

Senate



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# **BEYOND FREEFALL: HALTING RURAL POVERTY**

**Final Report of the  
Standing Senate Committee on  
Agriculture and Forestry**

The Honourable Joyce Fairbairn, P.C.  
*Chair*

The Honourable Leonard J. Gustafson  
*Deputy Chair*

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Unfortunately, micro-credit programs like those in Quebec and northern Ontario are not universally available in rural Canada, nor are all micro-credit problems created equal. Moreover, the evidence is clear that, although default rates are quite low, rural micro-credit programs still need strong backing from government to help defray ongoing operating costs: none of the examples discussed in this section would likely exist or prosper without some form of government assistance. The committee believes, therefore, that the federal government should play a more active role in expanding the micro-credit concept throughout rural Canada. The proposed Department of Rural Affairs could begin by identifying areas where such facilities are not available and liaising with the regional development agencies to expand their availability.

**RECOMMENDATION 13-2: The committee recommends that the proposed Department of Rural Affairs coordinate an effort by Canada's regional development agencies to expand the range and availability of micro-credit programs in rural Canada. The programs should especially target traditionally disadvantaged groups such as rural women, Aboriginal people, immigrants and Francophones.**

### **Strengthening Community Futures and Supporting Credit Unions**

I think it is fair to say that AIMS [Atlantic Institute for Market Studies] has never been a big fan of ACOA [Atlantic Canada Opportunities Agency]. In particular, AIMS has never been a big fan of large block subsidy grants to anyone who is not accountable for them. ACOA has a long and — you can use either coloured or storied — past of those kind of programs. That being said, you are absolutely right. ACOA has begun to make changes. Some of their programs are far more oriented to practical, flexible, deliverable and measurable results than they have ever been in the past. If I had to pick one program to keep, of all the ACOA programs, it would likely be the Community Futures Program delivered through the Atlantic Community Business Development Corporations.

– Charles Cirtwell, Acting President, Atlantic Institute for Market Studies,  
*Evidence*, February 15, 2007

The challenges of accessing credit in rural Canada have long been recognized at the federal level. Arguably the most successful program to help address this concern has been the Community Futures program, a federally funded but community-based and community-led initiative created in 1986 that focuses on the poorest parts of rural Canada and sets economic development and job creation as its two main objectives.

In the program's first incarnation, the government offered a range of programs under the Community Futures banner, including loan and advisory services through local business development centres, financial incentives for self-employment, funding for community projects tied to a wider strategic plan (Community Initiatives Funding), training, and relocation and travel assistance for job-search activity. In 1994, the federal government reorganized Community Futures into a network of Community Futures Development Corporations (CFDCs) by, among other things, discontinuing Community Initiatives Funding and merging Community Futures committees (consisting of local business, union and community leaders) with regional and local business development centres. In 1995, the government transferred responsibility for the CFDCs from Human Resources Development Canada to Industry Canada's FedNor division and the government's three regional development agencies, namely, the Atlantic Canada Opportunities Agency (ACOA), Canada Economic Development for Quebec Regions (CED-Q), and Western Economic Diversification Canada.

In their presentations to the committee, the regional development agencies painted a picture of the reach and importance of the Community Futures programs. For example, Eleanor King, Director General of Community Development at ACOA, outlined the program's role in Atlantic Canada:

In Atlantic Canada, the Community Futures program supports 41 Community Business Development Corporations — CBDCs — in rural areas, focused on lending to small and medium enterprises in various sectors, filling a gap in access to capital. During the last 10 years, CBDCs have issued 13,000 loans, totalling \$376 million, to businesses in their communities, leveraging an additional \$360 million in private-sector investment and financing. CBDCs invest in the start-up and expansion of more than 1,000 businesses annually, positioning them as key supporters of the rural economy. They are filling the financing gap left by the absence of traditional sources of financing in rural areas and the reluctance of financial institutions to invest in high-risk, low-value loans, generally under the \$150,000 mark. Key sectors, including retail, manufacturing, tourism and resource sectors that are most prevalent and integral to rural economies represent the majority of CBDC investment.

