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**Responding to the
MacKay Task Force Recommendations
Regarding Small Business Financing**

**Prepared by: Dr. E. Wayne Clendenning,
Infovest Inc.**

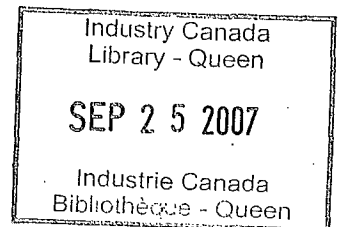
For ESBO, Industry Canada, March 1999

Infovest Inc.
ECONOMIC AND FINANCIAL CONSULTANTS

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MacKay Task Force Recommendations
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Prepared for:

**Entrepreneurship and Small Business Office
Industry Canada**



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Introduction

The Task Force on the Future of the Canadian Financial Services Sector (MacKay Task Force) made a number of recommendations regarding the need for better information and policy analysis to address the financing needs of SMEs and the supply of financing being made available to them. These recommendations focused on the role to be played by Industry Canada and Statistics Canada in the collection and analysis of data on SME financing and in reporting on the state of small business financing in Canada.

This report outlines a proposal for Industry Canada's response to these recommendations that would include the following elements:

- proposals as to how Industry Canada would respond to the Task Force's recommendations;
- estimates of how much the proposed response would cost Industry Canada and Statistics Canada; and
- analyses of what would be achieved by the proposed response to the Task Force's recommendations.

Current SME Data Collection

The current system for collecting data on SME financing focuses primarily on the collection of data on bank financing of SMEs through the auspices of the Canadian Bankers Association (CBA). The following are the principal data collection activities of the CBA:

- publication of detailed quarterly statistics on the SME lending activities of the major chartered banks;
- annual publication of loan loss provisions taken by the major banks against business lending, including SME lending; and
- sponsorship of an annual survey of SMEs concerning their needs, expectations and satisfaction with financial institutions conducted by Thompson Lightstone. Also included in this is a survey of bank loan officers concerning credit applications and approvals.

In addition, a number of industry groups, including the Canadian Venture Capital Association and the Canadian Finance and Leasing Association, provide regular reports on the activities of their members in financing SMEs. The Canadian Federation of Independent Business also regularly surveys its members to determine their perceptions and experience with respect to the availability of credit.

Required Improvements to SME Data Collection

Although the efforts of the current data collectors have resulted in substantial progress in the collection of data on small business financing, improvements are still required to meet the needs of accountability and policy analysis, including the following:

- Coverage of other suppliers of credit to SMEs, including trust companies, credit unions, insurance companies, pension funds and government programs;
- Coverage of other types of SME financing, including loans, leases and equity financing;
- Greater detail on the characteristics of borrowers, including size and sector of business, regional location, rural-urban location and gender;
- Collection of data from the perspective of the SME to determine the significance of different sources of financing;
- Collection of data from independent sources to reduce concerns about bias in collection and interpretation; and
- Coverage of financing for knowledge-based industries (KBIs).

The Importance of Improved SME Data

The collection and publication of consistent, comprehensive and unbiased SME data would be the basis for high-quality, focused analyses of SME financing issues that could provide:

- valuable information about market gaps to suppliers of SME financing;
- assistance to SMEs in determining the full range of participants in the markets and the markets they serve;
- assurance to the community that SME financing needs are being met; and
- help to governments in refining their public policy frameworks for SMEs.

MacKay Task Force Recommendations

To achieve these benefits, the MacKay Task Force has recommended the development of a program for the comprehensive collection, analysis and publication of SME data that would include the following elements:

- Statistics Canada (StatCan) would be assigned the responsibility to collect unbiased and comprehensive data on SME financing;
- A dedicated SME Finance Group would be established within Industry Canada to assess and analyze this data, conduct other surveys as required, undertake continuing research and prepare annual reports on the state of SME financing to be tabled with the House of Commons Industry Committee; and
- The SME Finance Group would take specific responsibility for coordinating the annual survey of SME attitudes, now conducted by the CBA, and for instituting a new, periodic benchmark survey to provide a comprehensive picture of SME financing from the perspective of SMEs.

Industry Canada's Response

Industry Canada agrees with the MacKay Task Force that there is a shortage of hard and reliable information on the scope and nature of the financing issues facing SMEs. Improved SME financing data is required to provide a complete picture of the SME financing challenges on both the supply and demand sides of the SME financing marketplace. The SME financing data currently collected, resulting from the work undertaken by the House of Commons Industry Committee with the chartered banks, is an excellent starting point for strengthening the data collection system. However, according to Thompson/Lightstone, the current data accounts for barely half of the total sources of financing used by small business and focuses primarily on data related to the supply of financing provided to SMEs by institutional lenders.

