

# PRIORITIES FOR THE 2016 FEDERAL BUDGET | FEBRUARY 2016

SUBMITTED TO THE HONOURABLE BILL MORNEAU, MINISTER OF FINANCE

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## EXECUTIVE SUMMARY

Momentum welcomes the opportunity to provide input into the 2016 Federal Budget consultations. We were pleased to see several important community economic development (CED) approaches highlighted in both the Liberal Party of Canada's platform and in ministerial mandate letters. Approaches such as bolstering efforts to promote the uptake of RESPs and the Canada Learning Bond, investing in skills training, and developing national strategies for poverty reduction, social innovation, and social finance are commendable and would benefit from an inclusion in the federal budget.

Momentum is a non-profit CED organization based in Calgary that partners with people living on low incomes to help them gain meaningful work, launch small businesses, and manage and save money. Momentum takes a CED approach to poverty reduction, and uses CED tools to help create a strong and diversified local economy. Using the economy and marketplace in innovative ways, CED can improve social conditions, encourage innovation, and enable entrepreneurship. It also assists businesses in developing and residents in growing their assets. A 2016 federal budget that focuses on building a diversified local economy using CED approaches can help to spur economic growth, protect the environment, meet local priorities, and ensure that the most vulnerable are not left behind.

**As the Government of Canada develops its 2016 budget, Momentum asks that the following five recommendations are considered:**

1. Work collaboratively with the provinces and territories to develop a National Poverty Reduction Strategy that addresses root causes of poverty
2. Strengthen the promotion of RESPs and the Canada Learning Bond to ensure greater uptake
3. Take steps to better protect consumers from the high costs of fringe financial services
4. Amend the existing Canada Job Fund Agreements to allow funds to be allocated to skills training programs instead of the required allocation to the Canada Job Grant
5. Support the creation of social finance tools

## LEADING THE DEVELOPMENT OF A NATIONAL POVERTY REDUCTION STRATEGY

4.8 million people in Canada, roughly one in seven, live in poverty.<sup>1</sup> The proportion of impoverished children is even higher: nearly one in five.<sup>2</sup> Individuals living in poverty struggle with poor health outcomes, a low quality of life, and social discrimination and exclusion, while also experiencing reduced opportunity and choice. Poverty also impacts our communities. It is estimated that poverty costs Albertans between \$7.1 and \$9.5 billion dollars every year – approximately 4% of provincial GDP in 2010 – in public services and lost economic opportunity.<sup>3</sup> Nationally, this figure could be as high as \$30.5 billion annually.<sup>4</sup>

With the exception of Alberta and British Columbia, all Canadian provinces and territories have introduced poverty reduction strategies, or are in the process of developing one.<sup>5</sup> The Federal government is well-positioned to bolster these efforts given its particular set of powers and unique leadership position.

### **Recommendation: Work collaboratively with the provinces and territories to develop a National Poverty Reduction Strategy that addresses root causes of poverty**

A comprehensive strategy that addresses poverty directly and in a meaningful way, rather than by focusing on its symptoms, is necessary. This strategy should set measurable targets, contain a detailed implementation plan, and involve regular public reporting to guarantee transparency. In addition, a federal plan for poverty reduction must be developed in collaboration with provinces, territories, and local communities to ensure that it aligns with and supports existing policies and programs, while avoiding duplication. The recent restoration of the long-form census will provide access to reliable and up-to-date information, which will greatly strengthen capacities to make informed decisions and design, implement, and assess poverty reduction efforts at all levels of government.

### **In addition, federal initiative in the following two areas can complement the development of a larger strategy, resulting in more productive outcomes overall:**

#### **Recommendation: Strengthen the promotion of RESPs and Canada Learning Bonds to ensure greater uptake**

Grant-based funding for post-secondary education represents a multi-generational approach to poverty reduction, and should support any federal strategy. Children with an education savings account, such as an RESP, in their name are up to six times more likely to complete high school

<sup>1</sup> Statistics Canada. 2011. *Populations living in Private Households, Low Income Measure (After-Tax), 2011 National Household Survey*. Catalogue number 99-014-X2011043 in Statistics Canada Catalogue. Ottawa, Ont., 2001 (accessed January 29 2016).

