



# More Bang for the Buck.

The Impact of CFDC Lending on Ontario's Economy

## At a Glance

- The objective of this briefing is to assess the economic impact on Ontario of the lending services provided through the Community Futures Program—a federal program designed to stimulate economic development in rural communities.
- From 2009–14, Ontario's 61 Community Futures Development Corporations provided a cumulative \$398 million in loans to small businesses in the province.
- The impact of lending on overall capital investment is significantly increased through additional funds raised from owners' equity and third-party lenders.
- Findings suggest that lending by the Community Futures Development Corporations has significant bang for the buck—each dollar in inflation-adjusted lending results in as much as \$4.50 added to real GDP.
- The Community Futures Program lending service helped offset the effects of the recession, boosting employment by roughly 3,300 in 2010 and 2011.
- The program continues to support economic activity and employment throughout Ontario's rural communities.

## Executive Summary

**The fallout from the 2008–09 recession and financial crisis has brought to light just how important access to credit is to the health of the global economy. This briefing provides evidence of this fact in a localized setting—by looking at the economic impact that the Community Futures Program lending service has had on Ontario's economy over the past six years. We find that the program, which is meant to ease credit conditions for small and medium-sized businesses in rural communities, has significant economic clout.**

The Community Futures Program provides funding to Ontario's 61 Community Futures Development Corporations that, in turn, support small business projects in Ontario's rural communities. The corporations offer loans and advisory services in order to encourage investment and bolster economic activity and employment. It is important to note that lending by the Community Futures Development Corporations is augmented by investments from owners' equity and third-party lenders. On average, for every \$1 loaned by the corporations, another \$1.88 was raised through leveraged funds. Over the past six years, an average of about 1,100 businesses per year received loans averaging just shy of \$60,000 each.

The economic impact analysis relies on the Conference Board's econometric model of the Ontario economy. Using the model, we add capital investment spending by annual amounts equivalent to the sum of the direct and leveraged funds raised by the Community Futures Program lending service. The results tell us what effects the additional spending has on the economy. The analysis evaluates the combined

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Overall, the lending program created just over 22,600 person-years of employment from 2009–14.

direct, indirect, and induced economic impacts on a wide range of economic indicators—including GDP, employment, income, and government revenues.

Under our assumptions, a total of \$1.06 billion in real capital investment spending occurred due to the Community Futures Program lending service over the six years, from 2009–14. We have also assumed that the addition to capital investment would not have occurred if the Community Futures Program lending service was not available. As such, the economic impact results should be considered as an upper boundary to the impact that the program has on Ontario's economy.

We estimate that this new investment added a cumulative \$1.69 billion to real GDP. As such, for each \$1 of real capital investment leveraged under the Community Futures Program lending service, real GDP is lifted by \$1.60. Moreover, if we consider that direct lending through the program accounts for a small portion of the total capital investment leveraged, then for each \$1 of direct lending by the Community Futures Development Corporations, real GDP is lifted by \$4.50.

The effect of the lending program on economic activity peaked in 2010 and 2011 as the federal government implemented a Community Futures Program stimulus plan in light of the global financial market crisis. In response to the challenges faced by Ontario businesses, a key component of the plan was to temporarily increase the Community Futures Development Corporations' lending limit to \$250,000 from the normal limit of \$150,000. Over 2010 and 2011, employment was boosted by roughly 3,300 annually; overall, the lending program created just over 22,600 person-years of employment from 2009–14, with most jobs accruing in service sector industries.

The lift to economic activity results in a boost to labour income, consumer spending, and corporate profits, which are important sources of revenues for both the federal and provincial levels of government.

## Section 1: Introduction

In the late 1970s, the federal government began implementing programs to help stimulate economic development in small communities. Over the years, these programs have evolved and, in 1985, the Community Futures Program was established. The Community Futures Program provides funding to help create and empower local corporations—Community Futures Development Corporations (CFDCs)—to support rural economic development through four key activities: working with local partners to advance strategic community planning and socio-economic development; supporting community-based projects and special initiatives; providing business services to small and medium-sized enterprises (SMEs), and providing access to capital for SMEs.<sup>1</sup>

The CFDCs offer loans and advisory services in order to encourage investment and optimize business opportunities in rural communities throughout Canada. The corporations provide repayable loans to new and existing small businesses; they are also responsible for the sound management of their funds to ensure growth and sustainability of their activities. In Ontario in 2013–14, there were 61 CFDCs serving roughly 3.5 million people in large and small communities throughout the province. In that same year, nearly \$64 million in loans were made to over 1,000 businesses.<sup>2</sup>

