

Assessing the Impact of PELA CFDC

An Economic Impact Analysis of PELA CFDC
on Local Business and the Provincial Economy



**PRINCE EDWARD/LENNOX & ADDINGTON
COMMUNITY FUTURES DEVELOPMENT CORPORATION**

“Building Communities One Small Business at a Time”

www.pelacfdc.ca

2009

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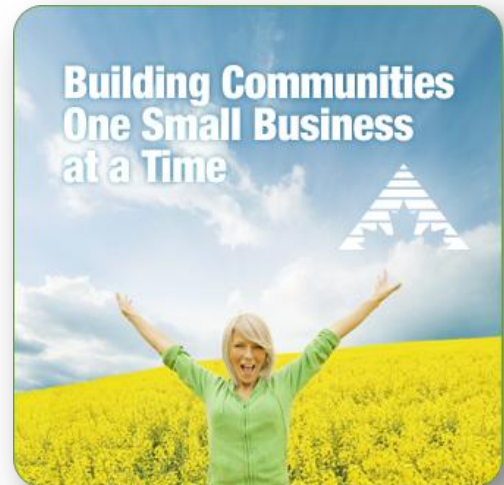
An Economic Impact Analysis of PELA CFDC on Local Business and the Provincial Economy

Preface

This assessment was undertaken by the Prince Edward/Lennox and Addington Community Futures Development Corporation (PELA CFDC) and utilizes the Conference Board of Canada's (CBoC's) independent and well-tested macroeconomic forecasting model of the Ontario Economy. The research was conducted by Matt Murphy, Economic Development, Policy, and Research Intern, under the guidance of Craig Desjardins, Executive Director. Thanks are due to PELA CFDC staff for their valuable contributions to the data gathering process, and to the PELA CFDC board of directors for their valuable input and comments. Thanks are also due to the Ontario Association of Community Futures Development Corporations and the CBoC for making this assessment possible on a provincial scale.

About PELA CFDC

PELA CFDC is a community-based, Government of Canada funded, non-profit corporation with the objective of encouraging local entrepreneurship and economic development. PELA CFDC works closely with Prince Edward and Lennox & Addington Counties to strengthen the economy and assist in business and social development by providing information, counselling and financing. PELA CFDC also works with communities to assess local challenges and looks to develop innovative solutions and opportunities that could strengthen job growth and prosperity in our local economy.



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Executive Summary

The objective of this study is to quantify the economic impact of the Prince Edward/Lennox and Addington Community Futures Development Corporation (PELA CFDC) on local business and the provincial economy. Accordingly, the assessment is presented in two parts.

Part one describes PELA CFDC's impact on the local business economy over the three year period beginning April 1, 2006 and ending March 31, 2009. The percentage of small business establishments currently operating within PELA Counties that have been assisted by PELA CFDC – either through the Eastern Ontario Development Program, the Self-Employment Benefits Program, and/or the Community Futures Lending Program – serves as the sole metric for economic impact quantification in the local setting.

Hard data extracted from internal client files was used to obtain a count of establishments that received assistance over the assessment period. Data adapted from the Canada Business Patterns publication was used to generate a count of small business establishments operating in PELA Counties. The results demonstrate that PELA CFDC delivered documented assistance to 203 established or emerging businesses over the assessment period, and that, today, these establishments account for over 14 per cent of the small business community in PELA Counties.

Part two of the analysis examines the economic impact of PELA CFDC's Lending Program, which offers loans of up to \$150,000 to encourage investment and optimize business opportunities in PELA Counties. The objective of the assessment is to quantify the impact of the Lending Program on key economic indicators, namely GDP and employment, over the period beginning January 1, 2004 and ending December 31, 2008.

Hard data extracted from PELA CFDC's quarterly reports was used to generate the current dollar value of disbursements and new capital investment (i.e. owner's equity, third party) leveraged over the assessment period, as well as the number of jobs created or maintained by the program. The findings of a recent report undertaken by the Conference Board of Canada (CBoC) were used to convert the capital investment stream to a corresponding dollar impact on Ontario's real GDP. This conversion is based on the CBoC's independent macroeconomic forecasting model of the Ontario Economy, which indicates that every \$1 in real capital investment leveraged through the Community Futures Lending Program resulted in a \$1.57 boost to Ontario's real GDP over the assessment period.

The results demonstrate that a cumulative total of \$24.8 million in real capital investment spending occurred over the over the 2004-2008 period as a result of PELA CFDC's Lending Program. The Program boosted Ontario's real GDP by approximately \$38.9 million and created or maintained a total of 791 local jobs. For every \$1 of direct lending (inflation adjusted) through the Program, about \$4.75 was added to Ontario's real GDP and another \$2 was raised via owner's equity and third-party funding.

