

Update Federal Small Business Financing Program to Better Serve Remote SMEs

Issue

The federal Small Business Financing Program (SBFP) offers an incentive to financial institutions to provide loans to small and medium-sized businesses (SMEs) that might otherwise not be considered eligible due to their risk profile, e.g., lack of credit history. Through the SBFP, the federal government shares the risk with lenders.

However, there are some requirements of the SBFP that make it extremely difficult – sometimes impossible – for SMEs in remote locations to participate in the program when – if located elsewhere – they would be able to do so.

Background

The SBFP is available to for-profit businesses in Canada with annual revenues of less than \$10 million. The maximum eligible loan amount is \$1 million. Under SBFP, the federal government will underwrite financial institutions' losses (e.g., for re-payment defaults, damaged equipment, etc.) only if the financial institution conducts a site visit within 90 days of the final disbursement of funds. While the loan could technically be advanced without a site visit by the financial institution, under the Canada Small Business Financing Act, any associated claim for loss would not be payable should the security not be enforceable. For example, should financed equipment be destroyed, the financial institution would have no right of claim if it hadn't completed a site visit. The Act states:

"If the primary security taken by the lender on an asset is not enforceable, the Minister will pay the associated claim for loss, provided the following conditions are met:

- The lender or its agent performed an on-site visit of the borrower's small business premises between the date that the loan was approved and 90 days after the final disbursement under the loan agreement.
- The lender or its agent confirmed that the financed assets under ss. 5(1) were delivered to and installed at the borrower's small business premises."

These conditions pose a roadblock to SMEs in remote locations and the financial institutions that might otherwise provide much needed capital to them to start and/or grow their businesses.

An example is Nunavut. The requirement to complete an on-site visit within 90 days of final disbursement is not viable in the few communities where financial institutions have staff on the ground, let alone the dozens where they do not. This is because of the fact that equipment – which must be paid for when it leaves the manufacturer – is shipped from southern Canada during the annual sea lift (July-September). This means the financial institution could well have to forward the funds a lot more than 90 days before the equipment can be delivered to the business. Given the distances involved (thousands of kilometers in Nunavut), it is not feasible for financial institutions to have qualified and independent agents available in all communities to verify delivery on their behalf. The result has been that the SBFP has all but ground to a halt in Nunavut. The same is true for other remote locations throughout Canada that do not have financial institutions located in or near their communities. The Canada Revenue Agency CRA defines remote locations in its list of prescribed zones for each province and territory (<http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/ncm-tx/rtrn/cmpltng/ddctns/lns248-260/255/zns-eng.html>).

The barrier posed by the site visit requirement is a potential roadblock for SMEs in remote locations throughout Canada where the distances and logistics can make the SBFP on-site visit requirements a deal-breaker. Given the digital tools, e.g., bar code tracing, photographs, videos and e-mails available to businesses and financial institutions to verify such things as equipment deliveries, this requirement is unnecessary.

Recommendations

That the federal government amend the Canada Small Business Financing Act by:

1. Eliminating the requirement for on-site visits by financial institutions to SMEs in remote locations as defined in the Canada Revenue Agency's list of prescribed zones for each province and territory and permitting the use of bar codes, photographs, videos and e-mails.
2. Extending the verification timeline following the final disbursement of funds to 180 days for SMEs in remote locations to allow for sufficient time for the shipping / transportation of equipment/materials and their installation.