The objective of this analysis is to assess the potential economic impact on Ontario of the Community Futures Program lending service. The Conference Board utilized its detailed econometric model of Ontario's economy in order to quantify the impact of the lending program, over the 2009–14 period, on a wide range of economic indicators. The indicators included overall GDP and employment, as well as components of federal

- 1 The Community Futures Network of Canada. *CFNC–CBDC Report*, 2–5. In Ontario, the program is delivered by Industry Canada's Federal Economic Development Initiative for Northern Ontario (FedNor), which provides funding to 24 Northern Community Futures Development Corporations (CFDCs), and the Federal Economic Development Agency for Southern Ontario (FedDev Ontario), which provides funding to the 37 Southern Ontario CFDCs.
- 2 *Ibid.*, 19.

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The impact of lending on overall capital investment is augmented by the amount of money invested from owners' equity and third-party lenders

and provincial government revenues. This briefing describes the main research findings. In Section 2, some of the facts and figures about Ontario's Community Futures Program lending service are presented. Section 3 discusses the assumptions and methodology employed in carrying out the economic impact analysis, while Section 4 presents the findings. Section 5 provides the conclusion.

## Section 2: Ontario's Community Futures Program

The Ontario Association of Community Futures Development Corporations (OACFDC) provided the Conference Board with historical data on the value of loans disbursed by the CFDCs along with other indicators.<sup>3</sup> (See Table 1.)

It is important to note that the impact of lending on overall capital investment is augmented by the amount of money invested from owners' equity and third-party lenders—information that was also available from OACFDC statistics. Over the past six (fiscal) years, from April 2009 to March 2015, the program disbursed \$396 million in loans and raised a total of \$1.142 billion in new capital investment funds—with just over \$746 million in spending due to investments from owners' equity and funds borrowed from third-party lenders. On average, for every \$1 of lending through the Community Futures Program, another \$1.88 was raised through leveraged funds. In total, about 1,100 businesses per year received loans averaging \$59,860 per business assisted. In addition, the cost to government of the program is presented in Table 1—federal grants and contributions declined by about 6 per cent in 2012–13 to \$19.7 million annually.

Chart 1 displays the annual value of direct loans disbursed by the CFDCs, as well as the value of leveraged funds, from April 2009 to March 2015. The value of direct loans increased substantially in 2009

3 The historical data originated from the Federal Economic Agency for Southern Ontario (FedDev Ontario) and Industry Canada's (FedNor) CFDC results data.

**Table 1**  
**Community Futures Lending Program—Summary Data**  
(Ontario—all regions)

|  | Total over period | 2009Q2–10Q1 | 2010Q2–11Q1 | 2011Q2–12Q1 | 2012Q2–13Q1 | 2013Q2–14Q1 | 2014Q2–15Q1 |
|--|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Value of loans</b>                          |                   |             |             |             |             |             |             |
| Value of disbursements (\$ millions)           | 396.0             | 78.0        | 68.6        | 49.7        | 61.9        | 63.9        | 73.8        |
| Number of businesses assisted                  | 6,615             | 1,333       | 1,075       | 948         | 1,105       | 1,078       | 1,076       |
| Leveraged funds (\$ millions)                  | 746.2             | 137.8       | 157.3       | 104.1       | 120.6       | 102.4       | 123.9       |
| Ratio  | 1.88              | 1.77        | 2.29        | 2.09        | 1.95        | 1.60        | 1.68        |
| Total funds raised (\$ millions)               | 1,142             | 216         | 226         | 154         | 183         | 166         | 198         |
| Average per loan (\$)                          | 59,860            | 58,523      | 63,841      | 52,470      | 56,026      | 59,283      | 68,563      |
| Federal grants and contributions (\$ millions) | 121.7             | 20.9        | 20.9        | 20.9        | 19.7        | 19.7        | 19.7        |

Sources: Ontario Association of Community Futures Development Corporations; FedDev Ontario; Industry Canada (FedNor).

