

Summary of the evaluation of the Canada Small Business Financing Program

Overview

The Canada Small Business Financing Program (CSBFP), launched in 1999, increases the availability of financing for establishing, expanding, modernizing and improving small businesses, by sharing the risk with lenders.

Eligibility:

- For-profit, not-for-profit and charitable small businesses in Canada with gross annual revenues of \$10 million or less.

Types of financing:

- **Term loans** for real property, equipment, leasehold improvements, intangible assets, and working capital.
- **Lines of credit** for working capital costs.

Financing amounts

- Maximum loan amount is **\$1.15 million**.
- Maximum of **\$1 million for term loans**.
- Maximum of **\$150,000 for lines of credit**.

The main objectives of the CSBFP are to:

- Help new businesses get started and established firms make improvements and expand;
- Improve access to loans that would not otherwise be available to small businesses; and
- Stimulate economic growth and create jobs.

Innovation, Science and Economic Development Canada (ISED) registers loans, collects fees and pays lenders the eligible portions of losses on defaulted loans.

Private sector lenders are responsible for all credit decisions, loan approvals, and in the event of default, realizing on security and guarantees.

The CSBFP operating costs are not cost recoverable and are funded by ISED's operating budget. As the CSBFP is a statutory program, the cost of claims for loan losses is sourced directly from the Consolidated Revenue Fund, with a portion of the claims also covered by program registration and administration fees.

The evaluation was conducted using multiple methodologies and sought to assess program relevance, performance and efficiency. The scope of the evaluation covered the period from April 1, 2018, to September 30, 2023.

Findings

Relevance

The evaluation found that the CSBFP continues to address a demonstrable need for financing among SMEs, including SMEs from underrepresented groups. By sharing the risk of lending to higher-risk SMEs, the program plays an important role in enabling emerging and established businesses secure capital.

- Fills a need for access to **financing** amongst startups and SMEs.
- Supports financing needs of start-ups and SMEs owned by **underrepresented groups**.

In terms of approaches to respond to adverse economic events, interviewees said the CSBFP could help by:

- Increasing loan amounts

- Adjusting flexibility of repayment terms (e.g. eliminating fees, lower interest rates, longer repayment terms)
- Adjusting the loan-loss sharing ratio
- Extending the claim period
- Expediting the loan approval time
- Adjusting equity/collateral allowances

Given that implementing any of the above changes requires legislative and regulatory approval, it is challenging for the CSBFP to respond quickly to adverse events. However, interviewees noted that the temporary, non-CSBFP measures worked well during the COVID-19 pandemic.

Performance

The CSBFP enhanced program terms and conditions and provided loans to startups and SMEs across Canada which has contributed to the growth and success of their businesses.

Awareness of CSBFP

34% of borrowers were aware of the CSBFP, while only 16% of non-borrowers were aware of the CSBFP, according to survey results.

