

Peterborough CFDC Case Study

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This case study will provide a contextual background of the county of Peterborough, a background of the Peterborough CFDC and the services it provides followed by analysis of the strengths and challenges of the organization.

Peterborough in Context:

The county of Peterborough is located an hour and a half north-east of Toronto and two hours south of Algonquin Park and has a population of 128,470. There are 8 townships that make up the county of Peterborough, common among them are the separations between each township by two-lane country roads along either a waterway, or with open farmland clearly in view. The city of Peterborough is the commercial centre of Peterborough County, its population is 74,600. Some key statistics relating to the county of Peterborough (the city of Peterborough included in the statistics) that are helpful as a background to this report are its age demographics, major employers labour force employment profile. 2.5% of Peterborough's population are visible minorities, 51% of the Peterborough County's population is working age, 18% are seniors, 17% are children and 14% are youth. The four top employers in Peterborough County are 1) Trent University and Sir Sandford Fleming College which combined employ 2,100, 2) the Peterborough Regional Health Centre with 1,943 employees, 3) the Public school Board with 1,600 and 4) General Electric with 1,200 employees. During the 1960s and 1970s, General Electric, Quaker and Outboard motors were the city's top three employers. Now, 43% of all establishments in Peterborough County (city of Peterborough included) are considered small businesses of which the dominant industries are retail trade, construction and other services, manufacturing now ranks fifth at 6% in terms of labour force employment¹.

Background of the CFDC:

The Peterborough CFDC was established in 1985 with an initial investment of \$1.55 million by Industry Canada². Its mandate is to provide support of small business development through flexible access to capital up to \$150,000; client counselling services; community economic development initiatives and projects; and supporting social economy and social enterprises. The CFDC's annual operating budget is \$300,000. Industry Canada funds the operational purposes in administering the CFDC program and covers the costs of wages, marketing, business and office supplies and general operating purposes as well as supporting small economic development initiatives. Having operated for over twenty-three years, the Peterborough CFDC has invested \$16 million dollars in the community creating over 2,250 jobs³.

Services provided by the Peterborough CFDC:

¹ All statistical information has been taken from the Greater Peterborough Area information package provided by FedNor.

² With due diligence from the CFDC, this amount has grown to \$6.2 million in assets for the organization.

³ All information in this paragraph was taken from the Peterborough CFDC business plan, October, 2006

The Peterborough CFDC's two key services are the loans program and the Eastern Ontario Development Program (EODP).

The Peterborough CFDC's loans program is tailored to small businesses and entrepreneurs who generally cannot receive loans from conventional banks because of conventional bank restrictions on loans to that demographic. The loans program offers loans up to \$150,000 and lower than \$10,000 (considered a micro-loan) with an average size of \$60,000 to any single business planning to locate, start or expand business operations in the City or County of Peterborough based on a viable business plan and reasonable security. The viability of an applicant is based on 1) the ability of the applicant to pay back the loan, 2) the experience of the applicant in business and overall background experience or training and 3) the presence of collateral security. Aspects outside experience and the financial aspect of business such as possible benefits to the community such as job creation, tourist attraction and utility are not in the forefront in bringing a decision to the board⁴. The CFDC offers loans drawn from a loan capital pool of \$5.9 million. The program offers flexible repayment terms based on the business's cash flow and a rate of interest at 2% above the prime rate. There is an extremely low level loan failure rate at 0.04% for 2007-2008 and 0.0076% since the inception of the program. There have been 536 loans approved amounting to \$23,429,464 since 1984. In this time period, there have been 19 loans that have been defaulted in total, making the average defaults per annum at 0.79% per year⁵.

In addition to the loans process, the Peterborough CFDC has been allotted \$2.3 million dollars to use for the Eastern Ontario Development Program. The EODP is a \$10 million, short-term contribution to a program aimed at addressing socio-economic challenges in Eastern Ontario. The EODP is managed by FedNor, the regional economic development organization responsible for rural Eastern Ontario and is delivered by the 15 local Community Futures Development Corporations (CFDCs) in Eastern Ontario. The funding, from the Government of Canada, allows rural Eastern Ontario communities to pursue the creation of a competitive and diversified regional economy through investment in community economic development, small business growth and job creation. The Peterborough CFDC has successfully delivered its share (\$2.3 million dollars) and helped leverage a further \$4.7 million from the community. The EODP program provides six separate branches of funding in the form of Community Capacity building (\$500,755 in approved funds), Local Initiatives (\$403,974 in approved funds), Business planning (\$68,655 in approved funds), Skills Development (\$247,840 in approved funds), Youth Interns (\$509,023 in approved funds) and Access to Capital (\$486,675 in approved funds)⁶.