– *Evidence*, February 13, 2007

Ardath Paxton Mann, Assistant Deputy Minister at Western Economic Diversification Canada in British Columbia, provided the following overview of Community Futures programs in Western Canada:

There are 90 non-profit CFs, four CF associations and one pan-West CF group in the West providing virtually 100 per cent rural coverage in Western Canada and serving an estimated 3.1 million non-metropolitan residents. Of the 90 non-profit CFs, four are specifically Aboriginal Community Futures organizations. The Community Futures Program was established based on the tenets of community economic development, CED, which you have heard a fair bit about, a community-based and community-directed process that combines social and economic development to foster the well-being of communities. Community volunteers who understand social issues and recognize opportunities are a key factor in the success of the CFs. In 2005-06, CFs engaged over 2,500 community-based volunteers, including board members, who provided over 86,000 volunteer hours. A strong entrepreneurial capacity is key to thriving, healthy communities. In the last five years, the 90 CFs in Western Canada have made over 6,700 loans totalling over \$220 million, which leveraged an additional \$315 million in funding from other sources. These investments have been projected to create or maintain more than 2,100 jobs in rural Western Canada. CF loans do not go to assist only those in the economic mainstream. Over the last five years, 13 per cent of the CF loans have gone to Aboriginal entrepreneurs, 5 per cent to entrepreneurs with disabilities and 9 per cent to young entrepreneurs. Obviously, we want to get those figures up. Loans are relatively small. The average CF loan over the last five years has been in the ballpark of \$32,000.

– *Evidence*, March 1, 2007

Remarkably, despite the supposedly risky nature of lending to small businesses in rural Canada, the default rate on loans at both ACOA and Western Economic Diversification Canada tend to be quite low. According to Eleanor King of ACOA:

Obviously, with any process of doing loans, there are some writeoffs and defaults, but the numbers are smaller than perhaps most people might think. In the information I have here, the cumulative rate of defaulted contracts and/or writeoffs was 15 per cent. It is not a huge number when you look at the same kinds of default records for banks, who are also involved in providing loans to enterprises as well.

– *Evidence*, February 13, 2007

Jim Saunderson, Director General, Corporate Finance and Programs, Western Economic Diversification Canada, told the committee that the default rate was probably “around 10 per cent or a little less than that.” (*Evidence*, March 1, 2007) In her presentation, Louise Paquette from FedNor described Community Futures as “one of the

best investments in rural Canada” and then went on to describe its presence in rural Ontario:

In Ontario, we support a network of 61 community futures development corporations, CFDCs, which loans of up to \$150,000 for businesses where banks and financial institutions have turned them away. These CFDCs also work with their communities to develop strategic plans and help small businesses by providing them with counselling, referrals and technical advice. This program’s most treasured asset is its volunteers. We have over 600 volunteers in Ontario who sit on individual boards of directors. Quite honestly, without the volunteers, this program would not have a hope in hell of surviving.

– *Evidence*, May 31, 2007

The committee heard almost universal praise for the Community Futures approach to economic development. As the committee noted in its Interim Report, the program has been singled out by the OECD (Organisation for Economic Co-operation and Development) as one of the most innovative and successful rural-oriented policies anywhere in the world. Nevertheless, several witnesses suggested that the Community Futures concept needs to expand beyond providing money only for start-up operations and to move toward supporting larger-scale operations. For example, at the committee’s hearings in Corner Brook, Newfoundland, Sean St. George, executive director of the Red Ochre Regional Board Inc. (Regional Economic Development Board) said that he would like to see the Community Futures program increase the amount of money it is willing to lend:

The challenge we have, though, is the amount of investment we need. They have limitations on their investment fund — \$125,000 right now, I believe. There are issues of how we fund businesses. I will give you a specific example, and, again, we would have to look at the policy. We have shrimp plants producing shrimp that dump the shrimp shells off the coast, whereas if we could build a shrimp shell processing plant, we could produce chitin and other by-products that are used in the pharmaceutical sector. That is where the more holistic approach comes in to make sure we get the value added.

