



Assessing the Impact of the Community Futures Lending Program

An Economic Impact Analysis of the
Community Futures Lending Program on
Ontario's Economy

Prepared for:
ONTARIO ASSOCIATION OF COMMUNITY FUTURES DEVELOPMENT CORPORATIONS

Prepared by:
THE CONFERENCE BOARD OF CANADA

June 2010

TABLE OF CONTENTS

PREFACE.....	3
EXECUTIVE SUMMARY	4
1.0 INTRODUCTION	7
2.0 THE COMMUNITY FUTURES LENDING PROGRAM.....	7
3.0 KEY ASSUMPTIONS AND METHODOLOGY	9
4.0 FINDINGS.....	12
5.0 CONCLUSION.....	17

Preface

This research was undertaken by The Conference Board of Canada (CBoC) for the Ontario Association of Community Futures Development Corporations (OACFDC). In keeping with Conference Board guidelines for financed research, the design and method of research, as well as the content of this study, were determined by the Conference Board.

The research was conducted by Pedro Antunes, Director of the Board's National and Provincial Forecast group. Paul Darby, Deputy Chief Economist at the Conference Board, was special advisor to the project. Thanks are due to Bill Spinney, President of OACFDC, and Diana Jedig, Executive Director at OACFDC, for their valuable input and comments.

This report is an update to the May 2009 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*.

About The Conference Board

The Conference Board of Canada is the foremost independent, not-for-profit applied research organization in Canada. We help build leadership capacity for a better Canada by creating and sharing insights on economic trends, public policy issues, and organizational performance. The Board's Economic Forecasting and Analysis division employs more than 25 professional economists, who bring together knowledge across regions and sectors in producing their forecasts. The forecasting group constructs and maintains econometric models of the national and regional economies and a one of a kind, comprehensive quarterly database of the provincial economies in Canada. The Conference Board of Canada was established in 1954, and is affiliated with the U.S. based The Conference Board, Inc. that serves some 3,000 companies in 67 nations.

Executive Summary

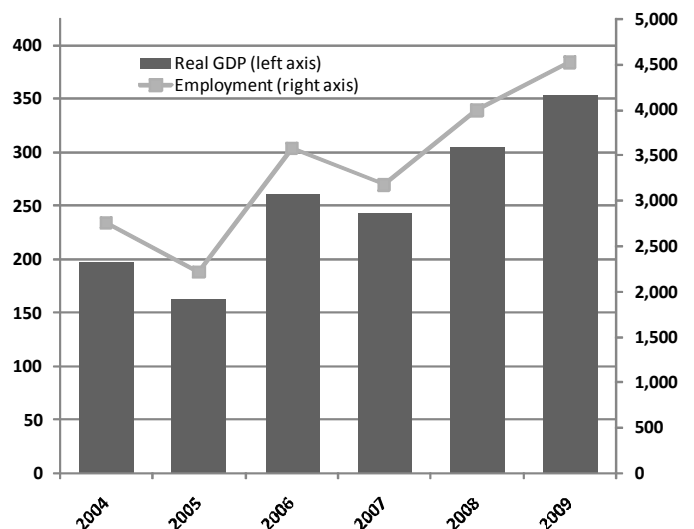
The fallout from the 2008-09 financial crisis has brought to light just how important access to credit is to the health of the global economy. This report provides evidence of this fact in a more localized setting—in this case, by looking at the economic impact that the Community Futures Lending Program has had on Ontario’s economy. The program is managed through 61 Community Futures Development Corporations in Ontario. These offer repayable loans to small and medium-sized firms in an effort to encourage and support investment in rural and northern communities. As part of the economic stimulus plan to counter the recession, the federal government recently increased the funding and loan cap available to Ontario’s Community Futures Development Corporations. 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.¹ In the 2009 calendar year, Ontario’s Community Futures Development Corporations increased the value of their disbursements by \$22.6 million, to reach \$77.1 million in loans. This represents a 41.5 per cent increase over 2008 lending. From 2004 to 2009, the program disbursed \$344.7 million in loans and raised a total of \$910 million in new capital investment funds.

The Ontario Association of Community Futures Development Corporations (OACFDC) provided the Conference Board with annual data on the total value of loans disbursed by the program over the 2004 to 2009 period. On average, for every \$1 of lending through the Community Futures Program, another \$1.64 was raised via owner’s equity and third-party funding. The total funds generated by the program are assumed to have created new capital investment that would not otherwise have occurred.