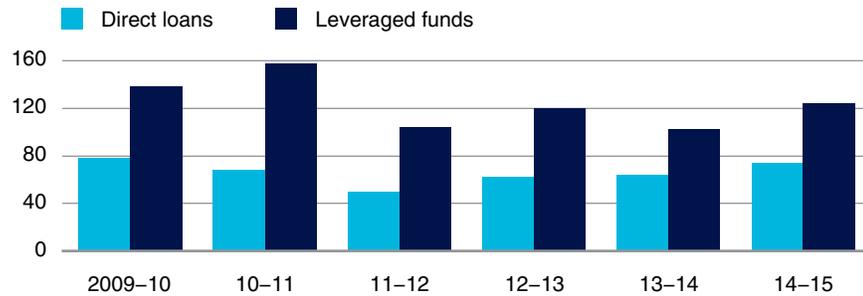
and 2010 as the federal government increased the funding and loan cap available to Ontario's CFDCs. This was a temporary measure as part of the federal government's push to offset the effects of the recession and tighten credit conditions. On August 31, 2009, caps on individual loans were increased from \$150,000 to \$250,000 in an effort to increase access to credit during difficult economic times. The funding cap was subsequently lowered back to \$150,000 after March 31, 2010. But, more recently, since the end of November 2012, CFDCs have the flexibility, on an exceptional basis, to offer larger loans of up to \$250,000.<sup>4</sup>

4 Federal Economic Development Agency for Southern Ontario (FedDev Ontario), *Community Futures Program Transformation Briefing*. Industry Canada (FedNor's) memorandum to CFDCs detailing the parameters for CFDC financial assistance that exceeds the normal lending limit of \$150,000. May 2013.

Chart 1

**Direct Loans and Leveraged Funds**

(\$ millions; fiscal years, ending March 2015)



Source: Ontario Association of Community Futures Development Corporations.

The economic impact analysis that follows is produced on a calendar-year basis. To this end, historical data provided by OACFDC were adjusted to a calendar-year basis. In addition, the capital investment profile that OACFDC provided was converted from current dollars to constant 2007 dollars. The conversion to 2007 dollars is required since this is the current base year for Statistics Canada’s National Income Accounts—and the base year of the Conference Board’s econometric models. The current dollar capital investment values were split into two components—buildings and structures and machinery and equipment—based on the average historical split of investment for these categories at an aggregate level.<sup>5</sup> More precisely, roughly 65 per cent of the funds raised were assumed to be used to purchase machinery and equipment, while the remaining 35 per cent went to non-residential construction. Appropriate price deflators were then used to convert the capital investment estimates into 2007 dollars.

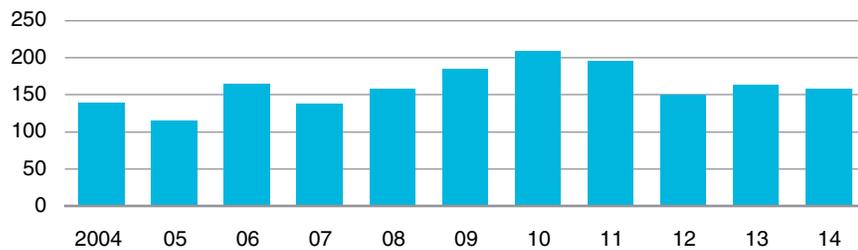
The assumption about the relative share of machinery and equipment investment versus investment in buildings and structures can have important repercussions on the economic impact results. This is because

5 OACFDC provided estimates of the share of lending by industrial sectors. The weighted average of aggregate capital investment splits for these sectors, based on historical data from Statistics Canada, was used to create the 65–35 per cent split.

a large portion of machinery and equipment investment is imported, whereas investment spending on buildings and structures is generally locally sourced and labour-intensive. The economic impact results are muted because of the assumption that businesses will continue to purchase a relatively large share of machinery and equipment in their capital investment mix.

Chart 2 displays total inflation-adjusted investment spending since 2004, including direct loans from CFDCs and funds leveraged through own-source equity or third-party loans. To help stimulate economic activity during the worst of the recession, Ontario's CFDCs increased the value of their disbursements substantially in 2009 and 2010. This helped lift real investment spending associated with the Community Futures Program lending service by a cumulative 32.8 per cent from 2008–10. The reduction in the lending cap after March 2010 resulted in a reduction in direct lending in 2011 and 2012—but direct lending has since increased, helping to keep total real investment associated with the CFDCs relatively stable over the past three years.

**Chart 2**  
**Spending Linked to CFDC Loans and Leveraged Funds**  
(2007 \$ millions)



Sources: Ontario Association of Community Futures Development Corporations; The Conference Board of Canada.

The lending program is assumed to have generated capital investment activity that would not have occurred without the program. This is a key assumption of the economic impact analysis, which considers the

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The economic impact analysis is based on simulating the Conference Board's econometric model of the Ontario economy.

total of direct lending and leveraged funds as new investment activity. The economic impact analysis is based on simulating the Conference Board's econometric model of the Ontario economy by lifting capital investment spending by annual amounts equivalent to the sum of direct and leveraged funds raised by the Community Futures Program lending service.