Over the three year period beginning April 1, 2006 and ending March 31, 2009, PELA CFDC delivered documented assistance to 203 established or emerging businesses. Today, these establishments account for over 14 per cent of the small business community in PELA Counties.

Over the five year period beginning January 1, 2004 and ending December 31, 2008, PELA CFDC's Lending Program created \$24.8 million in real capital investment spending and boosted Ontario's real GDP by approximately \$38.9 million. The program also supported 791 local jobs.

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Part 1

PELA CFDC and the Local Business Economy

1.1 Introduction

Presented within this section is a statistical assessment of the impact that PELA CFDC has made on the local business economy over the past three fiscal years. The percentage of employer businesses currently operating within PELA Counties that have been assisted by PELA CFDC - either through the Eastern Ontario Development Program (EODP), the Self Employment Benefits (SEB) Program, and/or the Community Futures Lending Program - serves as the sole metric for impact quantification in the local setting.

Two data sources were used to construct the assessment. Data adapted from the Canada Business Patterns publication (produced semi-annually by Statistics Canada with data from the Canada Revenue Agency) was used to generate a count of establishments operating in PELA Counties by employee size range. The number of businesses assisted by PELA CFDC was obtained from internal client files. The most recent data available from each source was used wherever possible.

1.2 Assumptions

The findings presented in this analysis are grounded in the following assumptions:

- i) Business establishments assisted by PELA CFDC have at least one paid employee (with payroll deductions remitted to the Canada Revenue Agency)
- ii) Business establishments assisted by PELA CFDC have fewer than 50 employees

1.3 Methodology

Precautions were taken to ensure that businesses benefiting from two or more sources of assistance were counted only once. For example, a client that graduated from the SEB Program and also received a business loan was counted only once. Clients that received multiple EODP grants were also counted only once, regardless of the number of initiatives they received support for over the assessment period. Furthermore, businesses located outside of PELA Counties that received EODP funds were not included despite the spillover of socioeconomic benefits that these grants provided to the local economy.

In order to ensure that only successful businesses were included in the analysis, the count of SEB clients was strictly limited to program graduates. Similarly, business loan clients were counted only if they were in good standing as of April 15, 2009. Clients approved for credit on more than one occasion were counted only in the year of first issue. It should be noted that the tally of successful business loan clients excludes credit extended before April 1, 2006 that is currently in good standing and remains a source of assistance to numerous local businesses. Consequently, this analysis represents a conservative assessment of the impact that PELA CFDC has made on the local business economy over the past three years.



Equation 1 further describes the method used to generate this assessment:

$$Y_t = \frac{EODP_t + SEB_t + BL_t - D_t}{EC_t} \times 100\% \quad (1)$$

Where,

Y = Percentage of small businesses operating in PELA Counties that were assisted by PELA CFDC

t = Specified time interval

EODP = Number of businesses that benefited from the Eastern Ontario Development Program over the assessment period

SEB = Number Self Employment Benefits Program graduates over the assessment period

BL = Business Loan recipients over the assessment period in good standing as of April 15, 2009

D = Business establishments benefiting from two or more sources of assistance (i.e. Duplicates)

EC = Count of establishments in PELA Counties that have payroll remittances submitted to CRA and employ fewer than 50 people (i.e. Establishment Counts)

1.4 Establishment Counts

Table 1 displays the business establishment counts that were used to determine the proportion of small businesses currently operating in PELA Counties that have been assisted by PELA CFDC over the past three years. Ideally, the most recent establishment counts (December 2008) would have been used to create this assessment. However, these counts were not released until March 10, 2009, shortly after the June 2008 data was obtained. Due to the costs associated with obtaining establishment count data, the June 2008 counts have been used.

TABLE 1. TOTAL ESTABLISHMENTS BY EMPLOYMENT SIZE RANGE, PELA COUNTIES, JUNE 2008.

	PEC	L&A
Employer Businesses	664	768
→ 1-4	397	490
→ 5-9	141	188
→ 10-19	75	90
→ 20-49	51	55

Source: Statistics Canada, Canada Business Patterns, June 2008.

1.5 Findings

The findings of the assessment are outlined in figures 1-5. Hard data used to construct these figures is located in table 2.

Figure 1 outlines the primary results. During the period beginning April 1, 2006 and ending March 31, 2009, PELA CFDC delivered documented assistance to 203 established or emerging businesses. Today, these establishments account for over 14% of the small business community in PELA Counties.

