

# SIDIT EVALUATION

Subsection:  
ECONOMIC IMPACT ANALYSIS



*Southern Interior*  
DEVELOPMENT INITIATIVE TRUST

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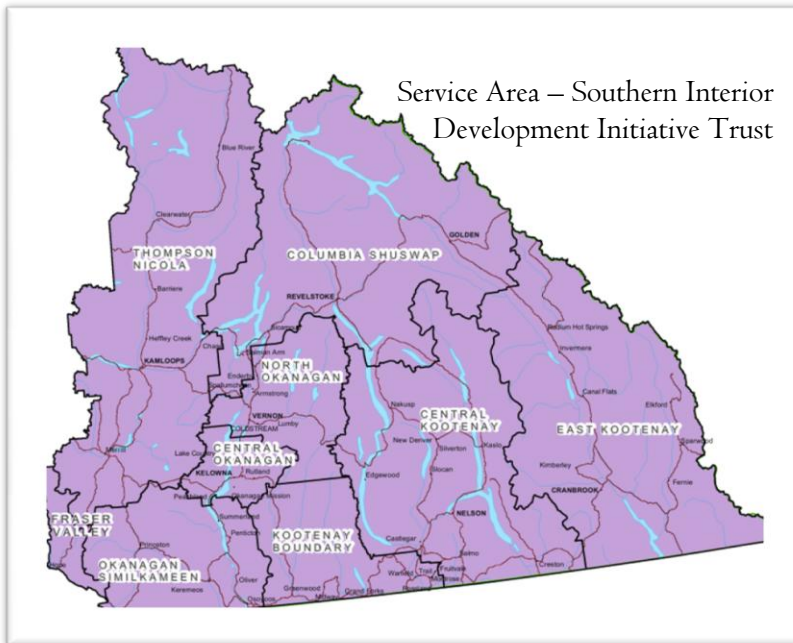
# 1.0 PROJECT DEFINITION

*“ The mission of the Southern Interior Development Initiative Trust is to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior...”*

## 1.1 Problematique

The Southern Interior Development Initiative Trust (SIDIT) was established in February 2006 with an initial capitalization of \$50 million and a mandate to stimulate and facilitate the realization of positive, long lasting and measurable benefits within the southern interior of British Columbia. Over the past five years a substantive amount of activity has been generated through SIDIT’s efforts. In fact, according to the last Annual Report (to March 2010) SIDIT had in aggregate approved \$24 million for development initiatives, grants and education awards; created \$93 million in total project values through SIDIT loans and equity participation;

leveraged \$69 million from other sources as part of overall project funding; contributed to the creation of 893 direct and indirect jobs; and, supported 2,696 students in accredited trades and technology programs.



Clearly the Southern Interior Development Initiative Trust is making a significant contribution to the economic well-being of the region it serves. Or so it seems. What is not particularly clear is whether or not the

identified impacts accurately encompass all benefits and whether they reasonably reflect the most effective and efficient application of SIDIT’s efforts to date including (1) the depth, breadth and relative permanence of the purported impacts; (2) their desirability or fit with regional circumstances and priorities (after all, at the end of the day, it isn’t about achieving something but rather achieving the right thing); and, (3) most importantly whether they hold in a counterfactual argument, i.e. whether they represent incremental positive contributions. More

simply put, are all these impacts fully realized and are they the maximum impacts that could/should be achieved given the resources allocated.

In December 2010 the Southern Interior Development Initiative Trust issued a call for proposals. In its Call for Proposals it specified that it was seeking an independent contractor to *“...set-up a framework to be used to evaluate SIDIT’s functioning pursuant to the Southern Interior Development Initiative Trust Act (the “Act”) as required by section 26 of the Act and to conduct such evaluation. [And that] the purpose of the evaluation framework was to provide the Evaluation Committee with a consistent, comparable and objective means of conducting the mandatory evaluation pursuant to the Act, including assessing the effectiveness and efficiency of SIDIT’s operations within the scope of the Act, and the impact of SIDIT’s Investments at the regional and community level along with the compliance of such investments in accordance with the Act.”*

In January 2011 the Southern Interior Development Initiative Trust awarded Lochaven Management Consultants Ltd a contract to undertake the aforesaid evaluation. In late April 2011 Lochaven Management Consultants Ltd. completed the first step in the process: A Legislative Review. This current effort as reported herein (Economic Impact Analysis) is proposed as Step Two. It builds from the work already undertaken. It identifies and assesses the impacts accruing from SIDITs efforts by focusing on key measurable results (outputs, outcomes and impacts). The third and final step in the overall evaluation exercise will be completed on June 30, 2011. It will include all the findings and outcomes from the two aforementioned exercises, and supplement these efforts with a broader qualitative investigation and assessment of operational effectiveness and efficiency.

In aggregate this three step evaluative effort is intended to provide SIDIT sufficient information to realistically determining what is working, what isn’t – and what, if anything, needs to be improved.

## **1.2 Approach and Methodology**

Properly undertaken an impact evaluation as we intend to apply it here serves the purpose of providing a realistic and defensible answer to the following questions: (1) what difference did this program (SIDIT) make to those enterprises, clients and stakeholders it sought to serve (direct impacts); and (2) what difference did this program more broadly make to socio-economic circumstances and opportunities within the geographic region in which its assistance was implemented/delivered (indirect and induced impacts). In order to adequately answer these questions a tailored research approach was developed and undertaken. Our approach focused on the acquisition of both qualitative and quantitative impact related information; and employed both primary and secondary research. It included a process of scoping<sup>1</sup>, traditional direct fiscal assessment, surveying of a stratified sample of clients/stakeholders, and the careful imputing of indirect/induced impacts.

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<sup>1</sup> Scoping is the process of defining exactly the issues to be addressed, the information to be collected, and the analysis required to properly assess the impacts of a venture/project. Scoping is a process within which various methods are applied to ensure a proper consultation with key stakeholders is undertaken; and a realistic evaluation and prioritization of impacts is ensured.

