capital leasing pilot project among SMEs (especially those under 2 years old and those seeking less than \$100,000)?   | Survey of SMEs<br>Interviews with stakeholders<br>IC interviews                                       | Formative<br>Summative |
| To what extent was the capital leasing pilot project meeting the leasing needs of SMEs?  | SBLA database<br>Survey of SMEs<br>Interviews with stakeholders<br>IC interviews                      | Formative<br>Summative |
| Is there a continuing need for the federal government to be involved in capital leasing? Are there other similar programs (federal and/or provincial) that cover capital leasing? Should the government continue the capital leasing pilot project?                | Survey of SMEs<br>Survey of lessors<br>Interviews with stakeholders<br>IC interviews                  | Summative              |
| Should the CSBFA be amended to include capital lease financing?  | IC interviews<br>SBLA database  | Summative              |
| <b>Objectives Achievement / Impacts and Effects</b>  |   |                        |
| To what extent were the capital leases made under the pilot project incremental? To what extent were capital leases provided under the pilot project made on more favourable terms than traditional leases as a result of the pilot project?                       | SBLA database<br>Research Project   | Formative<br>Summative |
| To what extent is the capital leasing pilot project cost-recoverable (i.e., separate from the core CSBFA program and excluding administrative costs)? Given activities and early evidence of claims, does the forecast suggest that cost recovery can be achieved? | SBLA database<br>Table of actual vs. forecasts<br>IC interviews                                       | Formative              |
| To what extent did the capital leasing pilot project balance the loans aspect of CSBFA to level the playing field between the leasing and lending industries?  | SBLA database<br>Survey of SMEs<br>Survey of lessors<br>Interviews with stakeholders<br>IC interviews | Summative              |
| Has the capital leasing pilot project strengthened partnership with lessors?   | Survey of lessors<br>Interviews with stakeholders<br>IC interviews                                    | Formative<br>Summative |
| To what extent are lessors aware of the pilot project? To what extent have lessors participated in the pilot project? What is the profile of lessors participating in the pilot project?   | Survey of lessors<br>Lessor database  | Formative<br>Summative |
| Were the guidelines and the How To Guide clearly understood by lessors?  | Survey of lessors   | Formative              |
| Has the capital leasing pilot project had an impact on participating lessors' leasing practices?   | Survey of lessors   | Formative              |

| <b>Evaluation Item</b>  | <b>Data Collection Method</b>                                       | <b>Timing</b>          |
|---|---|------------------------|
| Are SMEs (especially start-ups and younger firms) aware of the capital leasing pilot project? To what extent have SMEs participated in the pilot project? Are they aware that their capital leases were facilitated by the capital leasing pilot project? What is the profile of SMEs participating in the pilot project? | Survey of SMEs<br>SBLA database                                     | Formative<br>Summative |
| Did the regulations and the Lessor Designation Policy create any unexpected barriers (e.g. administrative burden) to participation by SMEs and/or lessors? If so, what are they?  | Survey of SMEs<br>Survey of lessors                                 | Formative              |
| What impact has the capital leasing pilot project had on job creation? Job displacement? Job improvement?   | SBLA database<br>Survey of SMEs<br>Research Project                 | Summative              |
| What has been the impact of the pilot project on sustainable development and on the environment? For example, have the capital leases been used to purchase equipment that is more environmental or have they been used to purchase/recycle used equipment?   | Survey of SMEs  | Formative<br>Summative |
| <b>Cost Effectiveness/Alternatives</b>  |   |                        |
| If the capital leasing pilot project is to be included in the CSBFA, are there changes that should be made to improve the capital leasing pilot project's performance and likelihood or level of success (e.g., structural changes such as securitisation/lease funding, administrative changes, etc.)?                   | Survey of SMEs<br>Survey of lessors<br>Interviews with stakeholders | Summative              |
| Are there alternative ways of delivering the capital leasing pilot project to better meet its objectives?   | Survey of SMEs<br>Survey of lessors<br>Interviews with stakeholders | Summative              |
| Are the human, system and financial resources used to deliver the capital leasing pilot project being used effectively to deliver the initiative and to achieve its objectives? (Are there major resource gaps or redundancies?)  | IC interviews<br>Interviews with stakeholders                       | Summative              |