Chart 1

Economic Impact of the Community Futures Lending Program

(GDP in 2002 \$ millions; employment)



Source: The Conference Board of Canada; Statistics Canada.

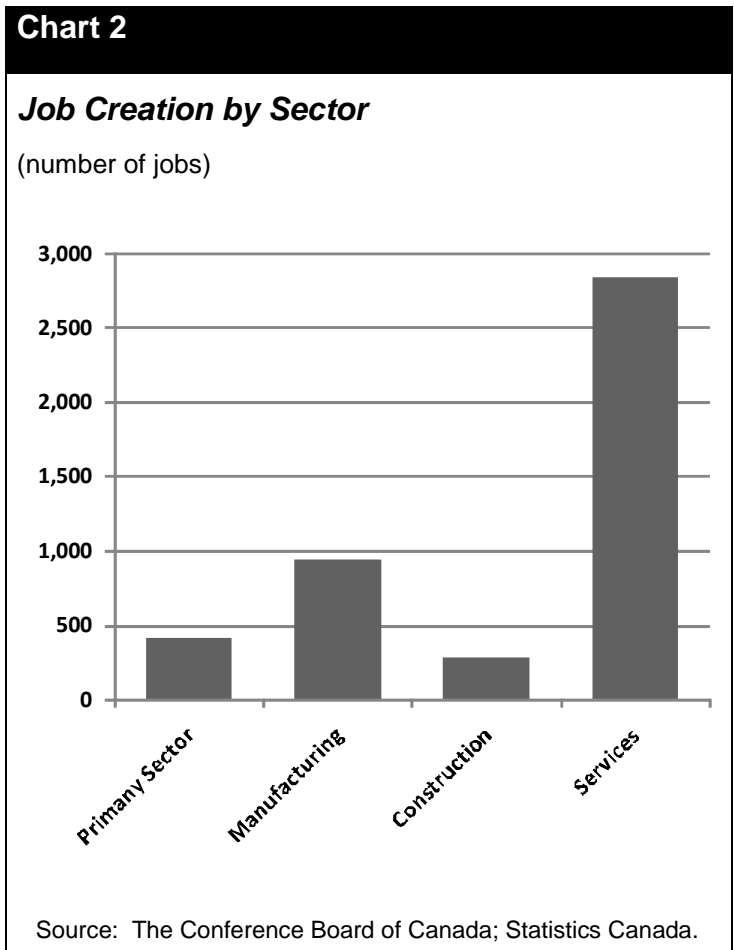
¹ <http://www.plandaction.gc.ca/eng/media.asp?id=1835>

The economic impact analysis is based 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 Lending Program. The results tell us what effects the additional spending has on the economy. The data were adjusted for inflation so as to be compatible with the Board’s economic model and database. The analysis evaluates the combined direct, indirect, and induced economic impacts on a wide range of economic indicators, including real gross domestic product (GDP), employment, income, and government revenues.

Under our simulation and based on our assumptions, a cumulative total of \$952 million in real capital investment spending occurred in Ontario due to the Community Futures Lending Program over the 2004 to 2009 period. According to the model simulations, this investment resulted in an annual boost to Ontario’s real GDP of \$197 million in 2004, rising to \$353 million by 2009. Employment was also boosted, with the number of jobs created peaking at 4,520 in 2009. (See Chart 1.) Over the 2004 to 2009 period, we estimate that a total of 20,219 person years of employment was created by the program.

These results suggest that for each \$1 of real capital investment, real GDP is lifted by \$1.60. Moreover, if we consider that direct lending by Community Futures Development Corporations accounts for only 38 per cent of the total capital investment leveraged, then the multiplier is lifted to just over 4.2. That is, for each \$1 of direct lending through the program, real GDP is lifted by \$4.22. Considering that these are repayable loans, 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.

As a concrete example, we can examine lending activity that occurred over 2004 to 2009. Over this time period, an average of about \$57 million per year in loans was provided through the Community Futures Program, helping to leverage another \$94 million per year from third parties and owner’s equity. Thus, about \$152 million per year was raised for new investment. Adjusting for inflation, this is equivalent to \$159 million per year in



real capital investment created by the lending program. The simulations results suggest that this lift to real investment activity will boost real GDP by about \$254 million per year. As such, for each \$1 of direct lending (inflation adjusted), about \$4.20 is added to real GDP. By way of comparison, Finance Canada estimates that direct government spending on infrastructure has a multiplier of about 1.5 after one year.²

The lift to economic activity results in a boost to labour income and corporate profits, important sources of revenues for both federal and provincial levels of government. Compared in current dollar terms, direct lending of \$345 million through the Community Futures Program allows the federal and provincial governments to generate a cumulative \$233 million in personal income taxes and indirect taxes. Corporate income taxes are not modelled in the Conference Board's provincial model but would result in additional revenues for both levels of government. Moreover, the federal government benefits from reduced employment insurance payments and increased revenues due to the reduction in unemployment. Overall, the employment insurance balance improves by cumulative total of \$79 million.