Strengths of CFDC programming:

Both the loans and EODP programs play differing but vital roles in community economic development in the region. The loans program targets the small business backbone of the region by (as

⁴ This information has been taken from interview data.

⁵ The low default rate on loans will be discussed in further detail under line of inquiry 2 in regards to the efficient process of the CFDC loans program.

⁶ Please see Appendix 2, "Peterborough CFDC applications since inception" in appendix for a more detailed look at specific funding under the six pillars of the EODP program.

one board member put it) “creating the creators of wealth”. The EODP program is instrumental in targeting a variety of community and business related projects to stimulate various regions, industries and initiatives within the county that the loans program and private business on its own does not.

Many informants including board members, city officials and members of other Community Economic Development (CED) organizations strongly believe that Peterborough has a diverse and vibrant economy laid on the “backbone” of small and local businesses that have been able to provide niche services. To many, the decline of the manufacturing industry over the past few decades in the area has meant a rise in small business and an increase in economic stability in the region. The nature of small business in the region was described by one CED organization official as having “fostered and emerged to provide niche services especially in areas of secondary manufacturing”. One board member emphasized the positive impact of locally created jobs rather than manufacturing jobs from larger companies headquartered outside the region because “those jobs can easily be removed or transplanted on a whim”. Many informants cited the experiences of Smiths Falls and Oshawa who experienced drastic job cuts because of decisions made outside the area that forced major industry to leave the area. The ramifications on employment, and economic activity were major shockwaves for the community. Informants now see local forms of employment as being based on growth and long term stability. Also they describe how Peterborough has moved to a more inward looking economy based less on tourism and outside sources and more on the local service industry. One board member described the period between 1990 and 2000 as “desperate” but that changes have come since that time because of the emergence of grassroots employment as local employment has created stable and vibrant jobs.

The role of the CFDC in this change is significant when looking at the scope of funding and the creation of businesses and jobs since the program’s inception in 1984. Cumulatively the Peterborough CFDC’s loans program has assisted in the creation of 435 new or expanding businesses with over 2,207 new or maintained jobs created. In the past year the loans program has helped fund 26 new business which created 179 new jobs in the area. One board member echoed the general views of many others by saying that “in this community, we [the CFDC] are assisting in developing new entrepreneurs, work space and employment for people in the community”. The nature of the CFDC’s assistance is strong within the community because of its monetary and non-monetary services. The access to capital that the CFDC offers to small business owners according to numerous respondents is vital to small business owners that have no other avenues for such capital because of the restrictions placed upon them by conventional banks. In addition to the access to capital, many partners and members believe that the CFDC board’s ability to provide knowledge, experience and advice to small business owners is a key strength in ensuring the success of the small businesses that they are looking to help.

The EODP program was also seen as having a strong and effective role in community economic development because of its efficiency, purpose and diverse nature. Many respondents felt strongly that the strength of the EODP came from its ability to inject money directly in to the community without any political interference and without as one respondent said “the pitfalls of bureaucracy and big organizations”. Because the EODP grants are administered through the CFDC , many respondents agreed that because decisions on where grant money could go is placed in the hands of an experienced

volunteer board, decisions for funding have no biased political agenda and as a result can be used very effectively for the community.

In addition, the nature of the funding also helps to stimulate further investment as funding is often used as a tool in leveraging projects within the community. As illustrated in the “Peterborough CFDC EODP Applications since Inception” document in the appendix, there has been wide ranging funding according to the six funding pillars of the program. From the Peterborough CFDC’s \$2.3 million in allotted funds, a further \$4.7 million has been leveraged within the community. Projects such as funding of the Lakefield Medical Centre, Kawartha Fest⁷ and the Trent University DNA cluster among many others are a testament to the scope and breadth that EODP funding plays within the greater Peterborough community. One respondent involved with a project funded by EODP explained that “CFDC funding is absolutely essential to bringing on economic development from an inside out perspective. This is foundational leveraging of social infrastructure necessary for social development”. Funding through EODP has been widespread through various industries and initiatives and the amount of funding in each of those key sectors has been significant as previously discussed in the services provided section of this paper.