Available from: <http://www12.statcan.gc.ca/nhs-enm/2011/dp-pd/dt-td/Rp-eng.cfm?TABID=2&LANG=E&A=R&APATH=3&DETAIL=0&DIM=0&FL=A&FREE=0&GC=01&GL=-1&GID=1153210&GK=1&GRP=1&O=D&PID=106715&PRID=0&PTYPE=105277&S=0&SHOWALL=0&SUB=0&Temporal=2013&THEME=98&VID=0&VNAMEE=&VNAMEF=&D1=0&D2=0&D3=0&D4=0&D5=0&D6=0>

<sup>2</sup> Campaign 2000, *2015 Report Card on Child and Family Poverty in Canada: Let's End Child Poverty for Good*, 2015: 1, <http://www.campaign2000.ca/reportCards/2015RepCards/NationalReportCardEn2015.pdf> (accessed January 29, 2016).

<sup>3</sup> Carol-Anne Hudson, *Poverty Costs 2.5: Investing in Albertans*, (Calgary: Vibrant Communities Calgary and Action to End Poverty in Alberta, 2014), 5.

<sup>4</sup> Nathan Laurie, "The Cost of Poverty: An Analysis of the Economic Cost of Poverty in Ontario," Ontario Association of Food Banks (OAFB), 2008: 19, <http://www.oafb.ca/assets/pdfs/CostofPoverty.pdf> (accessed January 29, 2016).

<sup>5</sup> Canada Without Poverty <http://www.cwp-csp.ca/poverty/poverty-progress-profiles/> (accessed February 5, 2016)

and enroll in post-secondary education.<sup>6</sup> When compared with student loans and bursaries, which are acquired at the entry point to post-secondary, education grants accessed from early childhood generate savings that have more time to grow. Moreover, student loans and bursaries are not linked to increased high school completion, family financial literacy, or post-secondary attainment in the same way as early education savings. It is for this reason that we encourage the Federal Government to work collaboratively with provinces and territories to improve the promotion of RESPs and the Canada Learning Bond (CLB), to make registration simpler, and to increase take up rates.

CLB uptake in particular has suffered from low awareness levels. Even though those parents whose children qualify for the CLB can receive up to \$2000 in federal education money over a child's lifetime with no contribution of their own, nearly 70% of those eligible have not yet received their Bond. Committing to improve the promotion of the Bond is a vital step in ensuring that roughly \$7.5 billion in unclaimed federal education dollars reaches over 1.5 million eligible children. The Education Savings Community Outreach (ESCO) program was sunset by the previous government despite strong outcomes for growing CLB uptake. Reinstating this program would improve low-income access of the CLB.

### **Recommendation: Take steps to better protect consumers from the high costs of fringe financial services**

Fringe financial service providers, such as payday lenders, supply access to small amounts of credit over a short period of time to those who may not qualify for more traditional loans. Data collected by the Canadian Payday Loan Association (CPLA), the industry association representing payday lenders, reveals that payday loan customers are predominantly the working poor, the majority of whom are seeking access to loans to cover everyday expenses.<sup>7</sup> Due to high interest rates (a payday loan can cost up to 600% annual interest) that exceed overwhelmingly the maximum annual rate of 60% outlined in the Criminal Code of Canada, a payday loan can easily send a low-income family into a cycle of debt that is difficult to escape, and which only exacerbates their poverty.

Provinces and municipalities across Canada are already examining ways to address the high cost of fringe financial services like payday lending. The Government of Canada too can play a significant role in protecting consumers – especially those with lower incomes – from predatory lending, including unregulated online lending. The federal government can exercise leadership in this area, and support efforts to implement a National Poverty Reduction Strategy, by:

- Re-examining the exemptions of payday lenders (loans below \$1500) from the maximum allowable interest rate of 60% under the Criminal Code of Canada;
- Supporting the development of alternatives to fringe financial services through funding for organizations, and by backing loans, among other things; and by
- Revisiting the role of banks and the Bank Act to reduce barriers to mainstream banking and provide access to small dollar loans.