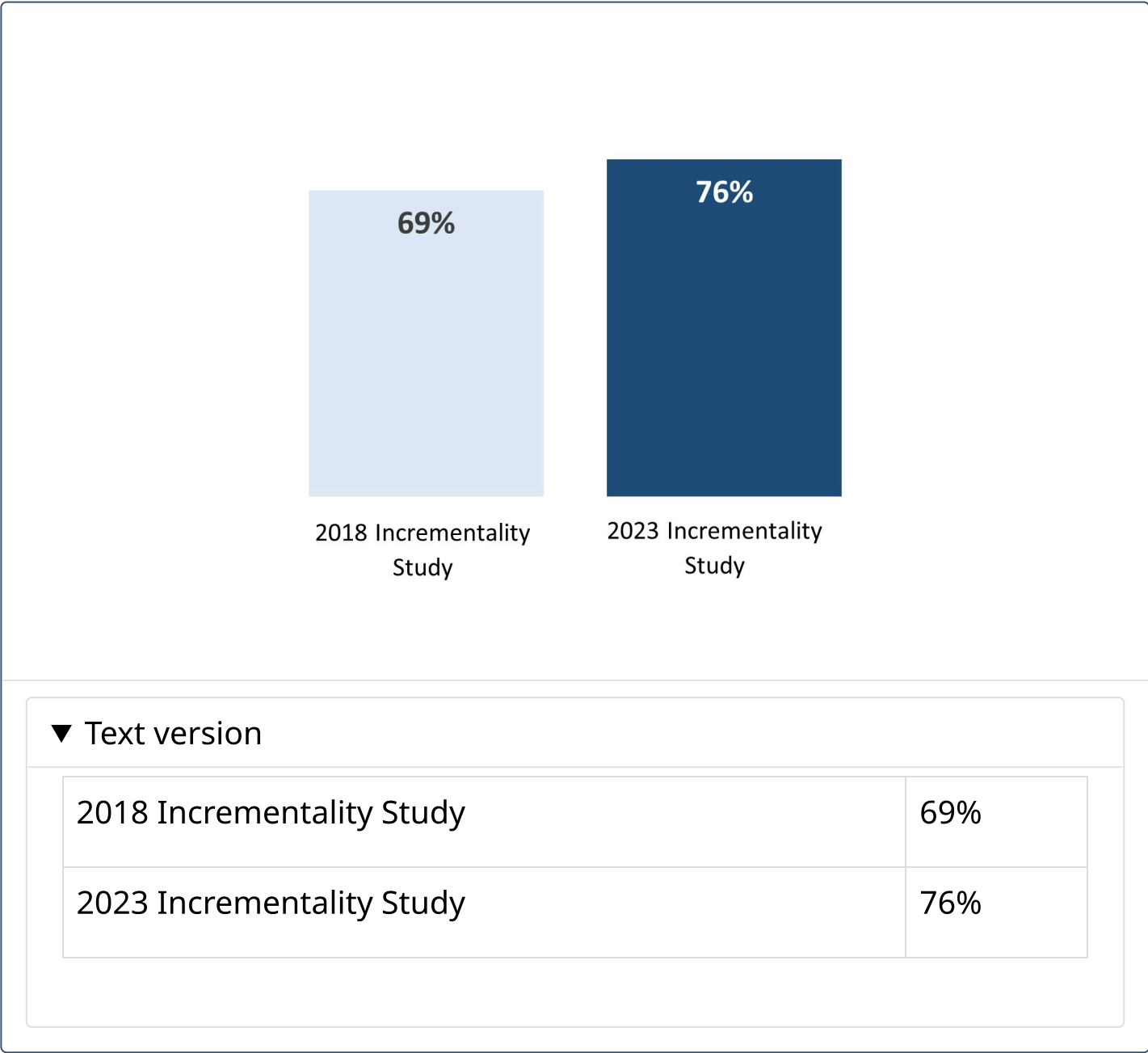
Interviewees said some banks were reluctant to promote the CSBFP, due to administrative complexity and a mismatch in CSBFP and bank rules for the line of credit.

From 2018-19 to 2022-23, loans issued per year ranged from **3,655 to 6,071**, with a **35%** loan volume decrease in 2020-21 due to the COVID-19 pandemic.

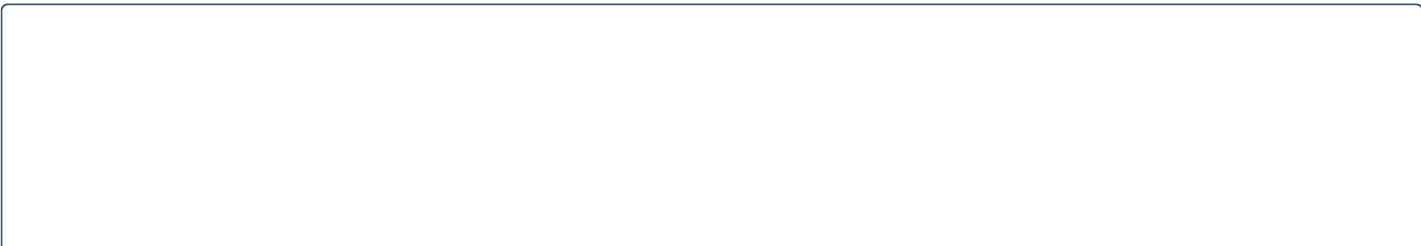
22% and 16% of loans made per year to businesses majority-owned by women and racialized people, respectively.