Key tasks undertaken in preparing this report included the following:

- A review of the Southern Interior Development Initiative Trust encompassing a substantive review of the organization and its operations;
- A review of various annual reports, media and other materials with documented statistics, assertions or insights into the impacts of SIDIT efforts;
- A review of various impact evaluation methodologies and assessments with relevance to the activities and programming of various financial and/or PSD programming institutions and/or strategies;
- An assessment of regional context including an identification and investigation of complementary and/or competing interests within the SIDIT service area (perceived or actual);
- Consultation (formal by way of a survey protocol and informal by way of open discussion) with a variety of SIDIT clients and stakeholder interests;
- Analysis of a comprehensive array of individual client files and financial data as it pertains to the proposed impact of SIDIT support;
- The collection, compilation and analysis of pertinent quantitative and qualitative impact data; and,
- An objective assessment of the direct, indirect and induced economic impacts of SIDIT activities.

### **1.3 Methodological Considerations**

As with any consulting effort, regardless of the care taken, certain limitations are inherent from the methodology of investigation and the assumptions made. Some of these limitations do not preclude the veracity or value of the observations made nor the conclusions drawn. Others are more serious. As much as possible we have endeavored to ensure the effects of any shortcomings in either our methodology or our research have been minimized. Nonetheless while there is some level of confidence that our analyses are firmly based and valid some limitations exist and it is important for the reader of this document to be made aware of them. Most significantly:

1. Within the surveys we have asked individuals to estimate a variety of impacts accruing as a consequence of SIDIT support and to classify these impacts within certain categories chosen for them. As such there are inherent biases in the survey protocols such as: (1) pre-identifying categories (e.g. exclusion); (2) mis-categorization where categories seem to overlap and specific definitions are not provided; and, (3) over/under reporting of selected impacts that might occur when there is a reliance on individual memories and best guesses. It is difficult to determine the scope and depth of error arising pursuant to these types of survey deficiencies. That being said, it should be pointed out that substantial value also accrues from a better understanding of the likely order of magnitude of the impacts as it does from a delineation of specific amounts per se, and we have endeavored to confine our comments and observations accordingly.

2. The tenor of this assignment is premised on capturing positive economic benefits or impacts. Clearly there might also be negative impacts. These negative impacts might be social, economic and/or political. They could include displacement, crowding out, substitution, leakage or other concerns. Unfortunately in many cases these impacts are difficult at best to disaggregate and measure (e.g. how many jobs were lost or displaced within other enterprises as a consequence of SIDIT supporting the enterprises that it did), though we acknowledge that they likely exist and should be part and parcel of a broader analysis. That being said, one would be hard pressed to develop a case where these ignored disbenefits or modifiers, where they might exist, would be anything but inconsequential to the overall assessment.
3. Economic impacts are easily misrepresented. There may be other factors or events that are correlated with the outcomes but are not caused by the efforts of SIDIT. To ensure methodological rigor, an impact evaluation should estimate the counterfactual, that is, what would have happened had the project never taken place or what otherwise would have been true. Again we acknowledge that there is doubtless some modifying influence on the aggregate estimate of SIDIT incrementality, i.e. SIDIT is not so uniquely different in its programming aspects that all of the impacts it is associated with are incremental. While we have endeavored to specifically deal with this matter using proxies derived from our surveys, it is possible that some calculation error nevertheless will have been made, though of what magnitude or of what direction we can only assume. Based on our conservative approach, however, we believe any error is not significant enough to cast doubt on the evaluation.
4. Some parts of the economic impact assessment employ the use of multipliers. Multipliers are inherently fraught with controversy because of difficulties associated with their exact measurement and relevance to the task at hand. Again, as much as possible we have taken a conservative approach so as to err on the side of being overly cautious thereby protecting the veracity of our overall observations and conclusions.
5. Our investigations do not comprehensively address environmental or social externalities arising pursuant to the operation of the Southern Interior Development Initiative Trust; though arguably one would expect that there are some significant impacts on “quality of life indicators” accruing from the creation of more innovative (knowledge) enterprises and the development of higher skilled workers. Thus while some of these less tangible impacts are explored, our more focused attention is on the primary theme of economic impacts.
6. Our investigations look at a single point in time and it is not only conceivable that changes will have occurred between the start of the study investigation and the preparation of this report, but that they are quite likely. As such, certain observations and conclusions presented herein may be less/more relevant than when initially posed.

Notwithstanding the collective importance of these limitations we are confident that the analyses undertaken and the observations made throughout this report are germane, realistic and supportable.

## 2.0 SIDIT LOAN AND EQUITY FUNDING

### 2.1 Background and Context

The British Columbia economy in 2005 was at best fragile and perhaps more accurately still in crisis. Though there was enthusiasm around the hope and promise of the 2010 Olympics not much of that enthusiasm percolated outside the lower mainland. The truth be told there weren't many that believed there would be any sustained relief anytime soon from the economic malaise and financial devastation caused by the global meltdown. The Southern Interior Development Initiative Trust was conceived and born into this culture of concern and apprehension.

If we think of economic development, and particularly the role of government as a facilitator and promoter of private investment for the purposes of generating or retaining jobs, expanding the tax base, and increasing the general level of economic well-being, we can understand the motivation around the Provincial Government's interest and mandate to intervene: *"The introduction of the Southern Interior Development Initiative Trust Act honours a government commitment that was made to communities of the southern interior region ... . It [SIDIT] is to develop economic growth and create new jobs for communities throughout this region."*<sup>2</sup>

Secondly, we can also appreciate that the strategic direction and operations of the Southern Interior Development Initiative Trust were in part a consequence of the economic circumstances during the first decade of the 21<sup>st</sup> century as well as the associated belief that financial market imperfections and especially credit market failure were largely responsible. More specifically the assumption was that adequate financing was not available from private sources - individuals, financial institutions, capital markets - where adequate meant not only the cost and quantity of funding but also the specific type (e.g., debt, equity). The problem, then, was perceived to be not with the financial viability of proposed investments; the problem was with finding people or institutions willing and able to provide the capital. With this in mind the idea was to establish an institution with a mandate to: (1) address borrower credit risk problems exacerbated by the global financial crisis; (2) provide direct support to specific (preferential) economic sectors and to those areas of the Province requiring special attention; and, (3) provide less costly and more socially desirable alternatives to the direct allocation of social payments to people living in economically depressed regions or granting funds indiscriminately to communities and regions as a short term quick fix.<sup>3</sup>

<sup>2</sup> Hon. C. Hansen, Official Report of Debates Of The Legislative Assembly, (Hansard). Tuesday, October 18, 2005.