The effect of the lending program on economic activity grows over time as the influx of new capital investment boosts the economy's productive capacity. As such, peak impacts are registered in 2009 especially as efforts to counter the recession result in a significant increase in lending in the same year. Job creation peaks in 2009, with an extra 4,520 people employed. Although the primary, manufacturing, and construction sectors register healthy employment gains, the lion's share of job creation—roughly two-thirds—occurs in the service sectors. (See Chart 2.)

² See Annex 1, page 240, of the 2009 Federal Budget. <http://www.budget.gc.ca/2009/pdf/budget-planbugetaire-eng.pdf>

1.0 Introduction

The Community Futures Program offers loans in order to encourage investment and optimize business opportunities in rural and northern communities throughout Ontario. The program provides repayable loans to new and existing small businesses, with financing made available by the federal government. As part of the economic stimulus plan to counter the recession, the federal government recently increased the funding and loan cap available to Ontario's Community Futures Development Corporations. 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 objective of this analysis was to assess the potential economic impact in Ontario of the Community Futures Lending Program. The Conference Board utilized its detailed econometric model of Ontario's economy in order to quantify the impact of the lending program, over the 2004 to 2009 period, on a wide range of economic indicators, including overall gross domestic product and employment as well as components of federal and provincial government revenues. This report describes the main research findings. In Section 2, the Community Futures Lending Program is briefly described and data collected by the OACFDC is presented. Section 3 discusses the assumptions and methodology employed in carrying out the economic impact analysis, while Section 4 presents the findings. Section 5 concludes.

2.0 The Community Futures Lending Program

OACFDC provided the Conference Board with annual data on the total value of loans disbursed by the Community Futures Development Corporations over the 2004 to 2009 period.

The impact of lending on overall capital investment is augmented by the amount of money leveraged from owner's equity and third-party lenders—information that was also available from OACFDC statistics. On average, for every \$1 of lending through the Community Futures Program, another \$1.64 was raised via owner's equity and third-party funding. Over the 2004 to 2009 period, the program disbursed \$344.7 million in loans and raised a total of \$910 million in new capital investment funds. Of the \$565 million in leveraged funds, about 38 per cent was raised from owner's equity, while 62 per cent was borrowed from third-party lenders. (See Table 1.)

Table 1**Community Futures Lending Program—Summary Data**

(current \$ millions)

	2004-2009	2004	2005	2006	2007	2008	2009
Value of Loans							
\$ Value of Disbursements	344.7	49.0	51.7	59.3	53.2	54.5	77.1
Number of Businesses Assisted	7,036	1,165	1,107	1,199	1,126	1,094	1,345
Leveraged funds	565.1	91.7	64.2	105.7	84.2	105.0	114.2
Owner's Equity	216.7	36.3	23.4	45.4	30.0	44.9	36.8
3rd Party	348.4	55.4	40.8	60.4	54.3	60.1	77.4
Ratio	1.64	1.87	1.24	1.78	1.58	1.93	1.48
Total Funds Raised	909.8	140.7	115.9	165.0	137.5	159.5	191.3

Source: Community Futures Quarterly Reports.

The value of direct loans has remained relatively stable over the period to 2008, averaging just over \$53 million per year. In 2009, direct loans grew to \$77 million, a 41.5 per cent increase over 2008 lending, as part of the federal government's push to offset the effects of the recession and tightening credit conditions. The annual number of businesses taking advantage of the program averaged about 1,140 per year from 2004 to 2008. In 2009, 1,345 businesses received loans. Overall, Community Futures direct loans have averaged about \$47,000 per business unit over the 2003 to 2008 period while this number has swelled to \$57,000 per business unit in 2009. Chart 3 displays the annual value of direct loans disbursed by the Community Futures Program as well as the value of leveraged funds, over the past six years. 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 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 Lending Program.