For all SMEs in Canada, **17%** were majority-owned by women and **9%** were majority-owned by a racialized person.

Seventy-six percent of CSBFP borrowers would likely not have been able to access financing in the absence of the program, which represents a moderate increase in incrementality compared to 2018 estimates (69%).



The lender study found there would be less favorable conditions for loans in the absence of the CSBFP:



Smaller loan amount



More collateral needed



Shorter amortization period



Higher interest rate



Increased borrower equity



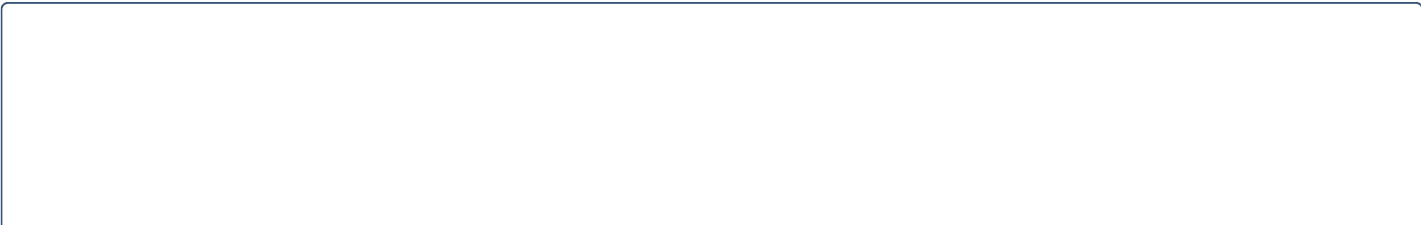
Other



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Smaller loan amount	72%
More collateral needed	56%
Shorter amortization period	53%
Higher interest rate	52%
Increased borrower equity	51%
Other	13%

Most lenders were satisfied with the program changes made in 2021 and 2022, according to survey results:



Increased maximum loan amount for equipment and leasehold improvement to \$500,000



Increased maximum coverage period for equipment & leasehold improvement loans to 15 years



Expanded eligible loan costs to include intangible assets and working capital



Expanded program eligibility to not-for-profit businesses



New line of credit financing option of up to \$150,000



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Increased maximum loan amount for equipment and leasehold improvement to \$500,000	87%
Increased maximum coverage period for equipment & leasehold improvement loans to 15 years	84%
Expanded eligible loan costs to include intangible assets and working capital	83%
Expanded program eligibility to not-for-profit businesses	77%
New line of credit financing option of up to \$150,000	70%

There was a **decline in positive opinions expressed by CSBFP borrowers**. In 2018, 66% of borrowers surveyed rated the terms and conditions as reasonable or very reasonable versus 55% in 2023.

Lenders and borrowers were generally satisfied with most of the program parameters, including the recent changes.

Suggestions for modifications included **increasing the Minister's liability, maximum loan amounts, and broadening borrower eligibility.**

Most borrowers reported positive economic impacts resulting from their CSBFP loans:

- Ability to start-up businesses: 82%
- Ability to grow business: 70%
- Business' ability to stay in business: 69%
- Business' productivity or efficiency: 60%