<sup>3</sup> It should be pointed out that the legislation that created the Southern Interior Development Initiative Trust (Southern Interior Development Initiative Trust Act Bill 8 – 2005 ) did not oblige it to take the exact path it chose to take. In fact as noted in Part One of this exercise on the Legislative Review Process, the Act is really quite non-proscriptive. As such, entities such as the Islands Trust (created under basically the same legislation) have chosen to take a different path.

## 2.2 Mandate, Focus and Conditions

*“The Southern Interior Development Initiative Trust (SIDIT) Act mandates investment in economic development initiatives within ten key sectors that will demonstrate long term measurable economic benefits within the Southern Interior. Within its mandate, SIDIT lends to, and invests in, promising commercial enterprises that may not qualify for credit through traditional sources.”*

Annual Report 2010,  
Southern Interior Development Initiative Trust

As noted in the quote above, the Southern Interior Development Initiative Trust (SIDIT) has assumed as one of its core mandates or responsibilities, the provision of debt (loan) and/or equity funding to selected eligible projects within ten key sectors in its service region. In this regard SIDIT provides funding up to a maximum of \$1,000,000 or a maximum of 50% of a total project budget (a minimum leveraging ratio of \$1.00 from SIDIT to \$1.00 from other sources). Applicants must provide confirmation of all other sources of project funding prior to SIDIT disbursing funds. The strategic priorities of SIDIT’s support includes the following considerations:

- contribution towards economic sustainability of small communities.
- realistic measurement criteria established to assess project outputs.
- economic diversification.
- ensuring geographic sensitivity in the disbursement of SIDIT funds.
- research and development leading to commercialization.
- strategic initiatives.
- regional impact.
- job creation, job preservation, or enhancement.
- leveraging other funds.
- Avoidance of overlap and duplication.
- economic merit.
- filling funding gaps.

with an emphasis on:

- environmentally friendly manufacturing operations.
- research and development initiatives that lead to increased commercial activity.
- initiatives that contribute to small community sustainability.
- initiatives that result in sustainable job creation, job preservation, or enhancement.
- public/private sector partnerships (p3s).
- the development of strategic alliances.
- arts and culture initiatives that demonstrate measurable economic impact.
- initiatives that have a regional impact.
- initiatives that contribute to the diversification of the economy.

Eligible activities include activities within the following broad categories (as defined within

section 20 (1) of the Act):

- forestry;
- tourism;
- small business;
- pine beetle recovery;
- mining;
- economic development;
- agriculture
- transportation;
- Olympic opportunities;
- energy;

### 2.3 Recorded Performance and Impacts

According to the Southern Interior Development Initiative Trust’s most recent annual report (Annual Report 2010, Southern Interior Development Initiative Trust) and a presentation made by SIDIT representative Ms. Luby Pow, CEO during the Legislative Review Process, a number of significant performance impacts/results have been realized and recorded. These are summarized in the two tables and the two quotes below.

*“Since inception, SIDIT funded projects have led to the creation of 22 new businesses, the support of 12 business expansions and the development of 14 new technologies. As well, project funding has led to significant opportunities for clients to increase their exports. \$93 million in total project value created through SIDIT loans and equity participation....”*

*“\$69 million leveraged from other sources as part of overall project funding; 893 direct and indirect jobs created, and potential for significant additional employment over the next five years...”*

**Sectoral Distribution Of SIDIT Loan And Equity Funding**

Sector	SIDIT Loan and Equity Funding \$	Sector	SIDIT Loan and Equity Funding \$
Mining	150,000	Transportation	436,000
Olympic Opportunities	50,000	Economic Development	714,233
Small Business	15,984,677	Energy	157,380
Agriculture	695,439	Tourism	768,877
Forestry	2,674,319	Pine Beetle Recovery	499,676

**Regional Distribution of SIDIT Loan and Equity Funding**

Region	SIDIT Loan and Equity Funding \$	Region	SIDIT Loan and Equity Funding \$
East Kootnay	803,625	Central Okanagan	12,886,054
Central Kootnay	100,000	North Okanagan	1,605,589
Kootenay Boundary	1,342,964	Columbia Shuswap	754,680
Okanagan Similkameen	930,674	Thompson Nicola	758,801
Hope	0		

## 3.0 SURVEY FORMAT and DATA COLLECTION

### 3.1 Survey Format

In late March 2011 Lochaven Management Consultants Ltd. prepared two separate survey instruments with the intention of gathering more substantive qualitative and quantitative information on the effectiveness and efficiency of efforts undertaken by the Southern Interior Development Initiative Trust. One of these instruments was intended for use with grant applicants/recipients and the other for loan/equity applicants/recipients. An initial testing of each survey was undertaken in mid-April followed by a more extensive review of a selected number of "SIDIT loan and equity clients" over the period April 18, 2011 to May 15, 2011. The latter effort was intended to confirm critical financial elements necessary for a better understanding of the broad scope and depth of issues in respect of economic impact assessment and analysis. (See Section 4.0, below). Finally this investigative effort was followed by two sets of more structured, extensive and in-depth interviews of loan/equity and grant applicants beginning in late May 2011 with the objective of evaluating the overall performance of the Southern Interior Development Initiative Trust. The survey instrument for loan/equity applicants/recipients is appended at the end of this report in Appendix A.

Both questionnaires/surveys were designed to broadly capture impressions, thoughts and opinions, as well as important factual information. For the most part administering the questionnaires required respondents to provide answers to pre-defined questions. In many cases these responses required clarification and/or further investigation and thus were often supplemented with additional discussion to ensure as much pertinent information as possible was collected. In all cases, each interview subject was assured of the confidentiality of the information collected from them. Purposely focus group discussions were not undertaken so as to ensure all responses were open and frank.