Overall, when looking at the services provided, and the nature of the economy in Peterborough based on my interviewing, I strongly believe that the Loans program has helped in fostering a large scale small business economy in Peterborough that is sustainable through its variety of business and the emphasis on self-sustainability that entrepreneurship harbours. In addition, the OEDP’s ability to filter money directly in to the community based on specific criteria geared towards community development, employment and training from a group of local experts is also of great benefit in the CFDC’s ability to help in community economic development.

Contributing factors to CFDC Programming:

The outcomes of the Peterborough CFDC’s services are a result of active board members and staff, strong communication and partnerships with various economic development organizations in the area as well as the inherent flexibility of the program itself.

The board of directors plays a hands-on role in the loan decision making process. This allows for direct input from a group of experienced volunteers for the benefit of potential clients. Applicants are encouraged to present their applications to the board. Presentations allow the board to ask the applicant questions about their business and to provide advice or suggestions for their plan. Following the presentation to the board, the board either chooses to offer to finances to the applicant’s business or not. If the proposal is rejected, the board can offer suggestions for the business plan and financing of the business to the applicant. If the proposal is accepted, the loans officer is responsible for receiving reports on the business from the borrower, keeping the board posted on the borrower’s status and making suggestions to the borrowers on how to stay on track in the operation of their business. In this way the CFDC acts very much as an angel investor, providing both hands on advice and expertise.

⁷ Lakefield and Kawartha are both rural areas within Peterborough County

An illustration of the benefit of this process came from a board member who described the application of a Portuguese bakery that had submitted a solid business plan but was initially rejected because of the proposed location of the business. The board members felt that the business's location would not have enough walk by traffic and this change was suggested. The application was re-submitted after the proposed location of the business was improved, the loan was then approved and the business has been very successful and the loan has been re-paid in full.

This anecdote also gives a view of the care that the board members put in to reviewing and also advising businesses that apply for loans through the CFDC. There is a general feeling among board members that they are the custodians of government funding and see their role as "responsible facilitators of businesses". The use of local experts in the organization's decision making processes allows for endogenous solutions for local business owners.

The efficiency of the Peterborough CFDC's services can be attributed to the various partnerships with economic development organizations and open communication with local banks and community initiatives. There are a wide range of community economic development organizations in the area such as the Greater Peterborough Area Economic Development Corporation (GPA EDC), the Community Opportunity & Innovation Network (COIN) and the Downtown Peterborough Business Improvement Association (DPBIA) to name a few. All of these organizations aim to promote positive community and economic development. The CFDC promotes open communication with such organizations to prevent services from overlapping and helping each organization target its niche service. Such communication is fostered by community partnerships and initiatives. A key community partnership used in the promotion of its services is its participation and funding of the Prosperity Roundtable, which is a community consultation group that aims to get the views of the business community and sharing them with municipally elected officials. It is a forum for business and municipal political officials to interact and is composed of 80 business leaders from the Peterborough area. Its focuses are the development of downtown, transportation, municipal inventory and infrastructure. The CFDC is one of four leading partners of the program; they are active within the organization and provide funding of the administrator and facilitator of the program.

In addition, the Peterborough CFDC actively funds community events such as the Festival of Lights (a summer-long music festival) and has its insignia clearly visible at these events and also regularly attends and makes presentations to local service clubs and organizations. The community connections and partnerships emphasized by the Peterborough CFDC are a useful tool to raise awareness among the different organizations and business leaders that serve the community. Vital to such ongoing communications is the manager of the Peterborough CFDC. As almost every informant explained, the strong communication skills and outgoing nature of the manager has helped foster the relationships between organizations to promote positive working relationships.

Connections with the local banking community are another key aspect of the CFDC's strategy. By connecting with local bank branches, the CFDC has been successful in getting banks to recommend the CFDC's services to loan applicants at regular banks. This word of mouth strategy is effective at reaching

potential customers right at the source, as awareness of the CFDC for loan services will never match that of a major bank. Connections with banks that do not tailor their services to the needs of small business means that banks can and do make referrals to the CFDC for customers that do not meet the bank's lending criteria. Such communication is effective; anecdotal evidence from conversations with clients of the CFDC suggests that referrals from conventional banks are common place. Communication with the banking community means the target market is reached extremely effectively and the benefits of alternative regulations, looser restrictions and more training, advice and support are made available to potential clients. The CFDC's aim is not to compete with conventional banks, but rather to provide services to those who cannot otherwise access such capital from conventional banks.