What is needed is a broader data collection system that will provide a solid base for analytical work on SME financing issues. Public policy analysis cannot be undertaken in an informational and data vacuum and the MacKay Task Force recommendations provide an opportunity to design a data collection system for policy purposes. Therefore, to frame the public policy debate on the SME financing issues, investments in both human and financial resources will be required to achieve a reliable basis for the analyses needed for this debate. The results of these analyses can then be used by policymakers to determine the relevance of programs, such as the Canada Small Business Financing Act, the regional agencies, the Business Development Bank of Canada and other measures to improve access to capital by SMEs. In addition, the results of analyses based on demand-side data would be invaluable to financial institutions in assessing market opportunities in the small business sector. Improved data would also be useful in identifying obstacles and trends in the marketplace and in devising means of reducing risks associated with small business financing.

Response Options

To develop Industry Canada's proposed response to the SME financing recommendations of the MacKay Task Force, a number of options should be examined and compared in terms of the advantages and disadvantages of each option.

Option 1 - Continue Private Sector Collection of SME Financing Data

This option would involve the continued collection and publication of SME financing data currently provided to the CBA by the major chartered banks and sponsorship, by the CBA, of periodic surveys of SME needs, expectations and satisfaction ratings for financial institutions. Expansion of the banking data collected, to include other characteristics of borrowers and loan approvals and loss data, would require negotiations and agreements with the chartered banks to encourage them to expand their provision of SME data to policymakers and the SME community.

To expand the scope and coverage of SME financing data, as recommended by the Task Force, reliance would have to be placed on private sector industry associations in other financial service industries, such as leasing, venture capital, credit unions, caisse populaires, trust companies and insurance companies, for the expansion and initiation of

SME data collection in their industries. Many of these associations do not have the resources or the mandate to undertake data collection and publication activities and substantial changes would have to be negotiated with industry participants to achieve comprehensive SME financing coverage. This would also involve considerable costs for these industries that would be private sector off-sets to the reduced costs for the government of giving this responsibility to the private sector. Negotiations with these institutions and associations could be very time consuming and the results incomplete if some do not agree, or find it impossible, to undertake these activities.

Advantages

The advantages to the federal government of this option for the collection of SME financing data would include:

- No costs of collection and publication for the government;
- No requirement for federal-provincial agreements for the inclusion of provincially regulated institutions; and
- No federal legislation needed to require institutions to provide data to StatCan.

Disadvantages

The disadvantages to the federal government of this option for the collection of SME financing data would include:

- Comprehensive scope and coverage of SME data would be difficult to achieve;
- SME data collected by the private sector would still be considered as biased data;
- Availability of data and analytical resources for policy analysis would be limited;
- Ability to move the debate on SME financing issues with financial institutions and the SME community forward would be limited; and
- Undertaking of special informational surveys and research would be limited by lack of dedicated analytical resources.

Costs

The only estimates available for private sector costs are those associated with the collection of SME banking data by the CBA. According to the CBA, the cost of collecting the currently available quarterly data on bank lending to SMEs amounted to \$2 million over the past four years, with the Thompson Lightstone survey of SMEs costing a further \$750,000 annually. With the expansion of the banking data to include more detailed lender characteristics and the inclusion of data for other SME financing institutions these estimates of private sector costs would increase substantially. In addition, the federal government would encounter costs in negotiating the standards to be employed and in monitoring institutional compliance. Based on an extrapolation of the

CBA costs the total annual costs involved in this option for data collection could amount to:

1. Private sector costs

CBA - institutional survey	\$1,000,000	
- SME survey	\$ 500,000	\$ 1,500,000

Other institutions		\$ 1,000,000

Total		\$ 2,500,000
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2. Federal Government costs		\$ 200,000

3. Total data collection costs		\$ 2,700,000
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Option 2 - Provide a Mandate to StatCan for SME Data Collection and Reporting

This option would provide StatCan with the mandate to collect and publish SME financing data but would not provide analytical resources in Industry Canada to use this data for policy analysis purposes. StatCan would undertake all data collection and informational surveys, such as the survey of SME needs, expectations and satisfaction ratings and the proposed demand-side survey of SMEs to determine the financing sources and preferences of SMEs. StatCan would then publish the related reports for use by others for analytical and other purposes. This option would strengthen the SME financing data base but would not directly add analytical capability to make use of these new data sources.