### Section 3: Key Assumptions and Methodology

The primary objective of this briefing is to quantify the impact of the Community Futures Program on Ontario's key economic indicators, such as GDP, employment, income, and government revenues. As discussed earlier, a critical assumption is that the lending program will leverage funds toward new capital investment that would otherwise not occur. The value of this investment has been split into buildings and structures and machinery and equipment purchases, and it is based on average historical shares of business investment. Moreover, the investment stream has been converted to constant (inflation-adjusted) dollars to better capture the impact on real economic indicators.

The Conference Board's econometric model of the Ontario economy was used to quantify the impact of the real capital investment stream estimated for the 2009–14 period. The analysis evaluates the combined direct, indirect, and induced economic impacts, where:

**Direct impact** measures the value-added<sup>6</sup> to the economy from the increased capital spending on those firms that would either build structures or manufacture equipment. Because demand for machinery and equipment has a high import content, the direct effect on the Ontario economy is muted. Nonetheless, the increased demand will generate domestic activity in the

6 Value-added, or net output, is the difference between total revenue and the sum of expenses on parts, materials, and services used in the production process. Summing the value-added across all industries in a region will yield the GDP for that region.

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The establishment of a small business will lift demand for utilities, transportation, financial, and insurance services.

transportation sector. Direct impact will also be generated when the new capital investment is put into use, generating jobs from new operations.

**Indirect impact** measures the value-added that the “direct impact firms” generate economically through their demand for intermediate inputs or other support services. For example, the establishment of a small business will lift demand for utilities, transportation, financial, and insurance services.

**Induced impacts** are derived when employees of the aforementioned industries spend their earnings and owners spend their profits. These purchases lead to more employment, wages, income, and tax revenues, and can be felt across a wide range of industries.

Thus, increased production from specific industries will not only have direct impacts on the economy but will also spread through the economy via a series of multiplier effects. Indirect effects—in the form of increased demand—are first felt by industries that are direct suppliers. Second-round induced effects produce a widespread impact (albeit usually smaller) on all sectors of the economy, largely through a general increase in consumer spending. The overall economic multiplier is calculated as the sum of all value-added impacts (direct, indirect, and induced) divided by the initial constant dollar spending generated by the Community Futures Program lending service. (See “Breaking Down Employment Impacts: A Fictional Example.”)

It is important to note that the initial constant dollar value of the capital investment does not necessarily result in a one-to-one increase in real GDP. This is because the lion's share of investment is assumed to go toward the purchase of machinery and equipment, much of which is imported. Moreover, even as demand for machinery and equipment produced in Ontario is lifted, the lift in demand for manufactured goods will require intermediate inputs purchased from suppliers that may be

outside the provincial boundaries. This dependence of the supply chain on imported components will determine the level of leakages and the extent to which the overall economic multiplier is reduced.

The Conference Board's provincial forecasting model captures the sum of the direct, indirect, and induced impacts on Ontario's economy, based on its estimated historical relationships. The model incorporates a detailed modelling of prices, households, and businesses, and provides economic impact results for a wide range of economic indicators.

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## Breaking Down Employment Impacts: A Fictional Example

A small hotel operator is having a difficult time making ends meet. She currently has 30 employees. However, the hotel is older and in need of renovations. If the hotel goes under, the 30 jobs will be lost. The operator obtains a loan from a Community Futures Development Corporation, which she was unable to obtain from other financial institutions. The loan value is \$50,000, but she leverages another \$100,000 from her own funds and from a third party. The hotel operator is able to invest \$150,000 to renovate. During the renovations, six construction jobs are created, and the work takes six months. Once renovations are complete, business picks up, the hotel is more profitable, and she hires an extra five employees to meet the growth in demand.

### What the Economic Impact Analysis Can Capture From This Fictional Example

The \$150,000 of new investment lifts construction output and creates the equivalent of three person-years of **direct** employment in the construction industry (six full-time jobs for a half-year). Output from hotel operations is also lifted (once renovations are complete) and another five new **direct** jobs are created. The increase in construction and hotel services output creates **indirect** demand for other suppliers. This has a multiplier effect on the economy, which creates a few more jobs. Finally, increased wages from the new jobs are spent, and increased profits may be reinvested. These are the source of **induced** effects, which will spread through the economy, lift household spending and investment, and affect employment across a broad range of industries.