### **4.3 Data Collection Strategy**

#### **4.3.1 Costing**

The estimated costs associated with the proposed evaluation approaches are as identified in the table below. It is important to note that all methodologies may not be selected at the time of the evaluation, depending on the budget available, the evaluation items or questions to be included, and other factors at the time of the evaluation. The cost range is based on the difference in scope (e.g., sample sizes, in-person versus telephone, etc.) and depth (e.g., length of interviews, amount of analysis performed, etc.) that could be considered for each approach. The costs shown below are per evaluation study.

**Table 4: Evaluation Costs**

| <b>Evaluation Costs by Methodology</b>                                |  |
|---|--|
| <b>Methodology</b>  | <b>Estimated Cost per Evaluation Study</b> |
| <b>Administrative Data</b>  |  |
| Analysis of data available through internal databases                 | \$10,000 to \$20,000                       |
| Review of documents   | \$5,000                                    |
| <b>Primary Data Collection</b>  |  |
| Interviews with project managers and staff (less than 10 individuals) | \$5,000                                    |
| Interviews with other IC managers (less than 10 individuals)          | \$5,000                                    |
| Interviews with stakeholders (less than 10 individuals)               | \$5,000                                    |
| Survey of SMEs  | \$20,000 to \$40,000                       |
| Survey of lessors   | \$20,000 to \$40,000                       |
| <b>Secondary Data Collection</b>                                      |  |
| Obtain and review secondary data                                      | \$10,000 to \$25,000                       |
| <b>Project Management/Reporting</b>                                   |  |
| Project management/Steering Committee Meetings                        | \$5,000 to \$10,000                        |
| Analysis/report writing/presentation of results                       | \$10,000 to \$20,000                       |
| <b>Total</b>  |  |
| Total cost of evaluation  | \$95,000 to \$175,00                       |

**4.3.2 Timing**

A formative evaluation is planned for the capital leasing pilot project in 2004-2005. In addition to design and implementation issues, this evaluation will also examine early impact and outcome data. The summative evaluation is planned for 2006-2007. The results of the formative and summative evaluations will be used to make the decision whether or not to include the pilot project in the Core Program. As previously noted, at the time of both the formative and summative evaluations, the evaluation items would be revised and the specific methodologies and budget refined.

## Section 5. Reporting Strategy

The capital leasing pilot project will rely on the following reporting strategy, which is also summarized in Table 5:

- The Small Business Policy Branch (SBPB) will report annually on progress achieved during the previous year according to the measurement strategy identified in this document for inclusion in the Departmental Performance Report. Performance information will also be provided in the form of a progress report to other agencies participating in this initiative.
- The formative evaluation report, to be available in 2004-2005 will be submitted to the Department's Audit and Evaluation Committee and to Treasury Board Secretariat (TBS). The full evaluation report will be a public document and, as such, also available to anyone upon request.
- The summative evaluation report, to be available in 2006-2007, will be submitted to the Department's Audit and Evaluation Committee and to TBS. The full evaluation report will be a public document and, as such, also available to anyone upon request.

**Table 5: Performance Reporting Strategy**

| Performance Reporting Strategy  |                     |         |         |         |         |         |
|---------------------------------|---------------------|---------|---------|---------|---------|---------|
| Measurement Activity            | Products            | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Ongoing Performance Measurement | CSBFA Annual Report |         |         |         |         |         |
|                                 | Main Estimates      | ✓       | ✓       | ✓       | ✓       | ✓       |
|                                 | DPR                 |         |         |         |         |         |
|                                 | RPP                 |         |         |         |         |         |
| Formative Evaluation            | Evaluation Report   |         |         | ✓       |         |         |
|                                 | Executive Summary   |         |         |         |         |         |
| Summative Evaluation            | Evaluation Report   |         |         |         |         | ✓       |
|                                 | Executive Summary   |         |         |         |         |         |

The results of ongoing performance measurement will be used to make the necessary adjustments to the initiative. In addition, the performance measurement strategy will be reviewed on an annual basis and adjustments will be made, as required to ensure that the performance information is appropriate and useful for ongoing management requirements.