To fulfill its new mandate, StatCan would have to integrate the current data collection and surveying undertaken by the CBA into their collection system and, where possible, expand the collection of banking data to meet the requirements recommended by the Task Force. In addition, they would have to pursue similar data collection arrangements with other financial industries that provide SME financing and ensure that the data collected was consistent and comprehensive, as well as compatible with the banking data collected. This could require legislative authority to collect data from unregulated institutions or extensive negotiations with these institutions to obtain data on a voluntary basis. In addition, federal-provincial negotiations for the inclusion of provincially regulated institutions could also be required. All of this would be time consuming and require considerable lead-in time to the establishment of a comprehensive and consistent data collection system.

The costs involved in creating this expanded data collection system would have to be borne by both the private sector institutions, in terms of systems and resources required to generate the data in a format requested by StatCan and by the federal government, in terms of StatCan's costs for the development and implementation of surveys for collecting the data from the institutions and small businesses and for reporting the results. These

costs, however, will be necessary to achieve a comprehensive and consistent data base of SME financing data that will be sustainable over the longer-term.

Advantages

The advantages to the federal government of this option for the collection of SME financing data would include:

- StatCan would collect more comprehensive and consistent data on SME financing;
- StatCan data would have high credibility and be unbiased;
- One central public source of SME financing data would be available to all interested parties; and
- StatCan would have a long-term commitment to the collection and publication of SME financing data.
- Potential revenue could be realized from financial institutions seeking information on the size, nature and scope of gaps in the SME financing marketplace for marketing purposes.

Disadvantages

The disadvantages to the federal government of this option for the collection of SME financing data would include:

- Analytical resources to produce output for policy analysis and development would not be provided;
- Ability to move the debate on SME financing issues with financial institutions and the SME community forward would be limited;
- Undertaking of special informational surveys and research would be limited by lack of dedicated analytical resources;
- Legislative changes could be required to enable collection of data from financial institutions;
- Federal-provincial negotiations could be required to collect data from provincially-regulated institutions;
- Negotiations with institutions could be required to achieve voluntary provision of data to StatCan;
- StatCan collection could be viewed as duplication of private sector work (although StatCan policies are aimed at avoiding this effect); and
- Costs of collecting and publishing the data would be borne by the federal government.

Costs

The costs associated with this option would be the costs encountered by StatCan in undertaking the collection of SME financing data through institutional surveys and surveys of SMEs to determine their needs, expectations and satisfaction ratings as well as

the types and sources of their financing. On the basis of estimates made by StatCan the following is the total estimated annual cost of data collection:

1. Statistics Canada costs		
Institutional survey		\$ 2,500,000
SME surveys - test survey	\$ 100,000	
- annual survey	\$ 400,000	\$ 500,000
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2. Total data collection costs		\$ 3,000,000

Option 3 - Provide Mandates to StatCan for the Collection and Publication of SME Data and to Industry Canada for the Establishment of a Policy Analysis Group

This option addresses the need for both data collection and analytical capability, that was emphasized in the MacKay Task Force recommendations, by giving StatCan the mandate to collect and publish SME financing data and Industry Canada the mandate to establish a dedicated SME Finance Group that would be responsible for analyzing this data, conducting other surveys and undertaking continuing research on SME financing issues. StatCan would be responsible for the collection of SME data from financial institutions by building on the CMA banking data and expanding the scope and coverage of this data to include all types of SME financing and all suppliers of SME financing. Industry Canada would be responsible for designing and overseeing the special surveys regarding SME needs, expectations and satisfaction ratings, previously conducted by the CBA, and the survey of SMEs to determine their financing sources and preferences. These could be conducted under contract with StatCan or with other private sector providers.

StatCan would face the same issues in conducting the institutional data collection as those under Option 2 and the costs would also be comparable under both options. However, they would not encounter the direct costs of conducting the surveys of SMEs that they were responsible for under Option 2. Industry Canada would be responsible for the costs associated with these SME surveys as well as the costs of establishing the analytical capability of the SME Finance Group. Since Industry Canada does not currently have the resources to undertake this new role, additional personnel and financial resources would have to be made available to carry out the responsibilities associated with the policy analysis functions undertaken by the SME Finance Group and the conduct of the special surveys and research projects. However, this is an additional capability not provided for in the other two options and will add substantially to the value of the new data collection system by increasing the relevance of this data for policy decision-making.