Economic impact analyses are based on capturing these direct, indirect, and induced effects. The jobs-created estimate that results from an economic impact analysis is very different by definition from the data that the OACFDC collects on the employment impact of its members' lending programs. The OACFDC collects two measures of employment impact. The first is "jobs created," which, in our example, quantifies the increase in employment attributable to the boost in hotel operations (the five direct jobs) following renovations. The second measure is "jobs maintained," which captures the potential loss of 30 jobs if the hotel were to close down following bankruptcy. The OACFDC measures do not quantify the construction jobs created, nor do they capture jobs created from indirect and induced effects. However, they do capture the potential job losses if the business were to fail, a measure that is not encompassed in the economic impact analysis.

This example is simply for illustrative purposes. The Conference Board's provincial econometric model is much more aggregated and can only capture the broad economic impact that the overall Community Futures Program lending service may have on Ontario's economy.

Source: The Conference Board of Canada.

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Some key points and assumptions about the methodology are worth mentioning. As discussed in Section 2, the shock incorporates a capital investment profile that is equivalent to the total of direct lending and funds leveraged by the Community Futures Program lending service. The data were converted to constant dollars by the Conference Board. Constant dollar investment spending totals \$1.06 billion, with spending allotted over the 2009–14 period on a calendar-year basis. This compares with a current dollar estimate of \$1.13 billion in funds leveraged by the program over the same period.

The Conference Board's regional forecasting model contains only a partial accounting of government revenues (including direct and indirect tax revenues). In addition, government accounts in the Conference Board's national and regional models are based on national accounts

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This investment resulted in a boost to Ontario's real GDP of \$250 million in 2009.

data and not on the public accounts. In principle, one can assume that the impact of the simulation on a national account and public account basis would be similar.

Finally, although the simulation has only small effects on costs and prices, these variables do move in response to the lift in economic activity and have a modest dampening effect on the economic impact results. Price effects are too small to have a measurable impact on monetary policy or the value of the currency.

## Section 4: Findings

Table 2 summarizes the findings of the economic impact analysis on a number of key economic indicators for Ontario. As mentioned earlier, total investment generated in each year is the sum of direct lending made through the CFDCs and the amount of money leveraged from owners' equity and third-party lenders.

Under our assumptions, a total of \$1.06 billion in real capital investment spending occurred due to the Community Futures Program lending service over the six years from 2009–14. According to the provincial model simulations, this investment resulted in a boost to Ontario's real GDP of \$250 million in 2009. An increase in direct lending and leveraged funds helped boost capital investment and GDP in 2010 and 2011. Thereafter, the impact on real GDP eased slightly but remained above 2009 levels. Overall, the Community Futures Program lending service resulted in an estimated cumulative increase in real GDP of \$1.69 billion over the period examined. As such, combining direct, indirect, and induced effects, the overall economic multiplier is 1.6. This simply means that for each \$1 of real capital investment leveraged under the Community Futures Program lending service, real GDP is lifted by \$1.60. Moreover, if we consider that direct lending by CFDCs accounts for only

Table 2

**Community Futures Lending Activity—Economic Impact on Ontario**

(key economic indicators, Ontario; level difference except where otherwise indicated)

|   | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | Total over period |
|---|-------|-------|-------|-------|-------|-------|-------------------|
| Total investment generated (current \$ millions)                  | 191   | 218   | 208   | 161   | 178   | 174   | 1,131             |
| Total investment generated (constant 2007 \$ millions)            | 185   | 208   | 196   | 149   | 163   | 157   | 1,059             |
| Real GDP at market prices (constant 2007 \$ millions)             | 250   | 312   | 322   | 264   | 274   | 271   | 1,692             |
| GDP at market prices (current \$ millions)                        | 205   | 270   | 315   | 300   | 303   | 291   | 1,685             |
| Consumer price index (percentage difference)                      | 0.00  | 0.01  | 0.02  | 0.02  | 0.03  | 0.03  |                   |
| Average weekly wages industrial composite (percentage difference) | 0.00  | 0.01  | 0.02  | 0.02  | 0.02  | 0.02  |                   |
| Personal income (current \$ millions)                             | 153   | 219   | 254   | 241   | 264   | 265   | 1,395             |
| Personal disposable income (current \$ millions)                  | 116   | 165   | 191   | 181   | 199   | 200   | 1,053             |
| Population of labour force age                                    | 35    | 103   | 180   | 245   | 307   | 370   | 1,240             |
| Labour force  | 2,192 | 2,689 | 2,701 | 2,163 | 2,193 | 2,110 | 14,048            |
| Employment  | 3,492 | 4,286 | 4,339 | 3,493 | 3,560 | 3,442 | 22,612            |
| Unemployment rate (level difference in rate)                      | -0.02 | -0.02 | -0.02 | -0.02 | -0.02 | -0.02 |                   |
| Retail sales (current \$ millions)                                | 40    | 87    | 138   | 175   | 204   | 231   | 875               |
| Housing starts  | 15    | 45    | 79    | 105   | 129   | 157   | 531               |
| Total indirect taxes (current \$ millions)                        | 18    | 16    | 21    | 17    | 17    | 23    | 113               |
| Federal personal income tax collections (current \$ millions)     | 17    | 24    | 28    | 26    | 29    | 29    | 154               |
| Provincial personal income tax collections (current \$ millions)  | 9     | 13    | 15    | 14    | 15    | 15    | 81                |
| Corporate profits (current \$ millions)                           | 52    | 51    | 62    | 60    | 39    | 26    | 289               |