Figure 2 displays a breakdown of the number of businesses assisted in each county by program delivered. Enrollment in the SEB program was higher in L&A County over the assessment period, as was the number of business loan beneficiaries. The number of EODP recipients was higher in Prince Edward County resulting in a similar amount of overall assistance being delivered to each area serviced (94 businesses assisted in PEC, 109 assisted in L&A).

Figure 3 conveys the number of businesses assisted by PELA CFDC as a percentage of the total businesses operating in each area serviced. Although more businesses were assisted in L&A, the percentage of businesses receiving assistance was remarkably similar at 14% in both PEC and L&A.

Figure 4 displays the number of businesses assisted by PELA CFDC in each year of the assessment period. The number of businesses assisted in PEC was quite similar each year, ranging from 36-38. The number of businesses assisted in L&A was variable, ranging between 29 and 53.

Figure 5 displays the proportion of businesses assisted by PELA CFDC by program delivered. EODP accounted for 44% of the businesses assisted, followed by business loans at 34% and the SEB program at 23%.

Over the three year period beginning April 1, 2006 and ending March 31, 2009, PELA CFDC delivered documented assistance to 203 established or emerging businesses.

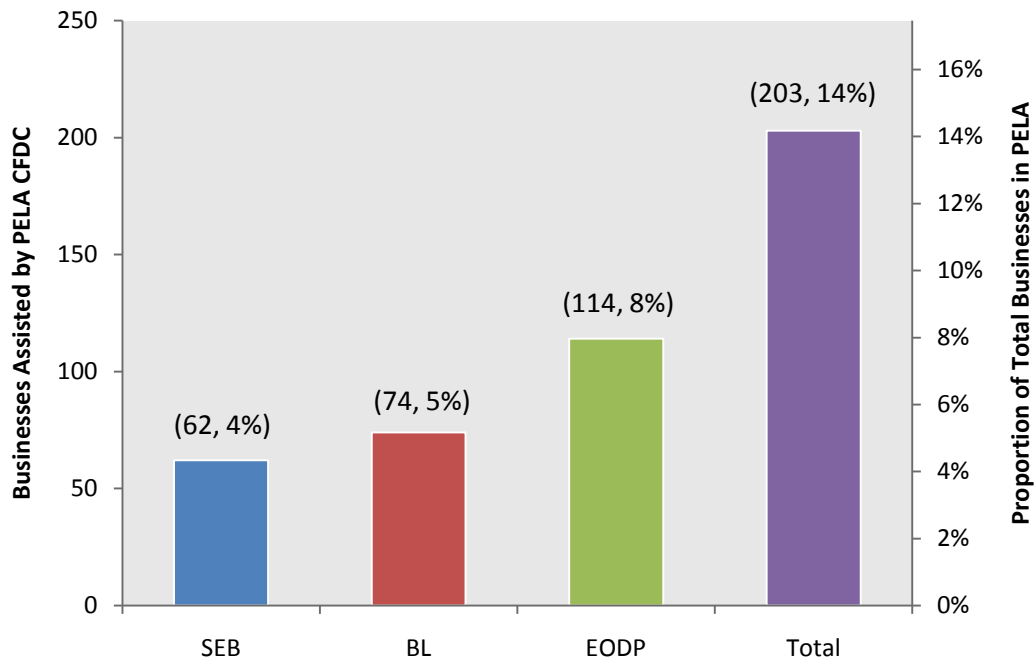
Today, these businesses account for over 14 per cent of the small business community in PELA Counties.

TABLE 2. BUSINESSES ASSISTED BY PELA CFDC BY PROGRAM DELIVERED, 2006-2009.

		SEB	BL	EODP	Duplicates	Total
2006-2009	PEC	20	32	65	23	94
	L&A	42	42	49	24	109
	Total	62	74	114	47	203
2006-2007	PEC	7	12	21	2	38
	L&A	17	19	21	4	53
	Total	24	31	42	6	91
2007-2008	PEC	8	8	24	2	38
	L&A	12	8	13	4	29
	Total	20	16	37	6	67
2008-2009	PEC	5	12	20	1	36
	L&A	13	15	15	1	42
	Total	18	27	35	2	78