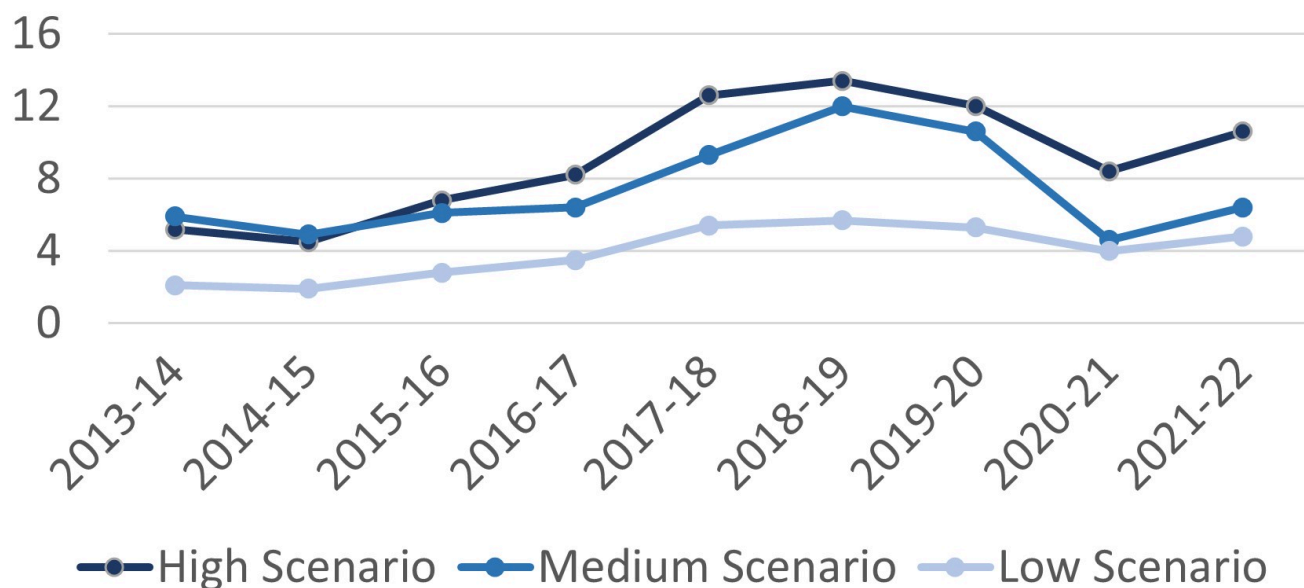
Efficiency

The evaluation found that the CSBFP was delivered efficiently, with net social benefits generated in every year since 2013-14, totalling almost \$5 billion. The program was expected to be largely cost recoverable for the 2019-20 to 2023-24 period (between 79% and 121% per year).

Administrative requirements

Interviewees said **program parameters should be streamlined** (e.g., revising claim processing procedures) and clearer guidance provided. Many suggested improvements to reduce the **complexity and administrative burden of documentation requirements** (e.g., invoices and proof of payment), which was echoed by lenders who were surveyed.

Benefit-Cost Ratio — Low, Medium and High Scenarios



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This chart shows the benefit-cost ratio for low, medium, and high incrementality rates.

Benefit-Cost Ratio — Low, Medium and High Scenarios

Fiscal Year	Low Scenario	Medium Scenario	High Scenario
2013-14	2.1	5.9	5.2
2014-15	1.9	4.9	4.5
2015-16	2.8	6.1	6.8
2016-17	3.5	6.4	8.2
2017-18	5.4	9.3	12.6

2018-19	5.7	12	13.4
2019-20	5.3	10.6	12
2020-21	4	4.6	8.4
2021-22	4.8	6.4	10.6

Recommendations

ISED's Small Business, Tourism and Marketplace Services Sector should focus on developing approaches to increase awareness and knowledge of the CSBFP among SMEs.

ISED's Small Business, Tourism and Marketplace Services Sector should continue efforts to expand the list of registered CSBFP lenders, particularly Indigenous financial institutions, to help increase access to the program.

ISED's Small Business, Tourism and Marketplace Services Sector should consider further program modifications to better meet the evolving needs of SMEs.

ISED's Small Business, Tourism and Marketplace Services Sector should explore approaches to further lessen the administrative burden for both borrowers and lenders, while not compromising program oversight.

Date modified:

2024-11-29