Source: The Conference Board of Canada.

35 per cent of the total capital investment leveraged, then the multiplier is lifted to 4.5. That is, for each \$1 of direct lending through the CFDCs, real GDP is lifted by \$4.50.<sup>7</sup>

7 Adjusting for inflation suggests that real capital investment associated with direct loans is valued at \$62.1 million per year, while leveraged funds account for the remaining \$114.3 million. Simulations results suggest that this lift to real investment activity will boost real GDP by about \$282 million per year over the 2009–14 period. Thus, for each \$1 of direct lending (inflation adjusted) about \$4.54 is added to real GDP (\$282 divided by \$62.1). The ratio of total capital investment to real GDP is 1.60 (\$282 divided by the sum of \$62.1 and \$114.3).

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The program provides significant economic bang for the buck.

Considering that these are repayable loans, the size of the multiplier suggests that the program provides significant economic bang for the buck. This is due, in part, to the fact that the program is very successful in leveraging other funding. By way of comparison, Finance Canada estimates that direct government spending on infrastructure has a multiplier of about 1.5 after one year.<sup>8</sup>

As mentioned earlier, the size of the impact does rely on the assumption that the capital investment of \$1.06 billion would not have occurred if the Community Futures Program lending service was not available. As such, the economic multipliers should be considered as the maximum impact that the program could have on Ontario's economy.

As per Table 2, nominal (or current dollar) GDP is lifted in line with the change in real GDP. This is because the simulation has only a modest impact on prices. Employment is also up, with the number of jobs created peaking at over 4,300 in 2011 and a total of 22,612 person-years of employment created by the program.<sup>9</sup> (See Chart 3.)

The increase in economic activity and job creation does have a modest impact on province-wide prices and wages. But these rose by only 0.03 per cent and 0.02 per cent, respectively, at their peak in 2013–14. The increased demand for labour also raised interprovincial in-migration and the population of labour force age, but only by a fraction of the new jobs created. (See "Capturing Labour Market Impacts.") Moreover, more people chose to enter the labour force, providing a boost to the labour force participation rate. This helps to mitigate the impact on overall unemployment, which is down by an average of just over 1,400 annually (as displayed in Table 4).

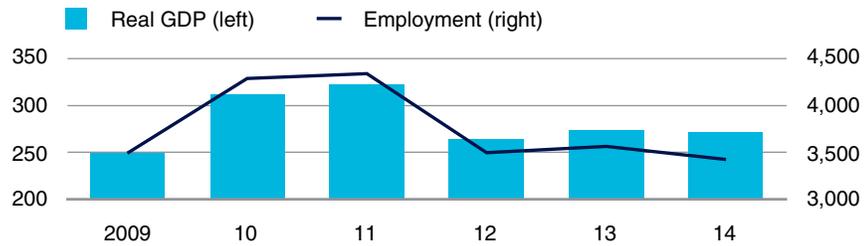
8 Government of Canada, *Budget 2009*, Annex 1, 240.

9 A person-year of employment is one person employed for one year. The Conference Board's econometric model reflects a mix of full-time and part-time employment with an average work week of roughly 34 hours.

Chart 3

**Economic Impact of the Community Futures Program**

(GDP in 2007 \$ millions; employment, number of jobs)



Source: The Conference Board of Canada.