The identification of interview subjects came from a list of clients (successful and unsuccessful) provided to the Consultant by the Southern Interior Development Initiative Trust. A representative sample of interviewees<sup>4</sup> was obtained using a standardized survey methodology. Both successful and unsuccessful applicants were interviewed. Some additional interviews were also held with key stakeholders (pursuant to the concurrent performance assessment undertaken by the Consultant) as a means to round out and further clarify some of

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<sup>4</sup> It should be noted up front that this effort specifically sought out those Clients who were generally knowledgeable about SIDIT beyond simply being a recipient of financial support; and those stakeholders with some level of knowledge of SIDIT, ideally gained through some cooperative exercise/effort or participation in SIDIT programming implementation. There is, of course, some inherent bias in this group. However the corollary is that if we were only to focus on gathering input from those not involved and/or not overly familiar, and by implication more impartial, we have no way of assessing their level of knowledge and no way of assuring the relevance of their impressions and suggestions.

the qualitative information collected in the two surveys, especially in respect to the broader induced impacts of SIDIT's efforts and the confirmation of a counterfactual baseline.

### 3.2 Respondent Experiences, Perspectives and Impacts

*"... our SIDIT loan was very helpful at a time when it was difficult to source loans for anything... Without SIDIT's assistance our project would never have gotten off the ground ... we would be operating today at reduced activity levels."*

Survey Respondent (SIDIT Loan Client)  
May 2011

While the number of in-depth interviews for this part of the overall performance evaluation and analysis was intentionally limited (i.e., for the most part to confirm the counterfactual or incrementality argument), preliminary results were quite interesting. For instance, most respondents felt that the financial assistance (loan and/or equity support) provided to them by the Southern Interior Development Initiative Trust was incremental and extremely helpful, particularly at a time and place when/where financing and the financial terms associated thereto were at best difficult and at worse impossible to come by elsewhere. In fact, many of the respondents acknowledged that their project would not have been possible at all, or would have required significant alteration as a much reduced initiative without direct financial support from the Southern Interior Development Initiative Trust.

For the most part successful applicants used the financial assistance provided by SIDIT to facilitate the acquisition of short and long term capital equipment, undertake new/additional research and development, and/or invest in renovation/expansion of facilities. These initiatives, according to the majority of respondents were instrumental in bringing about increased revenues, enhanced productivity and efficiencies, along with other significant benefits not the least of which included an expansion of markets. The implication of this latter observation is particularly relevant to the broader estimate of economic impact, i.e. the sustainability of impacts. Notably as well, the financial assistance provided by SIDIT resulted in additional (new) skilled jobs being created and, in some instances, helped to sustain existing employee positions.

From a more qualitative standpoint the majority of respondents were generally quite satisfied with the services provided by the Southern Interior Development Trust and the timeliness of approvals and disbursement. For instance, almost all individuals interviewed in the initial sampling indicated that SIDIT staff were very helpful in offering assistance during the application process, normally providing ratings between 4 and 5 on a scale where 1 was considered unhelpful, 3 helpful and 5 very helpful. They also rated the guidelines and application procedures of SIDIT as being clear at between 3 and 4 (tending to 4) on a similar scale with 1 being very unclear, 3 being adequate and 5 being very clear. Importantly, they also felt the decision on their funding application was made in a timely manner.

## 4.0 ECONOMIC IMPACT ANALYSIS

A comprehensive evaluation of a program, such as that envisaged within the context of this assignment, can include either a process or a formative (outcome, impact, or summative) evaluation, or a combination of both. Process evaluations focus on how programs are delivered. Impact evaluations focus on program results. Within the context of this part of our overall investigation we focus primarily on the delineation of specific economic impacts, though we also augment this with insights into the causality of specific delivery methodologies and the incidence of selected social (quality of life) impacts.

### 4.1 Analytical Framework

Upon cursory investigation there may appear to be a variety of different economic impact models and approaches that could be utilized to assess the economic impact of selected operational and/or programming initiatives across a diverse variety of scenarios. And thus the question might be which one is best in this instance? In fact however, there are very few approaches (cost benefit analysis, input output modeling and so forth) and these methodologies tend to be more similar than different. The perceived differences are largely a matter of sophistication and rigor premised in part upon the ready availability of data.

As stated previously, the premise of our investigation is to identify, articulate and measure the individual and aggregate economic impacts accruing within the Southern Interior Development Initiative Trust Service Region as a consequence of SIDIT's loan and equity funding activities. Specifically we seek to assess impacts that can be directly attributed to particular activities (i.e. spending, investing, producing, providing, employing, and/or utilizing) that would not have occurred in the absence of SIDIT's loan and equity funding activities. Clearly then, the key to our analysis is the isolation and measurement of incremental activity – including direct, indirect and induced effects. The indirect and induced impacts are often referred to as multiplier effects<sup>5</sup>. These terms are defined as follows:

**Direct economic effects** are the changes in local business activity (output, incomes and jobs) that are directly generated through the business activities of loan/equity recipients.