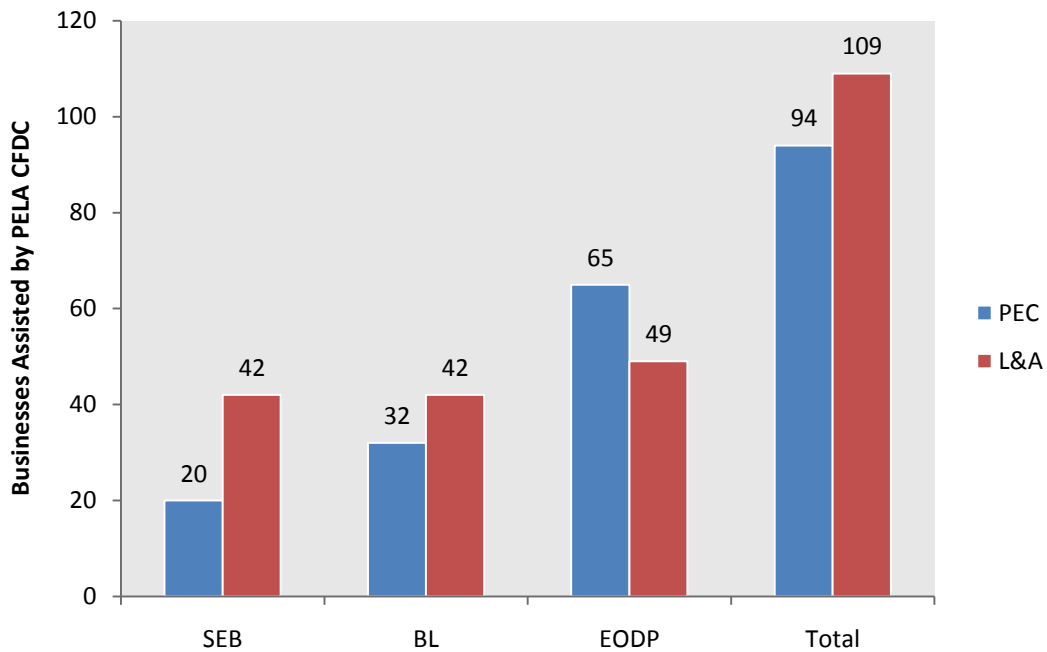
Source: PELA CFDC client files, extracted April 15, 2009.

FIGURE 1. NUMBER AND PROPORTION OF BUSINESSES ASSISTED BY PELA CFDC, 2006-2009.



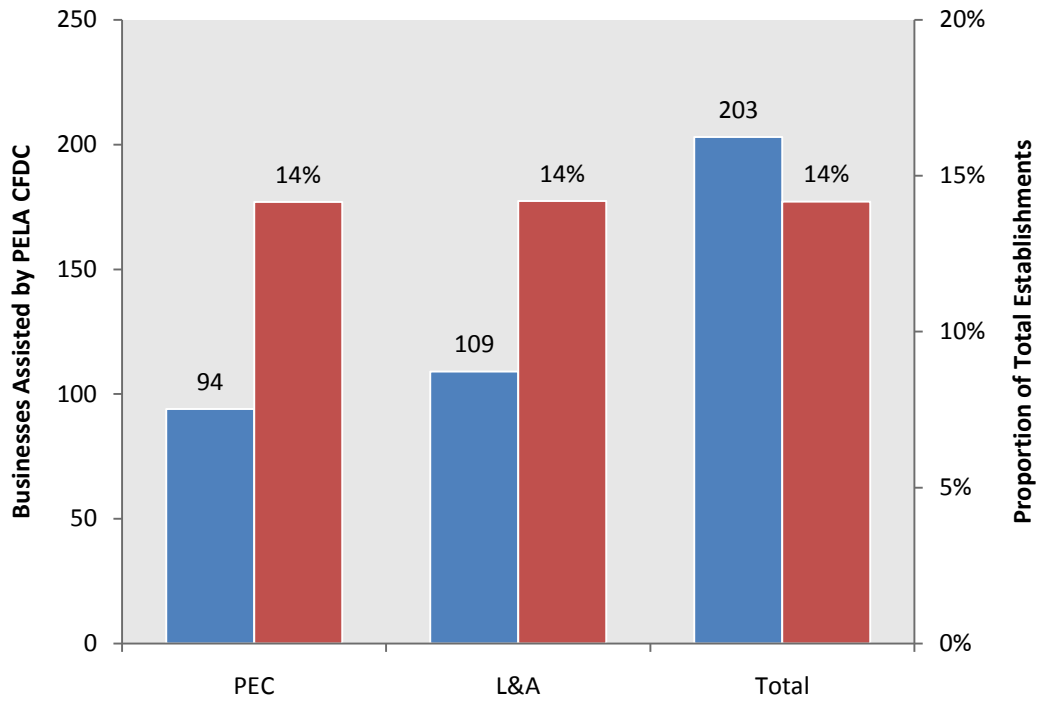
Note: Figures do not add to total due to the removal of duplicates.

