

## Knowledge Synthesis

### Investment Attraction in Rural Areas: Promoting a Positive Investment Climate

*Yan Luo*

*January 2009*

#### INTRODUCTION

*This knowledge synthesis is part of The Monieson Centre's Knowledge Impact in Society (KIS) Project, a three-year endeavour to connect academic knowledge with economic development needs in Eastern Ontario. The synthesis is an accessible presentation of the latest research on issues affecting rural Eastern Ontario. The knowledge synthesis topics were determined through information gathered at 15 community workshops run in partnership with the Eastern Ontario Community Futures Development Corporation network. The KIS Project is funded by the Social Sciences and Humanities Research Council of Canada. For more information, visit [www.easternontarioknowledge.ca](http://www.easternontarioknowledge.ca).*

Rural areas are marked by low levels of financial investment, infrastructure, business and government services. This inhibited investment climate is a reflection of the relatively high cost of these services in rural communities, which in turn is a function of low population densities, low levels of economic development, and the slow penetration of commercial activities. As a result of this, rural areas often face decreased productivity and specialization, which in turn further hinders investment opportunities.

Despite these challenges, rural areas offer comparative advantages to investors for certain activities because of factors including cost of labour, land, and some degree of flexibility. It is the lack of financial services, infrastructure, and business services, however, that often counterbalances these positive factors when investors make financing decisions.

#### KEY ISSUES

##### *Rural Development Constraints*

A number of studies and surveys have identified the following most significant investment climate and business environment constraints:

1. **Infrastructure** – Rural areas are characterized by low population density, which makes public services and basic infrastructure costly, and thus, scarce. All these result in reduced access to services most attractive to business investors: public utilities such as power, transportation, telecommunications, water, and postal services.

2. **Financing Availability and Cost** – In general, loans in rural areas are relatively small in size. When combined with the often low and fluctuating incomes of a dispersed group of borrowers, financiers face high transaction costs for financing rural projects. Hence, rural lending is costly and risky. Because of information asymmetry, the procedures for obtaining loans from informal sources are less rigorous and therefore appealing to rural borrowers, even though the interest rates they incur tend to be higher. Without exception, rural enterprises were shown to rely mainly on household savings and the resources of friends and neighbors, both for enterprise start-up costs and to finance their needs for operating capital. For those few who were able to access institutional services, the term structure of lending was skewed heavily towards the short term. This limits the leverage of rural entrepreneurs for both business operations and expansion opportunities.
  
3. **Labour Force Availability and Skills** – Rural areas often have minimal or no post-secondary education institutions in their communities, limited access to adult education or skills upgrading courses, lack of on-the-job training opportunities, and lack of local training and education. All these factors limit a rural labour force's potential to develop the necessary skills and capacities required for economic development. Skills training and development, however, are key to creating a positive environment for business investment.

## RESEARCH FINDINGS

### *Creating a Better Investment Climate for Growth and Poverty Reduction*

1. **Infrastructure** – Between 2000 and 2008, the Canada-Ontario Infrastructure Program (COIP), a federal government initiative in partnership with Ontario's local governments and the private sector, has invested \$680.7-million to improve urban and rural municipal infrastructure. The goal of this investment was to improve the quality of life for the people of Ontario and make a long-term contribution towards a dynamic and innovative economy. With a focus on improving the quality and safety of drinking water; sports, recreation and cultural facilities; and bridges, this investment has made a positive impact on rural communities.

To develop a better investment climate, however, rural infrastructure development requires a broader focus. The American Society of Civil Engineers, as documented in their 2005 *Report Card for America's Infrastructure*, provides a comprehensive list of infrastructure categories, the majority of which need to be addressed by rural policy-makers, including:

- Bridges
- Drinking water
- Public parks & recreation
- Energy
- Hazardous waste
- Navigable waterways and dams
- Rail
- Roads
- Schools
- Transit

All of these infrastructures are critical for the long-term development of a dynamic and innovative economy that is attractive to investors. *Appendix A* provides examples of and resources for rural development in each of these areas.