## Section 6. Implementation and Review

The RMAF presented in the previous sections will be reviewed on a periodic basis in the view to maintain a flexible approach and adapt the RMAF, if necessary, to ensure that the performance information is appropriate and useful for ongoing management requirements. The following defines the elements to be reviewed, questions and time frame for the implementation and periodic review of the RMAF:

**Table 6: Implementation and Review Strategy**

| Element reviewed                             | Question   | Timing   |           |           |
|--|--|----------|-----------|-----------|
|  |  | Periodic | Formative | Summative |
| Implementation                               | Is the RMAF being implemented as intended?   | ✓        | ✓         | ✓         |
| Expected outputs and outcomes                | Are the expected outputs and outcomes still relevant?  |          | ✓         | ✓         |
| Activity Measures/<br>Performance Indicators | Are the performance indicators appropriate and complete?   | ✓        | ✓         | ✓         |
| Data collection                              | What progress has been made with respect to data collection?   | ✓        | ✓         | ✓         |
| Collection Methods                           | Are the collection methods effective and useful?<br>Are they burdensome on stakeholders?                   | ✓        | ✓         | ✓         |
| Usefulness of information                    | Is the information collected useful and complete?  | ✓        | ✓         | ✓         |
| Evaluation items and questions               | Are the evaluation items and questions appropriate?  |          | ✓         | ✓         |
| Reporting                                    | Is the reporting strategy being implemented as intended?   | ✓        | ✓         | ✓         |
| Resources                                    | Are the resources available sufficient to implement the RMAF? Are the estimated evaluation costs accurate? | ✓        | ✓         | ✓         |
| Timing                                       | Is the implementation of the RMAF on schedule?   | ✓        | ✓         | ✓         |

The results of these periodic reviews and reports will provide an opportunity to answer whether the RMAF is proceeding as intended and whether it is producing useful information and will be used by managers to make the necessary adjustments to the framework. These adjustments, if any, will be incorporated to the reporting strategy outlined in Section 5.

## Annex A. Summary Table of Pilot Project Parameters

| Parameter                        | Description  |
|----------------------------------|--|
| Eligible Small Businesses        | For-profit enterprises carried on or about to be carried on in Canada with annual gross revenues of \$5 million or less. Excludes agricultural businesses and charitable and religious organizations.  |
| Cap on Claims                    | The Minister's liability is limited to the aggregate of: <ul style="list-style-type: none"> <li>• 90% of first \$250 000 registered under the pilot project;</li> <li>• 50% of next \$250 000;</li> <li>• 10% of excess of \$500 000; and</li> <li>• 10% of the aggregate total financing amount of all capital leases transferred to the lessor as a result of lease funding in accordance with section 36.</li> </ul>  |
| Loss Sharing Ratio               | <ul style="list-style-type: none"> <li>• 85% government; and</li> <li>• 15% lessor</li> </ul>  |
| Eligible Lessors                 | Lessor means: <ol style="list-style-type: none"> <li>a) a member of the Canadian Payments Association (CPA);</li> <li>b) a local cooperative credit society that is a member of the CPA;</li> <li>c) a leasing company incorporated in Canada or a lease funder carrying on business in Canada, with a place of business in Canada, that: <ol style="list-style-type: none"> <li>i) maintains a rating of BBB or better issued by a Canadian bonds rating agency; or</li> <li>ii) participates in a securitization program approved by a Canadian bonds rating agency;</li> </ol> </li> <li>d) any organization designated by the Minister as a lessor for the purpose of these regulations (as per the Lessor Designation Policy).</li> </ol> |
| Eligible Capital Leases          | To finance new equipment or used equipment, that has a remaining economic life greater than the term of the lease.   |
| Maximum Amount                   | Maximum of \$250,000 for the cost of the equipment; total financing amount of the capital lease; and aggregate outstanding SBLA/CSBFA loans and capital leases.  |
| Financing Rate                   | Maximum of 100% of the cost of equipment.  |
| Payment Terms                    | Maximum of 10 years.   |
| Registration Fee                 | 2% applied to the financed cost of equipment and paid up-front with registration.  |
| Administration Fee               | 1.25% applied on the end-of-month outstanding balance* of the capital lease and paid quarterly. * <i>The discount rate used in the calculation of the outstanding balance is the annual imputed rate of interest used in the calculation of the scheduled payments.</i>  |
| Maximum Imputed Rate of Interest | Government of Canada Bond rate plus 13.25% (including the 1.25% annual administration fee).  |