FIGURE 2. BUSINESSES ASSISTED BY PELA CFDC BY PROGRAM DELIVERED AND AREA SERVICED, 2006-2009.



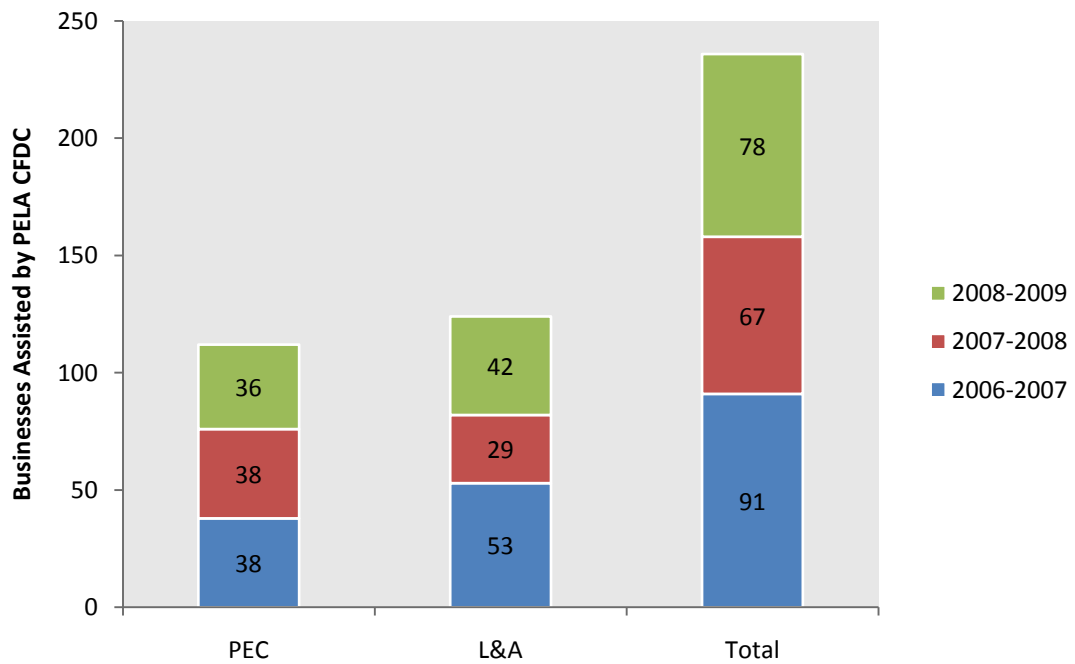
Note: Figures do not add to total due to the removal of duplicates.

FIGURE 3. PROPORTION OF BUSINESSES ASSISTED BY AREA SERVICED, 2006-2009.



Note: The proportion of total establishments assisted is unique to each area specified.

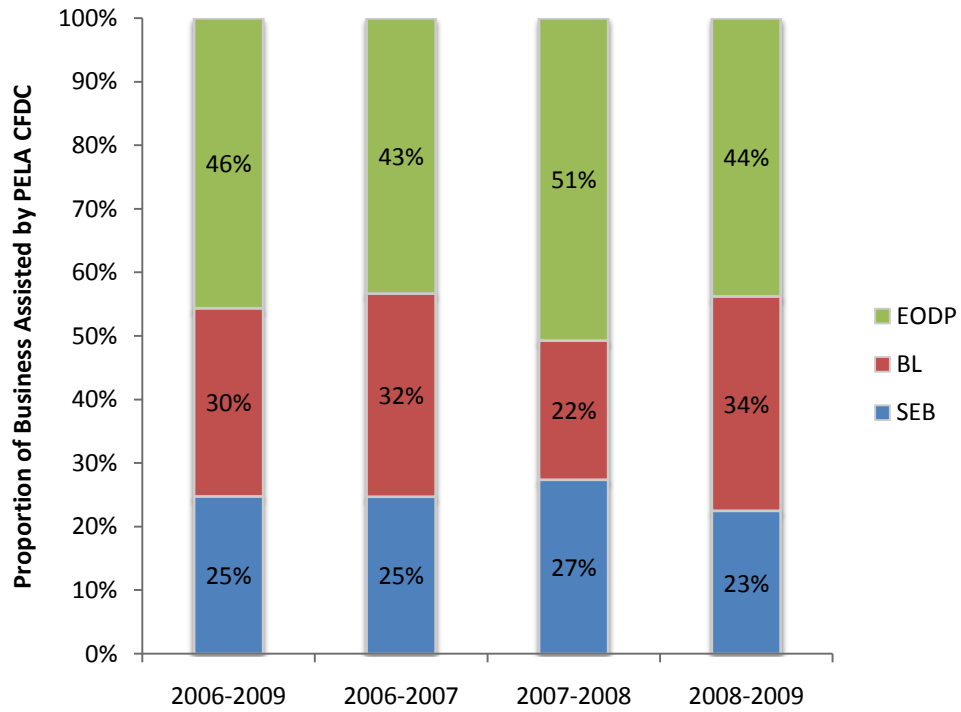
FIGURE 4. BUSINESSES ASSISTED BY PELA CFDC BY YEAR, 2006-2009.