2. **Micro-Financing** – An important key to successful rural business development is leveraging micro-financing. Rural businesses must learn how to take advantage of the financing support from not-for-profit organizations, community economic development programs, and commercial financial institutions to meet the financing requirements for both start-up costs (land, buildings, fixtures, equipment, supplies, vehicles, pre-opening expenses, opening inventory, etc) and daily operating costs (inventory, payroll, rent, taxes, advertising, etc.). The Canada-Ontario Business Service Center provides micro-credit financing from a number of different resources including not-for-profit organizations, community economic development programs and commercial financial institutions. In most cases, a successful rural enterprise will make use of a number of these financing sources. *Appendix B* details a number of micro-credit lenders in Ontario.
  
3. **Labour Force Availability and Skills** – Although labour skills have consistently been shown to be a key determinant in attracting investment, the wide dispersion of rural populations makes establishing viable training institutions a challenge. Funding from the Manitoba and federal governments, however, has brought about an innovative solution in a number of communities. The Red River College mobile training lab is a portable trades training institute run out of a 53-foot trailer which can move between communities. When linked to supply trailers, the mobile lab provides 2,000 square feet of training space. Funded by \$3.12 million of grants, this project brings automotive service, carpentry, electrical, plumbing and other trades training to rural Manitobans. More information on the project is available at [http://www.wd.gc.ca/eng/77\\_10382.asp](http://www.wd.gc.ca/eng/77_10382.asp).

The Monieson Centre has also published a Knowledge Synthesis on promoting skilled trades, which is available at [www.easternontarioknowledge.ca](http://www.easternontarioknowledge.ca).

## APPENDIX A – INFRASTRUCTURE DEVELOPMENT

### *Bridges*

The Township of Tyendinaga accessed funds from the Ontario SuperBuild Corporation to build a replacement bridge over Sucker Creek. Where the local tax base lacked the funds to develop this much-needed capital project, government funding allowed its completion. The new bridge has allowed for the safe and efficient crossing of a variety of vehicles, including school buses, emergency vehicles, snowplows and other loads greater than five tonnes. Federal funds, accessed through Industry Canada, and Provincial funds, accessed through SuperBuild, each amounted to \$113,060, leaving the township responsible for the balance investment of \$339,179.

Further details on this project are available through:

- Mayor Norman Clark, Town of Deseronto, (613) 396-2757
- Mayor Leo P. Finnegan, Corporation of the County of Prince Edward, (613) 476-2148
- Reeve Margaret Walsh, Township of Tyendinaga, (613) 396-6021
- Robert Keene, Infrastructure Ontario, (905) 721-7292
- Ontario Ministry of Public Infrastructure Renewal: [www.superbuild.gov.on.ca](http://www.superbuild.gov.on.ca)
- Infrastructure Ontario - [www.infrastructureontario.ca](http://www.infrastructureontario.ca)
- Canada-Ontario Municipal Rural Infrastructure Fund: [www.ic.gc.ca/eic/site/comrif-fimrco.nsf/eng/home](http://www.ic.gc.ca/eic/site/comrif-fimrco.nsf/eng/home)

### *Drinking Water*

In Eastern Ontario, Industry Canada funding helped the Village of Westport and the Township of Leeds and Thousand Islands upgrade their well supplies. In Westport, equipment was installed to:

- monitor turbidity and chlorine residuals
- ensure continuous water chlorination
- upgrade the disinfection system
- decommission an old well and construct a new well, including pumping equipment and connections to the remaining existing well

This improved the drinking water quality for 255 households. Two hundred fifty-four households were affected by similar improvements in Leeds and the Thousand Islands.