The capital investment profile provided by OACFDC was converted from current dollars to constant 2002 dollars. The conversion to 2002 dollars is required since this is the current base year for all of Statistics Canada's National Income Accounts—and forcibly, the base year of the CBoC's econometric models. The current dollar capital investment values were split into two components—namely, buildings and structures and machinery and equipment—based on the average historical split of investment for these categories at an aggregate level. In fact, roughly 65 per cent of the funds raised were assumed to be used to purchase machinery and

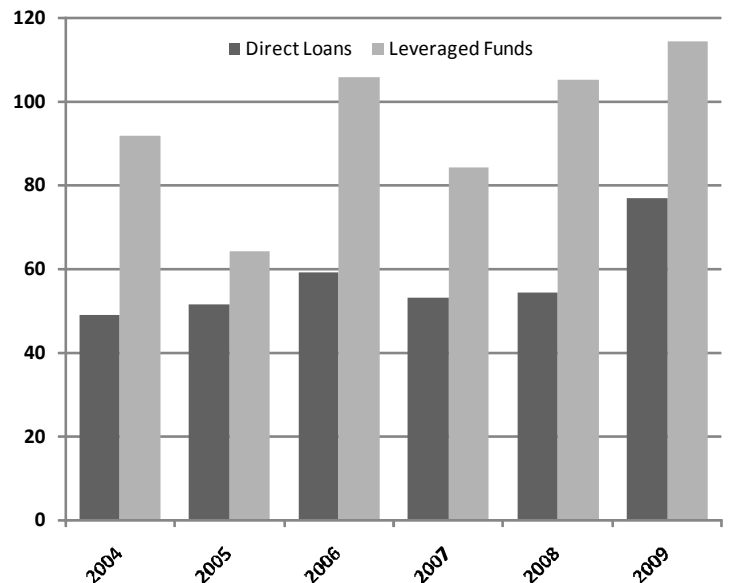
equipment, while the remaining 35 per cent went to non-residential construction.³ Appropriate price deflators were then used to convert the capital investment estimates into 2002 dollars.

The assumption about the relative share of machinery and equipment investment versus investment in building and structures can have important repercussions on the economic impact results. The price deflator for machinery and equipment is very different to that for structures. This is especially true over the 2003 to 2008 period, when construction costs were soaring while the appreciating Canadian dollar significantly lowered the price of imported machinery and equipment. As such, the greater the value of investment apportioned to machinery and equipment, the greater the real value of capital investment as measured in constant 2002 dollars. However, this is offset by the fact that a large portion of machinery and equipment investment is imported, whereas investment spending on buildings and structures is generally locally sourced and labour intensive. Overall then, the effect of a larger share of real spending on machinery and equipment is mitigated by the smaller economic impact that this type of capital investment has on job creation and the overall economy.

Chart 3

Direct Loans and Leveraged Funds

(millions of dollars)



Source: Community Futures Quarterly Reports (2004 - 2009).

3.0 Key Assumptions and Methodology

The primary objective of this study is to quantify the impact of the Community Futures Lending Program on key economic indicators, such as GDP, employment, income, and government revenues. As discussed earlier, a critical assumption is that the lending program will leverage

³ 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.

funds toward new capital investment that would otherwise not occur. The value of this investment has been split into 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 macroeconomic model of the Ontario economy was used to quantify the impact of the real capital investment stream estimated for the 2004 to 2009 period. The analysis evaluates the combined direct, indirect, and induced economic impacts, where:

Direct impact measures the value added⁴ 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 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 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 Lending Program. (See box "Breaking Out Employment Impacts: A Fictional Example.")

⁴ 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.

Breaking Out 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 would 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 resulting 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 Lending Program may have on Ontario's economy.

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 CBoC'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.

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 Lending Program. The data were converted to constant dollars by the Conference Board. Constant dollar investment spending totals \$952 million, with spending allotted over the 2004 to 2009 period on a calendar-year basis. This compares with a current dollar estimate of \$910 million 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 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.

4.0 Findings

Table 2 summarises 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 Community Futures Program and the amount of money leveraged from owner's equity and third-party lenders. Adjusting the data for price inflation actually lifts overall capital investment as measured in constant 2002 dollars. This is because the cost of machinery and equipment has dropped drastically over this period,⁵ thanks in part to an appreciating loonie that boosted, over time, the purchasing power of every dollar spent on this category of investment.

⁵ According to Statistics Canada and our own estimates (for 2009), the price of machinery and equipment purchased in Ontario dropped by 14.4 per cent from 2003 to 2009.