Note: Business assisted in this figure are unique only to the fiscal year specified.



FIGURE 5. PERCENTAGE OF ASSISTANCE PROVIDED BY PELA CFDC BY PROGRAM DELIVERED, 2006-2009.



Note: Percentages were calculated based on the non-unique total of assisted businesses.

Part 2

Assessing PELA CFDC's Lending Program

2.1 Introduction

PELA CFDC's Lending Program offers loans of up to \$150,000 in order to encourage investment and optimize business opportunities in Prince Edward/Lennox and Addington Counties. The objective of this section is to quantify the impact of the Lending Program on key economic indicators – namely GDP and employment – over the period beginning January 1st, 2004 and ending December 31st, 2008.

Two sources were used to construct the assessment. Hard data extracted from PELA CFDC's quarterly reports was used to determine the value of disbursements and new capital investment (i.e. owner's equity, third party) over the assessment period, as well as the number of jobs supported by the program. The findings of a recent report commissioned by the Ontario Association of Community Futures Development Corporations (OACFDC) and undertaken by the Conference Board of Canada (CBoC) were used to convert the sum of disbursements and new capital investment to a corresponding dollar impact on Ontario's real GDP. This conversion is based on the CBoC's independent and well-tested macroeconomic forecasting model of the Ontario Economy. The CBoC's full report can be viewed at http://www.ontcfdc.com/NG/CBOC_Final_Report_May_2009.doc

2.2 Assumptions

The findings presented within this analysis are grounded in the following assumptions:

- i. The Lending Program was assumed to have leveraged funds toward new capital investment that would otherwise not have occurred. Consequently, the boost to Ontario's real GDP reported in this analysis should be considered as the maximum impact that the Lending Program could have made over the assessment period.
- ii. 65 per cent of the funds raised were assumed to be used to purchase machinery and equipment, while the remaining 35 per cent were assumed to be used for non-residential construction. This assumption significantly impacts the price deflators that were used to convert current dollars to the base year, actually lifting overall capital investment as measured in constant 2002 dollars. This phenomenon is attributed to the downward pressure exerted on imported machinery and equipment prices by appreciation in the Canadian dollar. According to Statistics Canada and CBoC estimates, the price of machinery and equipment dropped 15.1 per cent over the assessment period.



2.3 Methodology

As previously mentioned, the CBoC's macroeconomic model of the Ontario economy was used to quantify the impact of the real capital investment stream over the 2004 to 2008 period. The CBoC's model concluded that every \$1 of real capital investment by the Community Futures Program resulted in a \$1.57 boost to Ontario's real GDP. Equation 2 describes the method used to quantify the impact of PELA CFDC's Lending Program on real GDP.

$$\text{\$ Impact on Real GDP} = 1.57 \times (\text{CFDC Disbursements} + \text{New Capital Investment}) \quad (2)$$

Where,

- \$ Impact on Real GDP refers to Ontario's GDP and is measured in constant 2002 dollars
- CFDC Disbursements are measured in constant 2002 dollars, and
- New Capital Investment refers to the sum of owner's equity and third-party capital raised and is measured in constant 2002 dollars.

2.4 Econometrics

According to the CBoC, their macroeconomic forecasting model evaluates the combined direct, indirect, and induced economic impact of the Community Futures Lending Program, where:

“Direct impact measures the value added 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 transportation sector. Direct impact will also be generated when the new capital investment is put to 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.”

2.5 Price Deflators

As mentioned in assumption ii), the price deflators used in this analysis are actually price inflators. While the appropriate inflators are not explicitly defined in the CBoC report, an estimate can be derived by taking the ratio of constant 2002 dollar disbursements to current dollar disbursements for each calendar year of aggregate lending reported by the CBoC. The price deflators used in this assessment are displayed below in table 3.