– *Evidence*, February 19, 2007

Dr. Peter Apedaile of the University of Alberta made a similar point, noting that:

I am on the board of directors of RCFDC, Community Futures Development Corporation, where we put our money into trying to start new businesses, but effectively these loans almost always end up being consumer loans to the mom-and-pop owners of the business. It just does not move from there, it does not

create employment and it does not do the kinds of things we need to get people moving out of their low incomes.

– *Evidence*, November 9, 2006

Diane Martz, Research Manager at the Prairie Women’s Health Centre of Excellence, echoed these views: “I think there are opportunities to expand the program and perhaps to increase the loan base so that the program could foster more business start-ups and the like. In the area with which I am familiar, they do try to support innovation around the agricultural products that are being produced.” (*Evidence*, November 23, 2006)

The committee believes it is important for the federal government to reaffirm its long-term commitment to the Community Futures program, one of the few unequivocal success stories in federal rural policy and, aside from the post office, one of the few visible signs of the federal government in rural Canada. The Community Futures program success is due in no small part to the fact that it is locally run and suited to local conditions. Like the social economy approach, it too is flexible. For these reasons, the committee also believes that the federal government should consider expanding the size of loans available under the program as well as the total financing envelope for the program.

**RECOMMENDATION 13-3: The committee recommends that the federal government reaffirm its long-term commitment to the Community Futures program. The proposed Department of Rural Affairs should also conduct a study of the program to assess the potential of expanding the size of loans that the program makes available.**

In many rural communities, credit unions are a key partner in the Community Futures program. Scott Merrifield, Director of Policy, Planning and Coordination at FedNor, noted that, although the volunteers who work for the Community Futures program decide who gets what loans, FedNor and rural credit unions provide the actual loan money, FedNor covering a portion of what the credit union might lose in the event of a default on the loan: “Through that, we get basically \$5 of capital invested by the credit union for every dollar we put up. The experience to date on the program with the credit unions in Northern Ontario is 87 loans with a value of \$10.1 million, and it has been in existence for six years.” (*Evidence*, May 31, 2007) According to Louise Paquette of FedNor, this

strategy has been more successful with credit unions than with other financial institutions:

We have tried it with other financial institutions but the problem is the exodus of these financial institutions from rural communities. That is why the Community Futures Program, with coverage right across Ontario and all rural communities, works. We have people out there who can put a finger on the pulse of what is happening in the regions. If there are businesses that we want to help, we prefer to use that vehicle because of that relationship. We have tried with many financial institutions but the credit unions have been our best experience. It is difficult with the banks.

– *Evidence*, May 31, 2007

Sean St. George of the Red Ochre Regional Board pointed to similar problems in obtaining credit faced by small businesses in his area of Newfoundland: “In the United States, the Banking Act requires banks to do small business loans in rural areas. In our area, our business people are struggling to get access to capital. Ms. Kennedy and I, in our capacity as volunteers and on the Regional Economic Development Board, we have seen business people struggle to get access to capital.” (*Evidence*, February 19, 2007)

As this evidence suggests, the credit union movement has long played an important role in rural Canada, filling gaps left by the mainstream banking system. For example, Pam Skotnitsky, Associate Vice-president of Government affairs at the Credit Union Central of Saskatchewan, told the committee that, in her province, more than 50% of the population are credit union members. Credit union services in the province are delivered through 316 locations in 274 communities, of which 264 are in rural parts of the province. In 160 of these communities, the credit union is the only financial institution. In the agricultural sector, Saskatchewan’s credit unions finance 27.5% of all outstanding farm debt in the province. Ms. Skotnitsky also told the committee that in its surveys of small and medium-sized businesses the Canadian Federation of Independent Business (CFIB) has found that its members give credit unions top ranking amongst financial service providers with respect to “levels of satisfaction of service, loan availability and fees” (*Evidence*, April 26, 2007).

The Saskatchewan credit union movement is active outside of the financial services sector as well. According to Ms. Skotnitsky, it actively engages in community economic