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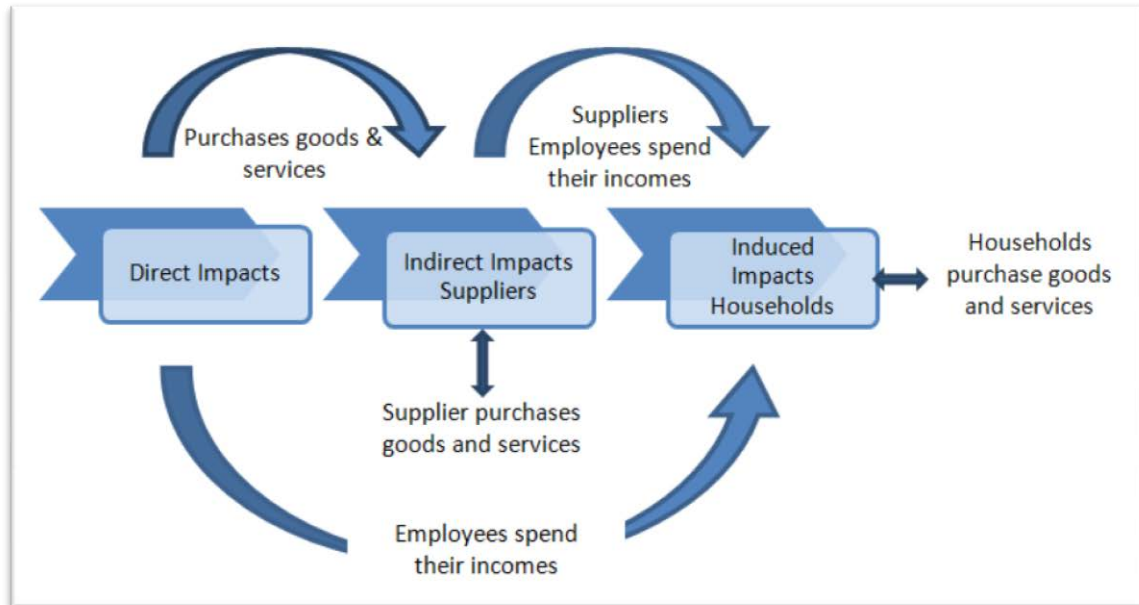
<sup>5</sup> Multipliers (income or output multipliers) measure how much a dollar spent circulates and recirculates within the economy. The output multiplier for a given industry in a given area encompasses the total overall increase in dollars of business output for all industries per dollar of additional final demand (purchases) of the given industry. An employment multiplier for a given industry in a given area encompasses the total overall increase in jobs for all industries per new jobs created in the given industry. As a general rule multipliers are higher for regions with a diverse industry mix. Thus multipliers tend to be higher for industries located in large urban areas, because more of the spending and more of the jobs by the industry stay within the area. Smaller, rural areas generally have lower multipliers, because industries must use firms outside the area for supplies and services (leakage).

**Indirect business impacts encompass** business growth (output, incomes and jobs) resulting from changes in sales of suppliers to the directly-affected businesses (including trade and services at the retail, wholesale and producer levels).

**Induced business impacts** include those further shifts in spending as a consequence of the change in workers and payroll of directly and indirectly affected businesses. This leads to further business growth (output, incomes and jobs) throughout the local economy. These induced impacts most typically occur in retail and other local-serving industry categories such as personal services, education, and health care.

The total impact of any given activity is then calculated by adding direct, indirect and induced impacts. The chart following illustrates the interrelationships between direct, indirect and induced impacts.

### The Economic Impact Chain



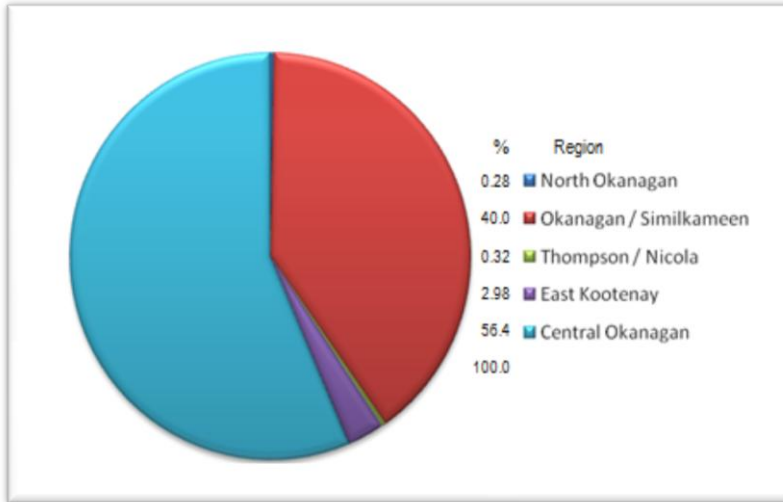
## 4.2 Loan/Equity Fiscal Assessment Survey Sample

A number of Southern Interior Development Initiative Trust loan/equity client files were made available to the Consultant for review and analysis. In aggregate the Consultant reviewed nineteen files. Three of the nineteen did not have full financial statements inasmuch as they had not yet completed their first year of operations. In aggregate the loan/equity value of these nineteen files totaled \$14,898,617 (26.4%) of the total project value of \$56,519,323. Total SIDIT loans disbursed since inception is \$23,912,665.75 for projects totaling \$86,379,323.00. Our review was thus based on approximately 63% of SIDIT's portfolio.