TABLE 3. PRICE DEFLATORS USED TO CONVERT CURRENT DOLLARS TO CONSTANT \$2002, 2004-2008.

Year	Price Deflator
2004	1.030
2005	1.041
2006	1.048
2007	1.065
2008	1.054

Source: The Conference Board of Canada, April 2009.

2.6 Findings

The primary findings of the study are outlined in figures 6 and 7. Hard data used to construct the assessment is outlined in tables 4 and 5.

During the period beginning January 1st, 2004 and ending December 31st, 2008, PELA CFDC's Lending Program boosted Ontario's real GDP by approximately \$38.9 million and supported 791 local jobs.

For every \$1 of direct lending (inflation adjusted) through PELA CFDC's Lending Program, about \$4.75 was added to real GDP. As a concrete example of this, \$7.8 million in loans were disbursed through PELA CFDC's Program over the assessment period, helping to leverage another \$15.6 million from third parties and owner's equity. Adjusting for inflation, this is equivalent to \$24.8 million in real capital investment created by the Lending Program (\$8.2 million in disbursements and \$16.6 million in leveraged funds). Dividing the \$38.9 million boost to real GDP by the amount of direct lending (inflation adjusted) results in a multiplier of 4.75. In comparison, the multiplier for the OACFDC as a whole was 4.2.

To quote the CBoC directly, "The size of the multiplier suggests that the program has significant economic bang for the buck, due in part to the fact that it is very successful in leveraging private sector funding." This statement is reflected in the ratio of direct lending to new capital investment leveraged by PELA CFDC's Lending Program. Dividing the current dollar value of direct lending over the assessment period by the current dollar value of new capital investment results in a ratio of almost 1:2. In other words, for every \$1 of direct lending, another \$2 was raised via owner's equity and third-party capital. In comparison, the ratio for the OACFDC as a whole was 1:1.65.

Over the five year period beginning January 1, 2004 and ending December 31, 2008, PELA CFDC's Lending Program created \$24.8 million in real capital investment spending and boosted Ontario's real GDP by approximately \$38.9 million. The program also supported a total of 791 local jobs.

For every \$1 of direct lending (inflation adjusted) through the Program, another \$2 was leveraged through private sector funding and approximately \$4.75 was added to real GDP.

TABLE 4. DIRECT LOANS AND NEW CAPITAL INVESTMENT LEVERAGED, 2004-2008.

	CFDC Disbursements (Current \$)	CFDC Disbursements (Constant \$2002)	New Capital Investment (Current \$)	New Capital Investment (Constant \$2002)	\$Impact on Real GDP
2004	1,580,867	1,627,708	158,700	163,402	2,812,042
2005	1,579,600	1,644,873	778,682	810,859	3,855,499
2006	1,068,736	1,120,330	790,670	828,840	3,060,198
2007	2,041,150	2,174,558	1,589,129	1,692,994	6,072,057
2008	1,554,264	1,638,850	12,281,253	12,949,621	22,903,898
Total	7,824,617	8,206,319	15,598,434	16,609,118	38,960,235

Source: PELA CFDC Quarterly Reports and the Conference Board of Canada, May 2009.

TABLE 5. JOBS CREATED AND MAINTAINED, 2004-2008.

	Jobs Created	Jobs Maintained	Total Jobs
2004	108	34	142
2005	54	75	129
2006	99	82	181
2007	38	56	94
2008	138	107	245
Total	437	354	791

Source: PELA CFDC Quarterly Reports, extracted May 1st, 2009.

FIGURE 6. ECONOMIC IMPACT OF PELA CFDC'S LENDING PROGRAM, 2004-2008.