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<sup>6</sup> William Elliott III and Sondra G. Beverly, "The role of savings and wealth in reducing 'wilt' between expectations and college attendance," *Journal of Children and Poverty* 17, no. 2 (2011): 165, doi: 10.1080/10796126.2011.538375.

<sup>7</sup> Environics Research Group, "Payday Loan Users Study Alberta," Canadian Payday Loan Association, <http://www.cpla-acps.ca/english/reports/CPLA%202012%20e%20Users%20AB.PDF> (accessed January 29, 2016).

## BUILDING A SKILLED AND INCLUSIVE WORKFORCE

### **Recommendation: Amend the existing Canada Job Fund Agreements to allow funds to be allocated to skills training programs instead of the required allocation to the Canada Job Grant**

Skills training programs can help vulnerable individuals to move beyond social assistance or low-wage employment, while also allowing them to foster stronger, long-term ties to the labour market. According to the International Labour Organization, “skills development is an essential element in improving the employability and potential productivity of the working poor and can be an important tool for reducing poverty and exclusion and enhancing competitiveness and employability.”<sup>8</sup>

The federal government’s commitment to investing an additional \$200 million annually in provincial skills training programs designed to help those who do not qualify for EI or are not currently employed is a welcome first step. This will help individuals who are under-represented in the workforce or who experience multiple barriers to employment receive the support and training they need to secure good jobs.

However, more can be done to ensure that vulnerable individuals receive adequate access to skills training. The Canada Job Grant program has done little to benefit unemployed and vulnerable Albertans. Rather than providing needed support to these populations, the Grant has shifted access to skills training away from vulnerable populations, including unemployed and underemployed new immigrants and Aboriginal persons. Since the Canada-Alberta Job Grant implements an employer-driven skills training model, it largely benefits those Albertans with better access to the workforce. This is because employers tend to look within their own ranks and to workers who are more closely tied to the labour market when accessing the Grant. This is reflected in the fact that, to date, 98% of the Canada-Alberta Job Grant funds have been used to support individuals already working.

Prior to the introduction of the Canada Job Grant, investments through the Labour Market Agreements (LMAs) accounted for a significant portion of provincial employment and training budgets each year. With the Canada Job Grant now being financed from the funds previously allocated through the LMA, programs geared toward vulnerable individuals are experiencing cuts. Fortunately, the Canada Job Fund Agreements can be revisited and improved to ensure that training for vulnerable populations is once again prioritized as was the case under the previous Labour Market Agreements.

## ENCOURAGING SOCIAL INNOVATION AND SOCIAL FINANCE

### **Recommendation: Support the creation of social finance tools**

The Government of Canada can support the creation and implementation of social finance tools to launch, scale, and support small business development, especially that which contributes positively to social and environmental wellbeing. Examples of such tools include: local investment funds such as co-operative investment funds (or opportunity development co-ops), community economic development investment funds (CEDIFs), and crowdfunding.

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<sup>8</sup> “Skills training for poverty reduction,” *International Labour Organization*, accessed January 29, 2016, <http://www.ilo.org/skills/areas/skills-training-for-poverty-reduction/lang--en/index.htm>.



Momentum has a 20 year history of lending to people living on low incomes in Calgary. Over those years Momentum has operated four different loan funds and has issued over \$6 million to 2,600 loan recipients. The repayment rate on Momentum's small business loans is 90%. The Alberta-based Immigrant Access Fund has made over 1,400 loans in Alberta worth over \$8.5 million, with a 97% repayment rate.

Opportunities exist to scale microlending and other social finance tools in Canada through funding and support from the federal government. Momentum welcomes the opportunity to contribute to the national Social Innovation and Social Finance strategy.

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