Table 2**Community Futures Lending Activity—Economic Impact in Ontario**

Key Economic Indicators (level-difference shock minus control except where otherwise indicated)

	2004	2005	2006	2007	2008	2009	Total
Total Investment Generated (millions of current \$)	141	116	165	137	159	191	910
Total Investment Generated (millions of constant \$2002)	145	121	174	146	168	199	952
Real GDP at Market Prices (millions of constant \$2002)	197	163	261	243	306	353	1,523
GDP at Market Prices (millions of current \$)	188	166	281	284	369	399	1,687
Real GDP at Basic Prices (millions of constant \$2002)	200	161	265	241	310	353	1,529
Consumer Price Index (percentage difference)	0.00	0.01	0.02	0.03	0.04	0.05	
Average Weekly Wages Industrial Composite (percentage difference)	0.00	0.01	0.02	0.02	0.03	0.03	
Personal Income (millions of current \$)	115	88	159	161	197	218	938
Personal Disposable Income (millions of current \$)	88	63	118	117	145	159	691
Population of Labour Force Age	24	56	100	145	193	250	768
Labour Force	1,698	1,355	2,188	1,940	2,448	2,824	12,453
Employment	2,757	2,211	3,572	3,169	3,990	4,519	20,219
Unemployment Rate (level difference in rate)	-0.02	-0.01	-0.02	-0.02	-0.02	-0.03	
Retail Sales (millions of current \$)	36	63	106	140	176	204	725
Housing Starts	110	16	80	44	154	172	576
Total Indirect Taxes (millions of current \$)	17	9	16	11	11	13	77
Federal Personal Income Tax Collections (millions of current \$)	12	10	16	18	22	24	101
Federal Employment Insurance Balance (millions of current \$)	11	9	14	12	16	18	79
Provincial Personal Income Tax Collections (millions of current \$)	6	5	10	9	11	13	55
Corporate Profits (millions of current \$)	23	32	41	36	66	47	245

Sources: The Conference Board of Canada; Statistics Canada.

Under our assumptions, a total of \$952 million in real capital investment spending occurred due to the Community Futures Lending Program over the 2003 to 2009 period. According to the provincial model simulations, this investment resulted in an annual boost to Ontario's real GDP of \$197 million in 2004, rising to \$353 million by 2009. The result is a cumulative increase in real GDP of \$1.53 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, real GDP is lifted by \$1.60. Moreover, if we consider that direct lending by Community Futures Development Corporations accounts for only 38 per cent of the total capital investment leveraged, then the multiplier is lifted to just over 4.2. That is, for each \$1 of direct lending through the Community Futures Program, real GDP is lifted by \$4.22.⁶

⁶ Over 2004 to 2009 an average of \$57.5 million per year in loans was provided through the Community Futures Program, helping to leverage another \$94.2 million per year from third parties and owner's equity. On an inflation adjusted basis, based on the capital investment generated, these amounts translate into real capital investment of \$60.1 million from the direct loans and \$98.6 million from the leveraged funds. Simulations results suggest that this lift to real investment activity will boost real GDP by

Considering that these are repayable loans, the size of the multiplier suggests that the program provides significant economic bang for the buck, due in part to the fact that the program is very successful in leveraging other funding.⁷ As mentioned earlier, the size of the impact does rely on the assumption that the capital investment of \$952 million would not have occurred if the Community Futures Program 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 4,520 in 2009 and a total of 20,219 person-years of employment created by the program.⁸ The increase in economic activity and job creation does have a modest impact on province-wide prices and wages, but these rise by only 0.05 per cent and 0.03 per cent respectively at their peak in 2009. The increased demand for labour also lifts interprovincial in-migration and the population of labour force age, but only by a fraction of the new jobs created. (See box "Capturing Labour Market Impacts.") Moreover, more people chose to enter the labour force, providing a modest boost to the labour force participation rate, helping to mitigate the impact on overall unemployment, which is down by 1,695 in 2009 (as displayed in Table 4).

about \$254 million per year. Thus, for each \$1 of direct lending (inflation adjusted) nearly \$4.22 is added to real GDP (\$254 divided by \$60.1). The ratio of total capital investment to real GDP is 1.60 (\$254 divided by the sum of \$60.1 and \$98.6).

⁷ The funding required to operate the Community Futures Lending Program does not enter into the analysis.

⁸ Person years or full-time equivalent employment numbers are reported.

Capturing Labour Market Impacts

The Conference Board's economic model of the Ontario economy contains an intricate 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 results suggest that employment will rise by 4,519 in 2009 while the number of unemployed declines by only 1,695. As discussed, the difference is because more people come looking for work. The labour force is lifted by 2,824 in 2009 with most of this increase due to people deciding to enter (or re-enter) the workforce and only a small portion (about 250 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 0.03 percentage points in 2009. Still, given the size of loan values, this is a sizeable impact at the provincial level.