## Loan/Equity Financial Assessment Survey Sample

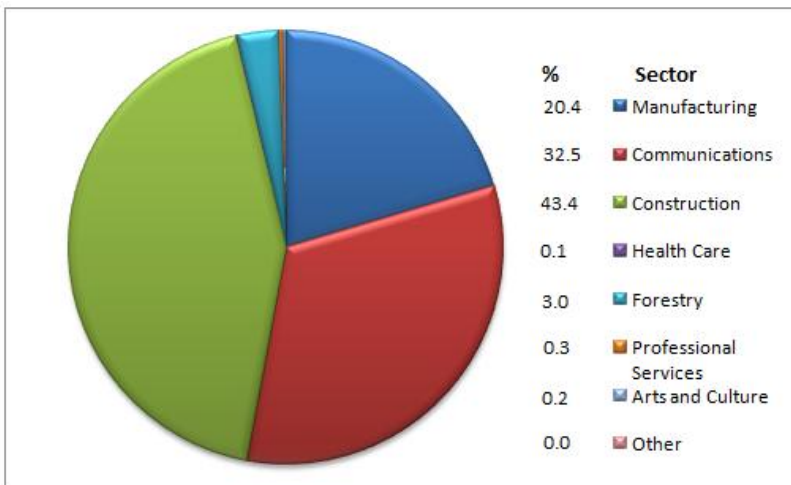
Estimated SIDIT Contributions to						→				TOTALS
COMPANY	Loan Disbursement	Project Value	% SIDIT Contribution	Industry	REGION	Est. Gross Yrly Revenues	Est. Cost of Sales	Est. Fees, Wages, Payroll	Est. Other Expenses	TOTALS
1	\$ 1,000,000.00	\$ 1,500,000.00	66.7%	Electronics Manufacturing	Central Okanagan	\$2,564,424	\$901,348	\$13,381	\$370,860	\$1,285,589
2	\$ 1,250,000.00	\$ 2,500,000.00	50.0%	Health Care	Central Okanagan	\$367,198	\$0	\$33,848	\$0	\$33,848
3	\$ 50,000.00	\$ 100,000.00	50.0%	Construction	Central Okanagan	\$579,535	\$376,056	\$0	\$33,491	\$409,547
4	\$ 225,000.00	\$ 450,000.00	50.0%	Pharmaceuticals	Central Okanagan	\$0	\$0	\$0	\$0	\$0
5	\$ 103,654.22	\$ 200,000.00	51.8%	Arts & Culture	Central Okanagan	\$512,139	\$0	\$0	\$52,472	\$52,472
6	\$ 1,682,662.00	\$ 8,139,000.00	20.7%	Construction	Central Okanagan	\$94,573	\$131,585	\$0	\$198,652	\$330,237
7	\$ 1,000,000.00	\$ 2,000,000.00	50.0%	Communications	Central Okanagan	\$5,887,289	\$111,980	\$4,103,293	\$52,260	\$4,267,533
8	\$ 1,773,000.00	\$ 5,114,934.00	34.7%	Electronics Manufacturing	Central Okanagan	\$303,373	\$45,025	\$0	\$2,304,520	\$2,349,545
9	\$ 1,500,000.00	\$ 5,250,000.00	28.6%	Electronics Manufacturing	Central Okanagan	\$201,623	\$32,345	\$0	\$909,280	\$941,625
10	\$ 1,530,636.78	\$ 3,150,000.00	48.6%	Communications	Central Okanagan	\$26,933	\$5,086	\$63,700	\$537,519	\$606,305
11	\$ 350,000.00	\$ 1,050,000.00	33.3%	Communications	Central Okanagan	\$346,923	\$0	\$688,091	\$818,719	\$1,506,810
12	\$ 977,000.00	\$ 3,567,000.00	27.4%	Communications	Central Okanagan	\$66,383	\$238,164	\$142,254	\$600,317	\$980,735
13	\$ 600,000.00	\$ 7,000,000.00	8.6%	Forestry	East Kootenay	\$100,964	\$124,061	\$377,743	\$176,270	\$678,074
14	\$ 126,600.00	\$ 249,400.00	50.8%	Food and Beverage	East Kootenay	\$237,173	\$0	\$0	\$0	\$0
15	\$ 1,000,000.00	\$ 7,690,000.00	13.0%	Manufacturing	North Okanagan	\$93,687	\$19,616	\$0	\$33,461	\$53,077
16	\$ 355,589.00	\$ 700,000.00	50.8%	Communications	North Okanagan	\$56,384	\$10,880	\$0	\$65	\$10,945
17	\$ 930,674.13	\$ 2,438,989.00	38.2%	Land Development	Okanagan / Similkameen	\$3,620,517	\$8,674,786	\$17,500	\$413,394	\$9,105,680
18	\$ 134,472.00	\$ 250,000.00	53.8%	Professional Services Environment	Thompson / Nicola	\$0	\$0	\$0	\$70,772	\$70,772
19	\$ 309,329.00	\$ 5,170,000.00	6.0%	Professional Services Training	Thompson / Nicola	\$0	\$0	\$0	\$0	\$0
	\$ 14,898,617.13	\$ 56,519,323.00	26.4%			\$15,059,118	\$10,670,932	\$5,439,810	\$6,572,052	\$22,682,794

Southern Interior Development Initiative Trust loan/equity participation for the nineteen sample clients studied ranged in aggregate size from \$50,000 to \$1.7 million and leveraged aggregate project values of \$100, 000 to \$ 8.14 million. SIDIT contributions to



individual projects ranged from a low of 6.0% to a high of 66.7%. Loan/equity value by region indicated the most significant by value was the Central Okanagan (56.4%) followed by Okanagan Similkameen (40.0%); though by number of files reviewed there were 12 from the Central Okanagan, and 2 each from the North Okanagan, Thompson

Nicola and East Kootenay; and only one from Okanagan Similkameen. Clearly because the single venture in Okanagan Similkameen tends to distort the geographic dispersion of SIDIT’s loan/equity activities that we reviewed, we were all the more cautious in drawing inferences to the entire sample when assessing indirect and induced inputs.



As previously noted pursuant to the Southern Interior Initiative Trust Act, SIDIT tracks and records its loan and investment efforts using a mixture of economic and descriptive categorizations e.g., tourism and economic development. Inasmuch as this format is not entirely conducive to undertaking an economic

impact analysis because there are no imputed multipliers for certain SIDIT categories (e.g., there is no standard industry categorization i.e., SIC Code for economic development), we have chosen to categorize as best we can the recipient companies of loan/equity investments from SIDIT into selected SIC’s. Under this categorization the dispersion of values lent/invested by economic sector the three predominate industries is weighted between construction including land development (43.4%), communications (32.5%), and manufacturing related activities (20.4%) and followed by forestry (3.0%), professional services (0.3%) arts and culture (0.2%) and health care (0.1%).

### 4.3 Estimating Economic Impacts

In order to estimate the economic impacts of SIDIT loan and equity efforts, the analysis below used an array of information sources and materials including, but not restricted to the following: (1) various studies, reports, and presentations including the SIDIT presentation included in the Legislative Review exercise and various Annual Reports of the Southern Interior Development Initiative Trust; (2) primary survey data collected by the Consultant in one-on-one interviews; and, (3) information made available to the Consultant from Client files. Collectively this data provided a sufficient platform from which to confidently estimate the relationship between SIDIT's lending/equity investment efforts and the income and employment impacts to the Service Region.