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## Capturing Labour Market Impacts

The Conference Board's economic model of the Ontario economy incorporates a detailed modelling of labour markets. When demand for labour increases, as is the result of this simulation, the increase in employment is not reflected, one-for-one, as a decrease in the number of those unemployed. In fact, a number of other effects that mitigate the impact on the unemployed are captured by the model. For example, regionally, labour is mobile and as employment is lifted in Ontario, net-interprovincial migration also increases. Moreover, as job prospects improve, more people naturally enter the workforce. The increase in participation rates can occur among all age groups but is typical of younger cohorts who tend to opt to work, rather than remain in school, should employment prospects become more favourable. The simulation's results suggest that employment was boosted by an average of 3,769 per year (from 2009–14), while the number of unemployed declined by only 1,427 per year. As discussed, the difference is because more people come looking for work. The labour force is lifted by an average of 2,341 annually, with most of this increase due to people deciding to enter (or re-enter) the workforce. Only a small portion (about 207 people) is due to an inflow of interprovincial migrants. Because of the change to the labour force, the impact on the unemployment rate is also mitigated. Overall, the unemployment rate is lowered by about 0.02 percentage points over the 2009–14 period. Still, given the modest sums associated with CFDC loans, this is a sizeable impact at the provincial level.

Source: The Conference Board of Canada.

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The federal government's books would stand to improve by a cumulative \$307 million over the 2009–14 period.

Higher labour income and corporate profits will also result in a boost to both federal and provincial government revenues. In current dollar terms, the CFDCs' cumulative lending of \$398 million over the 2009–14 period allows the federal and provincial governments to generate a cumulative \$281 million from personal income taxes and indirect taxes. Corporate income taxes are not included in the Conference Board's provincial model, but would result in additional revenues for both levels of government. Additionally, the federal government benefits from reduced employment insurance payments and an increase in employment insurance revenues. This is due to the lift to employment and subsequent reduction in unemployment. Overall, the employment insurance balance improves by a cumulative total of \$93 million.

Excluding the potential boost to corporate income tax revenues, the federal government's books would stand to improve by a cumulative \$307 million over the 2009–14 period. This compares favourably with the \$122 million in federal contributions to support the Community Futures Program over the same time period.

Table 3 details the real GDP impact on an expenditure basis. The direct impact of the lift to capital investment is first captured under business spending in buildings and structures (non-residential construction) as well as under machinery and equipment investment. However, the economic impact data presented in Table 3 incorporate the indirect and induced economic impacts resulting from the simulation. The strong import content associated with purchases of machinery and equipment has the effect of lifting imports—a leakage that reduces the overall impact on GDP and erodes the trade balance as per the decline in net exports. However, as the productive capacity of the economy is increased over time, exports are lifted steadily over the 2009–14 period. Moreover, increased job creation and incomes help bolster consumer spending, which also grows over the period we examined.

**Table 3**

**Community Futures Lending Activity—Economic Impact in Ontario**

(real GDP expenditure-based, Ontario; level difference in 2007 \$ millions)

|   | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total over period |
|---|------|------|------|------|------|------|-------------------|
| Consumer expenditures                     | 106  | 151  | 179  | 161  | 147  | 124  | 868               |
| Government spending on goods and services | 0    | 0    | 0    | 0    | 0    | 0    | 1                 |
| Gross fixed capital formation             | 184  | 240  | 258  | 231  | 246  | 243  | 1,402             |
| Government                                | 0    | 0    | 0    | 0    | 0    | 0    | 0                 |
| Business                                  | 187  | 243  | 262  | 234  | 249  | 246  | 1,421             |
| Residential construction                  | 1    | 2    | 6    | 10   | 13   | 16   | 46                |
| Non-residential construction              | 69   | 79   | 76   | 60   | 64   | 60   | 407               |
| Machinery and equipment                   | 127  | 175  | 194  | 175  | 183  | 180  | 1,035             |
| Final domestic demand                     | 285  | 385  | 430  | 386  | 387  | 362  | 2,236             |
| Exports                                   | 36   | 80   | 95   | 85   | 86   | 106  | 488               |
| Imports                                   | 87   | 175  | 231  | 232  | 224  | 217  | 1,167             |
| Net exports                               | -51  | -95  | -136 | -147 | -138 | -112 | -679              |
| Gross domestic product at market prices   | 250  | 312  | 322  | 264  | 274  | 271  | 1,692             |

Source: The Conference Board of Canada.

Table 4 presents the real GDP and employment impact results on an industry basis. The Conference Board's Ontario model incorporates estimates (2011) from Statistics Canada about the industrial structure of Ontario's economy. While the manufacturing and construction sectors are significantly affected, the lion's share of output and employment gains accrues to service sectors. On a cumulative basis, roughly two-thirds of job gains are in the services industries.