The inherent flexibility of the CFDC is also vital in the effective delivery of its services. One member of a local community economic development organization summed up the strength of the structure of the organization by saying "Decision making takes place at the local level which is the key ingredient to success. Most programming is centralized, with the Community Futures program, it is the opposite. CFDCs have the autonomy to make decisions for their own area, not one for all". The CFDC is a flexible organization that can respond to the needs of its community. As a specific example in 2004, there was a major flood in Peterborough, which impacted many local businesses. Within a day, the CFDC implemented a flood relief loan with 0% interest repayable over a five year term for local businesses. Had this organization been centralized, the responsiveness to the community's needs would have been compromised dramatically. All key decision makers within the organization ranging from the manager and staff, to the board of directors have a wide variety of knowledge and can directly interact with the region that the organization serves. The key decision-makers have a pulse on the needs of the region and have the autonomy to react to such needs as they see fit.

Organizational Challenges:

A key issue that the CFDC has in Peterborough is raising awareness of its features and services within the area it serves to improve the scale of its outreach. Each year the CFDC spends \$30,000 on the advertising of their services in Peterborough. On average the CFDC receives seven or 8 loan applications per month. As of 2008 \$3.7 million in CFDC funds were being loaned, with \$2.2 million in funds available for the loans program that are not being exploited by businesses and entrepreneurs within the community. Those funds, represent lost opportunities to stimulate local businesses, job opportunities for the benefit of the community overall.

The current strategy to promote awareness of the CFDC in the community is multi-layered. The CFDC is partnered with various other economic development organizations, funds community events, runs a newsletter, print, radio and television advertisements, has a weekly spot on the local cable network's news program and has an open round table that fosters community organization partnership while promoting the recommendation of its services from local bank branches.

One common view for lack of awareness of the CFDC stems from the clear fact that potential loan clients are a fairly small demographic of the overall population. As a result, when promoting a loan

program to the overall public, only a small percentage of that public might even be interested in the services that the CFDC provides. During one conversation, a board member mentioned that his neighbour wouldn't be interested in the CFDC because his neighbour doesn't own his own business. This speaks to an overall trend that perhaps the CFDC isn't being used simply because there aren't that many people who are seeking out the service. It must be acknowledged that there is no specific way to target this relatively small group of people and let them know that this program exists.

A further problem in terms of raising awareness is the fact that the CFDC in no way wants to even give the impression that it is offering services that compete with a bank. As one staff member pointed out, this basic premise is part of the operating strategy of FedNor. If the CFDC were to target local businesses as loan clients and a banker got a hold of this, referrals from banks could be thrown out the door. The CFDC is an organization not meant to replace the services of any bank, it is a service meant to step in the gaps in providing access to capital for small and new businesses that banks do not fill.

Conclusion:

Based on the evidence it is clear that the Peterborough CFDC is a very efficient and effective organization that plays a significant role in community economic development in Peterborough County. The impact of the loans program has helped create and stimulate many businesses and jobs within the area contributing to the strong small business economic backbone of the area. The EODP program has helped stimulate a multitude of new community, development, economic, employment and youth initiatives throughout the county on a large scale. The Peterborough CFDC itself has achieved success in its two key programs because of the structure of its organization and the composition of its board and staff. The process of the loans program and the standards and knowledge of the administrators of the program facilitates the success of its clients and the community at large. The board places great emphasis on fiscal responsibility and as a result the organization can operate on solid financial footing. The CFDC's services have helped play a role in creating opportunities for youth in a region not unanimously accepted as a place for youth. The CFDC's services and operations have also helped create unity between various development organizations in the area and have helped overcome multi-community nature of Peterborough County through its inherent flexible structure and various forms of communication and funding.

The local nature of the organization and the use of key volunteer members of the community seem like an ideal model for providing services to the community. Local needs are being serviced by local knowledge and ingenuity. Further and increased funding of this organization could increase the scope of positive activity that could benefit the community at large. Through the course of my interaction with staff and board members of the Peterborough CFDC, local businesses and community leaders, it is clear that the organization has been successful in creating opportunities within its community because it has been built on a foundation of responsibility and passion present within every aspect of the organization.