Looking first at direct impacts the collective information indicates that Southern Interior Development Initiative Trust lending/investment activities added (directly and leveraged in terms of additional lending efforts) a total of \$86.3 million to the local economy. This lending/investment activity in turn is calculated to have created 1,194 jobs<sup>6</sup>.

The direct business activity created by SIDIT's loan and equity recipients also generated additional economic opportunities for other businesses. These indirect impacts, created through buyer-supplier relationships total approximately \$10.6 million per year. The induced (householder) impacts of this activity add an additional \$3.03 million to the local service region.<sup>7</sup> In terms of employment the numbers of jobs created as a consequence of indirect and induced impacts is in the order of an additional 358 jobs.

The table below summarizes the aforementioned economic impact information and calculations.

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<sup>6</sup> A proxy for estimating direct employment created as a consequence of SIDIT's loan and equity investment efforts is derived from SIDIT's 2009 Annual Report wherein it was asserted that *"During Fiscal 2009, the Board of Directors approved over \$9 million in projects with a collective value of over \$34 million. Once complete, these projects will have created over 470 direct new jobs."* With this as a premise it can reasonably be assumed that it requires approximately \$72,000 in investment to create one job. Thus for an aggregate investment of \$86.38 million an estimated 1,194 jobs were created.

<sup>7</sup> Given the size and diversity of the Service Region it is difficult to define an exact income multiplier as in some cases the area is quite rural and thus considerable leakages are expected to accrue while some other areas are relatively urban, more economically sophisticated, and thus not likely to experience as much leakage. In this regard we are looking at a measure somewhere between 1.15 and 1.45. Given the preponderance of lending/equity investments within the Central Okanagan we have chosen to utilize a measure in the order of 1.30, knowing that this likely errs on the side of being overly conservative.

**Direct, Indirect And Induced Impacts Of The Southern Interior  
Development Initiative Trust's Lending And Equity Investment Activity –  
2010-2011**

	<b>1st Order Direct Impacts</b>	<b>Indirect And Induced Impacts</b>	<b>Total Impact</b>
Regional GDP	\$86.38 million	\$26.78 million	\$113.16 million
Employment and Jobs	1,194 jobs	358 jobs	1,552 jobs

Of course these measures do not fully capture the depth and scope of SIDIT's economic impacts insofar as longer term regional growth and sustainability are concerned.

By way of example it should be further pointed out that following a detailed review of client financial statements we estimate that SIDIT's lending/investing efforts contribute an additional \$24.3 million per year to enterprise revenues which in turn has cumulative implications to additional regional incomes and job creation over time. Furthermore, the growth in business revenue and employment generated by SIDIT's lending/investing efforts also has consequences for Canada, British Columbia and local tax authorities. It is difficult to estimate taxes accruing or expected to accrue from enterprise incomes and the taxes expected to accrue from property tax payments, license permits and the like, and thus our attention is directed to only taxes accruing from personal incomes. In this regard assuming average salaries of \$45,000 to \$55,000 for 1,552 employees, aggregate yearly tax receipts would be in the order of \$13.7 million/year with the portion allotted to British Columbia being approximately \$3.3 million/year.

## 5.0 CONCLUDING REMARKS AND OBSERVATIONS

From the information and the analyses undertaken the Southern Interior Development Initiative Trust has had a positive and significant incremental economic impact within its Service Region specifically and within British Columbia generally. Loan and equity investment programming has led to the creation of new enterprises and/or strengthening of others; the creation of new jobs; and increased regional growth and prosperity. All of this has happened over a period of time that has arguably been one of the more challenging economic experiences for many BC communities and businesses.

For the most part SIDIT has maintained a relatively diverse sectoral portfolio, one that has served to strengthen and enhance key economic sectors. At the same time SIDIT has sought to ensure there is a balance in the regional dispersion of its lending/investing efforts.

By most measures the organization and its programming represents a cost effective means by which to generate sustainable regional growth and prosperity. The Province of British Columbia made a serious investment in the Southern Interior Development Initiative Trust in terms of the opportunity cost of the funds allocated to its creation (\$50.0 million). In return the organization has paid dividends in terms of adding \$113.16 to regional GDP; stimulating the creation of 1,552 jobs; facilitating \$24.3 million in annual revenues to regional businesses; and feeding back in excess of \$13.7 million/year in tax dollars to Canada and \$3.3 million/year to British Columbia.

## Appendix A: SURVEY INSTRUMENT

# EVALUATION OF SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST (SIDIT) - SUPPORT TO THE BUSINESS COMMUNITY - LOAN AND EQUITY INVESTMENTS

## SECTION A: RESPONDENT IDENTIFICATION:

Respondent Name: \_\_\_\_\_  
Business/Organization Name: \_\_\_\_\_  
Location (Community): \_\_\_\_\_

## SECTION B: INFORMATION ON SIDIT APPLICATION

1. How did you become aware of SIDIT?

- Media
- Referral from a financial institution (including BDO and CFDC)
- Referral from an accountant or business associate
- Referral from a RAC member or SIDIT Director
- Approached directly by SIDIT
- Other (specify) \_\_\_\_\_  
\_\_\_\_\_

2. What year did you apply for funding? \_\_\_\_\_

3. Was the funding you applied for a loan or an equity investment?

- Loan
- Equity Investment
- Combination

## SECTION C: SPECIFIC INFORMATION ON BUSINESS

1. How long had your business been in operation at the time you applied for funding from SIDIT?






- Start-up
- 1 to 3 years
- Over 3 years

2. What **ECONOMIC** sector (industry) best describes your business activities?

- |                                      |   |
|--------------------------------------|---|
| <input type="checkbox"/> Agriculture | <input type="checkbox"/> Retail & Wholesale Trade |
| <input type="checkbox"/> Energy      | <input type="checkbox"/> Tourism                  |
| <input type="checkbox"/> Mining      | <input type="checkbox"/> Transportation           |
| <input type="checkbox"/> Forestry    | <input type="checkbox"/> Other [specify]          |
-