| Parameter          | Description  |
|--------------------|--|
| Due Diligence      | <p>Lessors must apply the same due diligence procedures for a CSBFA capital lease as those that would be applied in respect of a conventional capital lease in the same amount, including:</p> <ul style="list-style-type: none"> <li>a) obtaining credit references or conducting a credit check on the lessee;</li> <li>b) completing an assessment of the repayment ability of the lessee;</li> <li>c) providing for a term similar to the term of a capital lease of the same amount that is not subject to the regulations; and</li> <li>d) for used equipment, substantiate in writing the fair market value and economic life of the equipment leased.</li> </ul> <p>Lessor will be required to provide its normal due diligence practices before making capital leases under the pilot project.</p>  |
| Security           | <p>First-ranking security in the asset not required given that the ownership of the equipment financed stays with the lessor. Instead, the lessor must register its security interest or publish its rights in the leased equipment within the time and in accordance with the form prescribed under the applicable provincial law.</p>  |
| Personal Guarantee | <p>Maximum of 25% of the total financing amount of the capital lease registered.</p>   |
| Lease Funding      | <p>If a capital lease is transferred to another lessor (lease funder) for the purpose of lease funding, the government guarantee can be transferred if the Minister's liability in relation to the remaining capital leases of the transferor does not, as result of the transfer, exceed the amount already paid by the Minister to the transferor.</p> <p>The transferor and the transferee must notify the Minister of the transfer and include in the form the registration number of the capital lease transferred.</p> <p>The Minister determines if all the conditions have been met and notifies both the transferor and the transferee of the determination.</p> <p>The Minister's liability in relation to the payment of a claim to a transferee is calculated at a rate of 10% of the aggregate total financing amount of all capital leases transferred as a result of lease funding.</p> |

| Parameter              | Description  |
|------------------------|--|
| Eligible Losses        | <p>The aggregate of the following amounts:</p> <ul style="list-style-type: none"> <li>a) the outstanding balance* of the capital lease;</li> <li>b) the interests;</li> <li>c) uncollected taxed costs for, or incidental to, any legal proceedings in respect of the capital lease;</li> <li>d) legal fees and disbursements;</li> </ul> <p>minus the aggregate of the following:</p> <ul style="list-style-type: none"> <li>a) the greater of the residual value or the net amount received by the lessor on any sale, capital lease or other disposition of the equipment; and</li> <li>b) the proceeds realised from the taking of any measures that will maximize the amount recovered or minimize the loss;</li> </ul> <p>minus the amount paid by the lessor to the secured creditors who have security on the equipment leased ranking a head of the lessor's own security interest or rights.</p> <p><i>* The discount rate used in the calculation of the outstanding balance is the imputed rate of interest used in the calculation of the scheduled payments.</i></p> |
| Payment of interest    | <p>The calculation of the loss includes interest on the outstanding balance at the annual imputed rate of interest for the first 6 months computed from the expiration of the period specified in the notice of default and thereafter interest on the outstanding balance at one half of the imputed rate for the next 6 months.</p>  |
| Audit and examination  | <p>The Minister has the authority to conduct an audit or examination of the lessor's documents, records and books of account to verify that the regulations are being complied with in respect of a capital lease.</p>   |
| Offence and Punishment | <p>Offence and punishment provisions may only be enacted by Statute. As section 16 of the Act deals strictly with fraud in respect of loans and borrowers and is silent on capital leases, for the five-year period of the pilot project, the Criminal Code will be used against any offence of fraud under the pilot project. After that period, section 13 of the CSBFA provides for the determination of future legislative and regulatory measures required to include capital leases permanently in the CSBFA.</p>  |