Further details on these projects are available through:

- William L. Thake, Mayor of the Village of Westport, (613) 273-2191
- Frank Kinsella, Mayor of the Township of Leeds and the Thousand Island, (613) 387-1005
- Peggy Stewart, Ministry of Public Infrastructure Renewal, (416) 325-4827
- Sam Boonstra, Industry Canada, (416) 952-0468
- Canada-Ontario Municipal Rural Infrastructure Fund: [www.ic.gc.ca/eic/site/comrif-fimrco.nsf/eng/home](http://www.ic.gc.ca/eic/site/comrif-fimrco.nsf/eng/home)

### *Public Parks & Recreation*

In 2002, the Township of South Glengarry received government funding for a new community recreation centre through the SuperBuild initiative. The project also included partnerships with local community groups. The 38,000-square-foot facility in Smithfield Park was intended to have a multi-purpose gymnasium/banquet room/performing arts room, a library, meeting rooms and a curling rink. Despite

offering a focal point for recreational and community events in the region, area resident opposition resulted in the cancelation of the project.

For further information, contact:

- Jim McDonnell, Mayor of the Township of South Glengarry, (613) 347-2490
- Ontario Municipal Affairs and Housing, Eastern Office, (613) 545-2100
- Mohammed Nakhooda, Ontario SuperBuild Corporation, (416) 325-1697
- Sam Boonstra, Industry Canada, (416) 952-0468
- Ontario Ministry of Public Infrastructure Renewal: [www.superbuild.gov.on.ca](http://www.superbuild.gov.on.ca)
- Canada-Ontario Municipal Rural Infrastructure Fund: [www.ic.gc.ca/eic/site/comrif-fimrco.nsf/eng/home](http://www.ic.gc.ca/eic/site/comrif-fimrco.nsf/eng/home)

### **Energy**

An advocacy group in the Midwest U.S., the Environmental Law & Policy Center, is working to capitalize on federal clean energy legislation. By drawing together policy and entrepreneurship, they help rural farmers access funds under the U.S. Farm Bill to develop renewable, local sources of energy. The current five-year Farm Bill project is expected to yield:

- 330+ megawatts of wind power
- 170 million gallons annually in biofuels production,
- millions of dollars in annual energy savings, and
- millions of tons of annual CO2 reductions

Further information is available at <http://www.farmenergy.org/RuralEnergy4America.php>

### **Hazardous Waste**

Rural communities face unique waste issues, particularly on farms. The following website documents how to reduce, recycle and carefully dispose of numerous types of rural waste:

<http://www.ecan.govt.nz/Our+Environment/Waste/WasteDisposal/Rural+Waste/>

### **Navigable Waterways**

Inland waterway transportation is generally recognized as the most economical mode of transportation. A recent study of Pennsylvania's transportation infrastructure found that the average cost of moving cargo by barge in the Port of Pittsburgh ranged from \$.005 and \$.01 per ton mile of cargo moved, compared to \$.05 for rail and \$.10 for trucking. In addition to being economical, barge transportation is more energy efficient and environmentally friendly than rail or truck. The same study found that a typical Ohio River barge moved the equivalent of 225 rail cars or 900 tractor trailer trucks. Thus, maximizing the use of water transportation can serve to reduce road congestion, accidents and pollutants, while also saving money.

The complete study is available at:

<http://www.pareportcard.org/graphics/PANavigableWaterways2006.pdf>.

### **Rail**

The County of Thorhild, Alberta, in an effort to improve community safety, is upgrading a local railway crossing from a CN temporary private junction to a regular uncontrolled crossing. The community

received funding through the Canada-Alberta Municipal Rural Infrastructure Fund (CAMRIF) which, similar to its Ontario counterpart, is putting 55% of its funding towards green infrastructure projects which foster community economic development and improve quality of life.

Further information is available through:

- Donna Kinley, Communications Manager, Western Economic Diversification Canada, (780) 495-6892
- Jerry Bellikka, Director of Communications, Alberta Infrastructure and Transportation, Tel: (780) 415-1841

### **Roads**

Similar to the Canada-Ontario Municipal Rural Infrastructure Fund, the Manitoba-Ontario MRIF has been used to fund the development of several road projects in Manitoba, including:

- The Oako Beach Drive project in Ochre River which will provide \$66,000 towards the construction of a service road. Serving cyclists, pedestrians, and motor vehicle traffic, the road is designed to improve safety, drainage, and lighting for local and tourist users of the beach area.
- \$225,000 for a tourism road in the Qu'Appelle Valley. Based on the Regional Municipality of Ellice's Vision Plan, the road connects the valley to Fort Qu'Appelle in Saskatchewan. The project is part of a broader community initiative to leverage tourism as an economic tool for regional sustainability and growth. Additionally, the project worked with the Conseil de Développement des Municipalités Bilingues du Manitoba (CDEM) to draw upon the bilingual nature of the community.