## Section 5: Conclusion

The fallout from the 2008–09 recession and financial crisis has brought to light just how important access to credit is to the health of the global economy. This briefing provides evidence of this fact in a localized setting—by looking at the economic impact that the Community Futures

Table 4

**Community Futures Lending Activity—Economic Impact in Ontario**

(real GDP by industry-level difference in 2007 \$ millions; employment-level difference)

|   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | Total over period |
|---|--------|--------|--------|--------|--------|--------|-------------------|
| Real GDP at basic prices (2007 \$ millions) | 256    | 318    | 326    | 263    | 274    | 272    | 1,710             |
| Agriculture                                 | 16     | 18     | 17     | 13     | 14     | 14     | 94                |
| Fishing and trapping                        | 0      | 0      | 0      | 0      | 0      | 0      | 0                 |
| Forestry                                    | 4      | 5      | 4      | 3      | 4      | 4      | 24                |
| Mining                                      | 8      | 7      | 5      | 2      | 4      | 5      | 31                |
| Manufacturing                               | 58     | 69     | 67     | 53     | 61     | 71     | 379               |
| Construction                                | 18     | 22     | 23     | 21     | 22     | 22     | 128               |
| Utilities                                   | 5      | 6      | 6      | 5      | 5      | 5      | 31                |
| Transportation, storage, and communication  | 16     | 20     | 20     | 16     | 16     | 16     | 104               |
| Wholesale and retail trade                  | 57     | 69     | 71     | 60     | 65     | 66     | 388               |
| Finance, insurance, and real estate         | 40     | 56     | 62     | 50     | 44     | 34     | 285               |
| Community, business, and personal services  | 35     | 47     | 50     | 41     | 39     | 35     | 246               |
| Public administration and defence           | 0      | 0      | 0      | 0      | 0      | 0      | 0                 |
| Total employment                            | 3,491  | 4,286  | 4,339  | 3,493  | 3,560  | 3,442  | 22,612            |
| Primary sector                              | 447    | 461    | 396    | 272    | 308    | 304    | 2,189             |
| Manufacturing                               | 616    | 717    | 686    | 533    | 596    | 667    | 3,814             |
| Construction                                | 295    | 357    | 373    | 336    | 361    | 356    | 2,078             |
| Services                                    | 2,134  | 2,751  | 2,884  | 2,352  | 2,295  | 2,116  | 14,532            |
| Public administration and defence           | 0      | 0      | 0      | 0      | 0      | 0      | 0                 |
| Unemployment                                | -1,299 | -1,597 | -1,638 | -1,330 | -1,367 | -1,331 | -8,563            |

Source: The Conference Board of Canada.

Program lending service has had on Ontario's economy over the past six years. We find that the program, which is meant to ease credit conditions for small and medium-sized businesses in rural communities, has significant economic clout. The economic impact is bolstered by the fact that the program is very successful in leveraging additional funding from owners' equity and third parties. Simulation results from our economic

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For each (inflation-adjusted) dollar of direct lending by Ontario's Community Futures Development Corporations, real GDP is lifted by up to \$4.50.

model of Ontario suggest that for each (inflation-adjusted) dollar of direct lending by Ontario's Community Futures Development Corporations, real GDP is lifted by up to \$4.50.

Over the 2009–14 period, the program disbursed \$398 million in direct loans, but leveraged additional funds for a total of \$1.13 billion in what we assume to be new capital investment funds. We estimate that this new investment added roughly \$1.69 billion to real GDP and created just over 22,600 person-years of employment—or an average of 3,370 jobs annually. The effect of the lending program on economic activity peaked in 2010 and 2011 as the federal government implemented a Community Futures Program stimulus plan in light of the global financial market crisis. In response to the challenges faced by Ontario businesses, a key component of the plan was to temporarily increase the Community Futures Development Corporations' lending limit to \$250,000 from the normal limit of \$150,000. Annual job creation peaked in 2010 and 2011 with roughly 3,300 jobs created by the program over those two years. From 2012–14, the Community Futures Program lending service continued to support roughly 2,500 jobs in Ontario's communities.

The lift to economic activity results in a boost to labour income, consumer spending, and corporate profits, which are important sources of revenues for both the federal and provincial levels of government. Over the six-year period examined, federal and provincial governments benefited from a cumulative \$281-million lift to personal income taxes and indirect taxes. Corporate income taxes are not modelled in the Conference Board's provincial econometric model, but would result in additional revenues for both levels of government.

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This report is an update to the Conference Board's June 2010 research report entitled *Assessing the Impact of the Community Futures Lending Program: An Economic Impact Analysis of the Community Futures Lending Program on Ontario's Economy*.

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## APPENDIX A

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