Higher labour income and corporate profits will also result in a boost to both federal and provincial government revenues. In current dollar terms, the Community Futures Program lending activity of \$345 million over the 2004 to 2009 period allows the federal and provincial governments to generate a cumulative \$233 million in federal and 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 due to the lift to employment and subsequent reduction in unemployment. Overall, the EI balance improves by cumulative total of \$79 million.

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 which 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 2004 to 2009 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 (level-difference shock minus control)

Millions of \$2002 (Market Prices)	2004	2005	2006	2007	2008	2009	Total
Consumer Expenditures	99	90	143	124	142	121	718
Government Spending on Goods and Services	0	0	0	0	0	0	0
Gross Fixed Capital Formation	162	155	218	205	228	276	1,244
Government	0	0	0	0	0	0	0
Business	162	155	218	204	228	276	1,242
Residential Construction	12	10	9	6	3	12	51
Non-Residential Construction	52	43	60	52	55	64	325
Machinery and Equipment	103	110	162	163	193	229	960
Final Domestic Demand	257	242	356	324	365	392	1,937
Exports	7	29	59	92	120	169	476
Imports	72	115	164	186	196	227	960
Net Exports	-65	-86	-105	-93	-76	-58	-484
Gross Domestic Product at Market Prices	197	163	261	243	306	353	1,523

Sources: The Conference Board of Canada; Statistics Canada.

Table 4 presents the real GDP and employment impact results on an industry basis. The Conference Board's Ontario model incorporates recent estimates (2005) 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.

Table 4**Community Futures Lending Activity—Economic Impact in Ontario**

Real GDP by Industry and Labour Markets (level-difference shock minus control)

	2004	2005	2006	2007	2008	2009	Total
Real GDP at Basic Prices (millions of \$2002)	200	161	265	241	310	353	1,529
Agriculture	13	10	15	13	15	18	85
Fishing and Trapping	0	0	0	0	0	0	0
Forestry	3	3	4	3	4	5	22
Mining	6	3	6	4	7	9	35
Manufacturing	42	28	57	55	83	97	362
Construction	16	13	17	14	13	18	91
Utilities	4	3	5	4	6	7	28
Transportation, Storage and Communication	12	9	16	15	20	24	97
Wholesale and Retail Trade	47	38	64	56	72	79	357
Finance, Insurance and Real Estate	31	30	44	40	45	49	239
Community, Business and Personal Services	26	23	37	35	44	49	214
Public Administration and Defence	0	0	0	0	0	0	0
Total Employment	2,757	2,211	3,572	3,169	3,990	4,519	20,219
Primary Sector	314	227	361	277	354	425	1,958
Manufacturing	448	287	586	553	822	953	3,649
Construction	256	207	275	224	217	290	1,468
Services	1,739	1,490	2,350	2,115	2,597	2,852	13,144
Public Administration and Defence	0	0	0	0	0	0	0
Unemployment	-1,060	-856	-1,385	-1,229	-1,542	-1,695	-7,766

Sources: The Conference Board of Canada; Statistics Canada.

5.0 Conclusion

The fallout from today's financial crisis has brought to light just how important access to credit is to the health of the global economy. This report provides evidence of this fact in a localized setting—in this case, by looking at the economic impact that the Community Futures Lending Program has had on Ontario's economy. We found that the program, which is meant to ease credit conditions for small and medium-sized businesses in rural and northern communities, has significant economic clout. The economic impact is bolstered by the fact that the program is very successful in leveraging additional funding from owner's equity and third parties. Simulation results from our economic 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 \$4.22.

Over the 2004 to 2009 period, the program disbursed \$344.7 million in direct loans, but leveraged a total of \$910 million in what we assume to be new capital investment funds. We estimate that this new investment added roughly \$1.53 billion to real GDP and created just over 20,200 jobs. The effect of the lending program on economic activity grows over time as the influx of new capital investment boosts the economy's productive capacity. Annual job creation

peaks in 2009, with an extra 4,520 people employed. The lift to economic activity results in a boost to labour income and corporate profits, important sources of revenues for both the federal and the provincial levels of government. Over the six-year period examined, federal and provincial governments benefit from a cumulative \$233-million lift to personal income taxes and indirect taxes. Corporate income taxes are not modelled in the Conference Board's provincial model but would result in additional revenues for both levels of government.