More information on Canada-Manitoba Infrastructure Programs is available at:

[http://www.wd.gc.ca/eng/77\\_3252.asp](http://www.wd.gc.ca/eng/77_3252.asp)

### **Schools**

Broadband internet has brought about many new opportunities for learning, particularly in areas without access to large educational institutions. However, most rural communities have difficulty implementing broadband infrastructure because of the geographical population dispersion. In Newfoundland and Labrador, however, government funding has allowed 68 schools and 103 communities in rural and remote regions to access broadband internet. With \$5 million each from the provincial and federal governments, and a further \$19.9 million through a private partner, schools have served as a gateway for connecting rural communities to the internet.

Further information is available through:

- <http://www.inf.gc.ca/media/news-nouvelles/csif-fcis/2005/20050915stjohns-eng.html>
- Infrastructure Canada, Communications, (613) 948-1148
- Department of Education, Government of Newfoundland & Labrador, Nora Daly, (709) 729-1906
- Department of Innovation, Trade and Rural Development, Government of Newfoundland and Labrador, Scott Barfoot, (709) 729-4570
- Paul Hatcher, Persona Communications Corp., (709) 754-3775

## APPENDIX B – MICRO-CREDIT RESOURCES<sup>1</sup>

### *Summary*

"Micro-credit" can be defined as small loans made to individuals to undertake self-employment or to start very small businesses. This type of financing may be provided through a number of different sources: independent non-profit organizations, community economic development programs, commercial financial institutions, etc.

Usually, a micro-credit lender serves a particular geographic area or community, or a particular group. The loans are under \$25,000 and for entrepreneurs who have not been able to secure financing through traditional lenders. The purpose of these loans is to finance very small businesses either to finance working capital or to buy assets for your organization. These loans can come with technical support such as business training, mentoring, peer exchanges and/or networking opportunities in conjunction with their loans. Although there is no standard definition of micro-credit, in practice micro credit loans are quite small, usually amounting to a few thousand dollars.

The list of micro-credit sources presented in this document is not exhaustive. An organization's inclusion in this list does not constitute an endorsement. You should investigate any lender carefully before submitting an application for financing.

### **1. The ACCESS Riverdale Community Loan Fund**

Through a "step-lending" approach, [The ACCESS Riverdale Community Loan Fund](#) provides a series of loans that increase in size as your business grows in the community of Riverdale, Toronto (Riverdale's boundaries run east from the Don River to Coxwell Avenue and north from Lake Ontario to Mortimer Avenue). This program is run in partnership with the Metro Credit Union. First loans are up to \$5,000.

**For further information:** please call **416-462-0496**

### **2. Canadian Youth Business Foundation (CYBF)**

The [Canadian Youth Business Foundation](#) provides loans of up to \$15,000 and mentoring to young entrepreneurs (aged 18 to 34) who are eligible to work in Canada, have written a comprehensive business plan and are not able to raise the necessary financing from other sources. In Ontario, the Foundation currently offers loans in the Greater Toronto Area, Niagara region, Peterborough, Kitchener-Waterloo, London, Ottawa, Thunder Bay, North Bay, Sudbury, Hamilton, Timmins and Kapuskasing.

**For further information:** please call **416-408-2923** or **1-800-464-2923**

### **3. Community Futures Development Corporations**

The [Ontario Community Futures Development Corporations](#) are a community economic development program which provides financial support to Community Futures Development Corporations (CFDCs) in selected communities in rural and Northern Ontario. The program is intended to strengthen and diversify the local economies. The CFDCs provide advice,

<sup>1</sup> This information is taken from the Canada-Ontario Business Service Center Website (<http://www.canadabusiness.ca/ontario/>).

information and referral service to local businesses and entrepreneurs. They also provide access to capital for small businesses.