3. As a further identification would you classify your business into any of these additional activities? **[check as many as apply]**
- Small business
  - Pine beetle recovery
  - Olympic opportunities
  - Economic development
  - None of above**

#### SECTION D: INFORMATION ON SIDIT LOAN/EQUITY INVESTMENT

1. Were you successful in receiving the financing applied for from SIDIT?
- Yes **[go to question 8 below]** 
  - No
  - Partially **[go to question 5 below]** 
2. Were reasons given to you as to why you did not receive the funding requested?
- Yes
  - No
3. Were you able to source the financing elsewhere after your loan application was declined by SIDIT?
- Yes, for the entire amount required **[go to section F, question 1]** 
  - Yes, but only partially
  - No
4. In hindsight did not getting the funds required for your project adversely affect your business' viability or sustainability? **[then go to section F, question 1]** 
- Yes
  - No
5. Were reasons given to you as to why you did not receive the entire funding requested?
- Yes
  - No
6. Were you able to source the additional financing required elsewhere?
- Yes, for the entire additional amount required **[go to question 8]** 
  - Yes, but only partially
  - No
7. In hindsight did not getting all the funds required for your project adversely affect your business' viability or sustainability?
- Yes
  - No

If "yes" to question 7, above, explain:

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8. What was the total dollar amount of your loan/equity investment from SIDIT?

- Up to \$50,000                       \$100,001 to \$250,000                       \$500,001 to \$750,000  
 \$50,001 to \$100,000                       \$250,000 to \$500,000                       \$750,001 to \$1,000,000

9. What specifically was the loan/equity investment for (check as many as apply)?

- Acquisition of capital equipment e.g., specialized machinery, equipment, computers, intellectual property.  
 Acquisition of land or existing building  
 New building construction  
 Renovation/expansion of existing structure  
 Research and Development  
 Working capital or operations [e.g., marketing]  
 Other [specify] \_\_\_\_\_

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#### SECTION E: OUTCOMES/RESULTS OF SIDIT LOAN/EQUITY INVESTMENT

1. If you had not received support from SIDIT, how likely would you say you project would have proceeded? Would you say:

- Very unlikely  
 Possibly, but not as originally planned  
 Very unlikely

2. How did the SIDIT loan/equity investment help your business? [probe if necessary and check as many as apply]

- Increase sales, by how much: \_\_\_\_\_ %  
 Increase productivity/efficiencies e.g., increased net income, higher employee productivity, increased profitability  
 Research and innovation  
 Trained and enhanced the skills of management and workforce  
 Expand markets  
 Other [specify] \_\_\_\_\_

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- No discernable results

Additional Comments: \_\_\_\_\_

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3. From the time of receiving SIDIT support, has the number of staff your business employs increased, stayed the same, or been reduced?
- Increased
  - Stayed the same [go to question 5 below]
  - Reduced


4. How many full time and part-time jobs were created/reduced as a result of the funding?

<u>Created</u>	<u>Reduced</u>
Full time_____	Full time_____
Part time_____	Part time_____

- 4b. What percentage of the new positions do you estimate were high skilled as opposed to low skilled jobs? \_\_\_\_\_ %


5. In your opinion, did the loan you received from SIDIT help your business survive when it might not have otherwise?
- Yes
  - No, business would have survived anyway


**SECTION F: PRIOR TO APPLYING FOR SIDIT FUNDING**

1. Did you approach other sources of financing for part or all of your project financing/equity needs before approaching SIDIT?
- Yes
  - No [check appropriate box(es) below and then go to section G, question 1] 

1a. If not, why not?

- I had tried other lenders/investors in the past and wasn't successful
  - I am not aware of any other lenders/investors in the region that would support the project
  - I heard that SIDIT would be the best approach and so I decided to go directly to them
  - Other [specify] \_\_\_\_\_
- 

2. Were you successful in obtaining any amount of financing for your project from this/these other source(s)?
- Yes
  - No [go to question 4 below] 

3. Then why did you approach SIDIT for financing? [then go to section G, question 1] 

- Funds advanced did not cover entire cost of project.
  - Terms of loan too onerous e.g., interest rate, collateral, length of contract.
  - Other [specify]
- 

4. Why were you not able to obtain the required financing from this/these other source(s)?

- Terms of loan too onerous e.g., interest rate, collateral, length of contract
  - Project deemed as too risky
  - Did not fit the lending mandate/authority of the financial institution
  - Other [specify]
- 

#### SECTION G: SATISFACTION WITH SERVICE AND SUGGESTIONS FOR IMPROVEMENT

1. On a scale of 1 to 5, with 1 being not at all aware, 3 being somewhat aware, and 5 being very aware, how aware were you of SIDIT and the services it provides prior to approaching them?

1      2      3      4      5

2. On a scale of 1 to 5, with 1 being very unclear, 3 being adequately clear, and 5 being very clear, how clear were the rules, guidelines, application and decision making procedures required for SIDIT financing?

1      2      3      4      5

If below 3, why in your opinion was the information unclear? \_\_\_\_\_

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3. On a scale of 1 to 5, with 1 being very unhelpful, 3 being helpful, and 5 being very helpful, how helpful was SIDIT staff in assisting you in the applications process?

1      2      3      4      5

4. On a scale of 1 to 5, with 1 being highly insufficient, 3 being adequate, and 5 being very timely, how timely was the decision made on your application?

1      2      3      4      5

**ONLY ASK FOLLOWING QUESTIONS OF RESPONDENTS  
THAT RECEIVED SIDIT FUNDS**

5. In your opinion, was SIDIT funding for your project provided in a timely manner after your application was approved?

- Yes
- No

6. On a scale of 1 to 5, with 1 being very unclear, 3 being clear, and 5 being very clear, how clear and understandable were the conditions of the loan/equity investment set out once the funding was approved?

1      2      3      4      5

7. On a scale of 1 to 5, with 1 being very unaware, 3 being aware, and 5 being very aware, how aware are you “now” of SIDIT’s purpose to support sustainable economic development within the region, how it operates and the programs and services it offers?

1      2      3      4      5

8. Do you have any suggestions how SIDIT might improve its services?

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