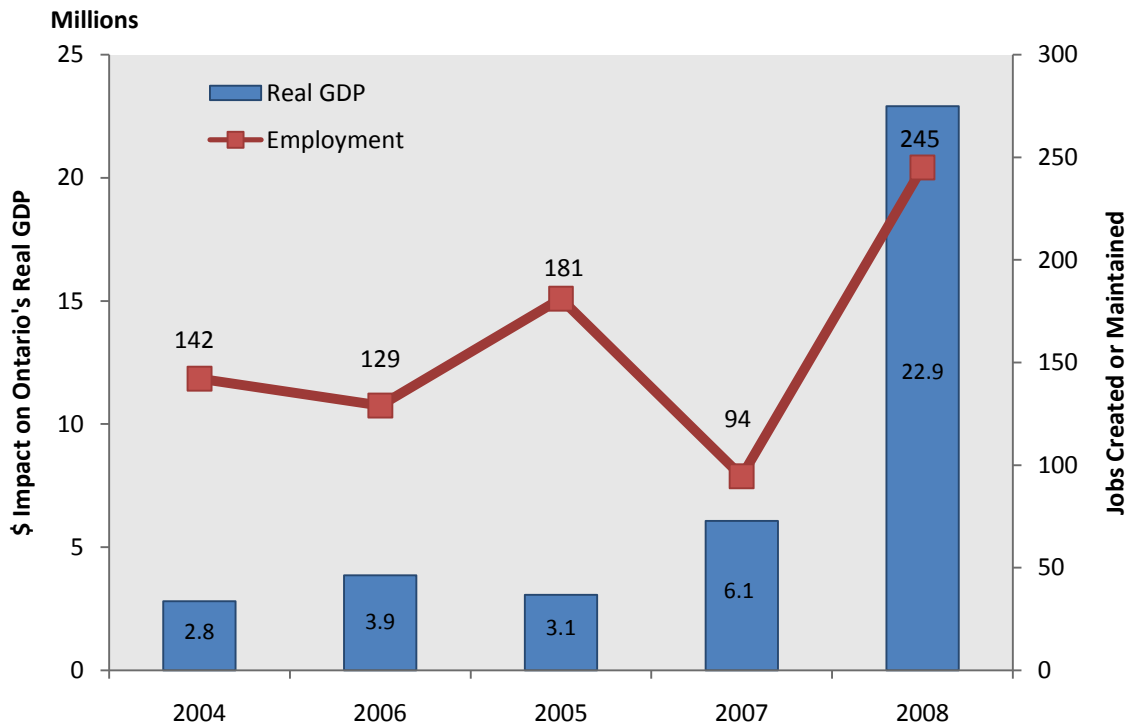
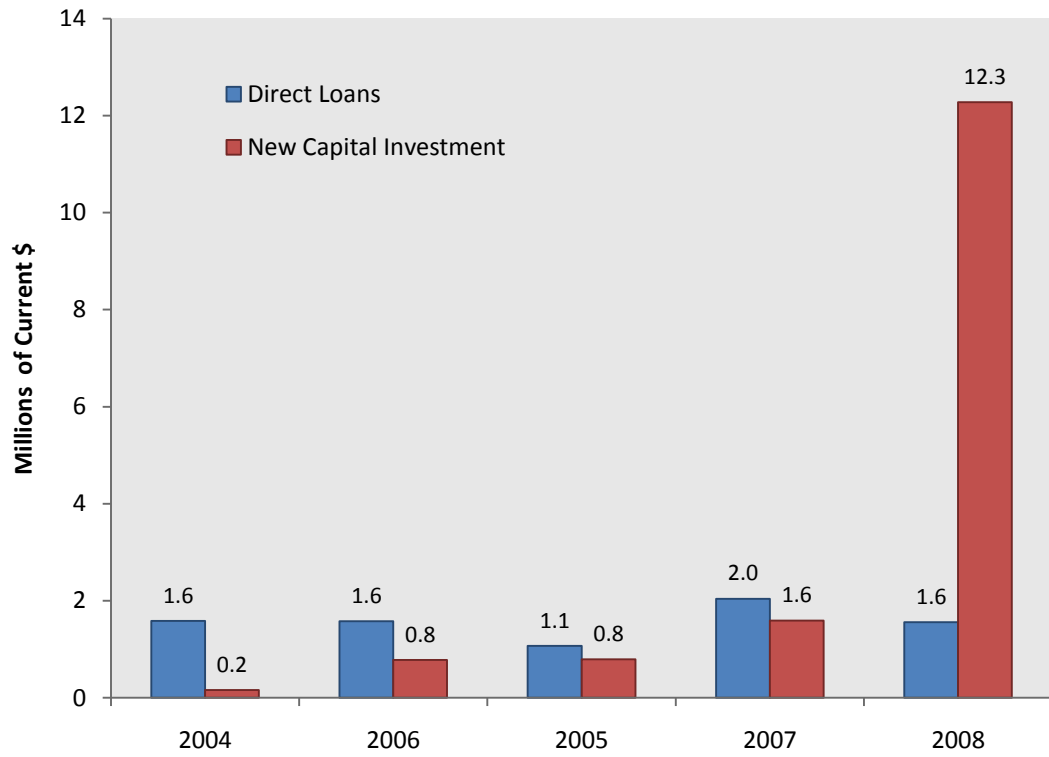


FIGURE 7. DIRECT LOANS AND NEW CAPITAL INVESTMENT LEVERAGED, 2004-2008.



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