**For further information:** please call **519-633-2326** or **1-888-633-2326**

**4. GEODE: Stepping Stone Loan Program**

[GEODE: Stepping Stone Loan Program](#) is designed to provide community members, residing within the City of Greater Sudbury, with an alternative lending program that will enable them to start up or expand a micro-enterprise or home-based business. The program is based on a peer lending model, where individuals with their own business idea or business form a peer lending circle. The loans range from \$500 to \$3000 and are granted, not based on collateral or credit rating, but rather on the individual's character, commitment, and capacity to pay back the loan. The participant receives the skills and knowledge needed to run a successful business.

**For further information:** please call **705-670-8920**

**5. Ottawa Community Loan Fund**

[Ottawa Community Loan Fund](#) provides term loans to a maximum \$15,000 to individuals and groups with worthwhile business concepts, practical work experience and/or training and a solid business plan. The loan can be used to either start or expand a business. Loan repayment terms range from 12 to 48 months. The OCLF is also a partner with the Canadian Youth Business Foundation and offers start-up loans to a maximum of \$15,000 for young entrepreneurs.

**For further information:** please call **613-594-3535**

**6. PARO: A Northwestern Ontario Women's Community Loan Fund**

The [PARO Centre for Women's Enterprise](#) provides financing to women entrepreneurs in the Thunder Bay, Greenstone, Patricia and Superior North regions. Although all industry sectors may be eligible for PARO's financing, you must be part of a peer circle in order to apply for a loan. Initial loans are in the \$500 - \$1,000 range.

**For further information:** please call **807-625-0328**

**7. Two Rivers Community Development Centre (TRCDC)**

The [Two Rivers Community Development Centre](#) is an Aboriginal controlled company with the mandate of providing Aboriginal Businesses with Access to Capital. While the Centre provides business loans, they do not actively compete with the banking sector. Many of Two Rivers' customers borrow from both Two Rivers Community Development Centre and a Bank.

**For further information:** please call **519-445-4567**

**8. Venture Creation Program**

The [Venture Creation Program](#) is an entrepreneurship and financing initiative for youth 15-30 living in the Waterloo or Wellington regions who are interested in starting and operating a business. This 34 week, full time, hands-on program is offered by the Waterloo Region District School Board and funded by Human Resources Development Canada. Start your business as early as week 17. Upon successful completion of the program, participants can earn up to \$7,000 to be applied towards their business launch and up to 5 high school credits.

**For further information:** please call **519-741-2221**

You may find additional information, alternative financing providers and can perform a search designed to help small businesses find the best micro-credit financing opportunities available in the "[Sources of](#)

[Financing](#) " section of the Canada Business website. Your local economic development office or public library may also have information on organizations that offer business support services in your area.

## REFERENCES

- Canada Business Services for Entrepreneurs. <http://www.canadabusiness.ca/eic/site/sof-sdf.nsf/eng/Home>
- Canadian Council on Learning. <http://www.ccl-cca.ca/CCL/Reports/?Language=EN>
- Canada-Ontario Business Service Centre. <http://www.canadabusiness.ca/ontario/>
- Canada-Ontario Infrastructure Program. <http://www.ic.gc.ca/coip-pico/coip-pico.nsf/map!OpenPage>
- Canada Small Business Financing (CSBF) Program. <http://www.ic.gc.ca/eic/site/csbf-pfpec.nsf/eng/Home>
- Mucavel, Firmino Gabriel. *Encouraging Modern Governance and Transparency for Investment: Why and How?* Global Forum on International Investment. 2003.
- American Society of Civil Engineers. *2005 Report Card for America Infrastructure*. <http://www.asce.org/reportcard/2005/index.cfm>. 2005.
- The World Bank. *The Rural Investment Climate: It Differs and It Matters*. Agriculture and Rural Development Department. 2006.