The establishment of the SME Finance Group as a policy analysis unit in Industry Canada would provide the government with the capability to analyze and assess the need for government programs to assist SMEs in accessing financing. It is also important for the government to be able to monitor the performance of existing government SME financing programs, such as the Canada Small Business Financing Act, the BDC and the programs provided by the regional agencies to ensure that they are achieving their mandates and filling gaps in the SME financing markets. The analyses undertaken by the

SME Finance Group, using the data collected by StatCan, would be vital for these monitoring and assessment functions and should enable the government to focus these programs on the financing problems being encountered by small businesses.

Advantages

The advantages to the federal government of this option for collecting and analyzing SME financing data would include:

- Greater capability for Industry Canada to provide SME policy analysis and advice, through trend identification and other analyses, that is consistent with the department's role as micro-economic policy advisor to the government.
- StatCan would collect comprehensive and consistent data on SME financing;
- StatCan data would have high credibility and be unbiased;
- Provides the necessary data and analytical capability to push an informed debate on SME financing forward as quickly as possible;
- Enables the government to accurately assess government programs, such as the Canada Small Business Financing Act, the regional agencies and the BDC, on the basis of hard data and rigorous analyses; and
- Potential revenue could be realized from financial institutions seeking information on the size, nature and scope of gaps in the SME financing marketplace for marketing purposes.

Disadvantages

The disadvantages to the federal government of this option for collecting and analyzing SME financing data would include:

- Additional costs would be encountered by the government in the establishment and maintenance of the SME financing analytical capability in Industry Canada;
- Legislative changes could be required to enable collection of data from financial institutions;
- Federal-provincial negotiations could be required to collect data from provincially-regulated institutions;
- Negotiations with institutions could be required to achieve voluntary provision of data to StatCan; and
- StatCan collection could be viewed as duplication of private sector work (although StatCan policies are aimed at avoiding this effect).

Costs

The following is a breakdown of the estimated StatCan and Industry Canada costs associated with this option for the collection and analysis of SME financing data:

1. Statistics Canada
Institutional survey

\$2,500,000

2. Industry Canada

Annual costs of the SME Financing Group:

Staffing: Director (EX-01), Senior analyst
(ES-06), 2 Junior analysts (ES-03 and -04),
1 support

Total = 5 FTEs

\$ 550,000

Survey work and contract analysis

\$ 750,000

Other O & M

\$ 125,000

\$ 1,425,000

3. Total Data Collection and Analysis Costs

\$ 3,925,000

Recommended Response

On the basis of the above analyses of optional responses, it is recommended that the following proposals for responding to the recommendations of the MacKay Task Force be implemented by the federal government:

Proposed Data Collection System

StatCan would be given the prime responsibility for the collection and publication of SME financing data. This would involve assumption of responsibility for the collection and publication of chartered bank SME lending data currently provided by the CBA, expansion of the CBA data coverage and extension of this collection system to cover all financial institutions that provide any form of financing to SMEs, including federally and provincially regulated institutions and unregulated institutions. To enable StatCan to undertake this expanded role in SME financing data collection, federal-provincial negotiations may be required, additional legislative authority may have to be provided and moral suasion used to obtain the cooperation of unregulated institutions.

To meet the requirements of their new mandate to collect and publish SME financing data, StatCan should adopt the following scope and coverage criteria for the data to be collected:

Scope: The scope should be extended to cover all significant suppliers of credit to SMEs (e.g., trust companies, foreign banks, insurance companies, credit unions, specialized financing companies, venture capital funds, pension funds, Crown corporations/government programs).

Coverage: CBA data include only bank credit to SMEs. The coverage of other types of finance should be extended to include loans, leases and equity finance. Coverage should include both direct lending and indirect lending through securitized instruments.

1. Lending / Investment Data:

a) Number and amount of **lending authorizations / investments and outstandings**, with breaks of:

- \$0 - \$49,999
- \$50,000 - \$99,999
- \$100,000 - \$249,999
- \$250,000 - \$499,999
- \$500,000 - \$999,999
- \$1 million - \$4,999,999
- Total business credit

b) By **characteristics of customer - employment size** according to number and amount of lending authorizations / investments, with breakouts as follows:

- less than 5 employees
- 5 - 19 employees
- 20 - 49 employees
- 50 - 99 employees
- 100 - 499 employees
- 500 and over

c) By **characteristics of customer - sales** according to the number and amount of lending authorizations / investments, with breakouts of:

- \$0
- \$1 - \$249,999
- \$250,000 to \$499,999
- \$500,000 to \$999,999
- \$1 million to \$5 million
- over \$5 million

d) By **characteristics of customer - age of business** according to number and amount of lending authorizations / investments, with breakouts of:

- start-ups (under 1 year)
- 1 year to 5 years
- 5 years to 10 years
- over 10 years

e) By **industry sector**, with breakdown into 17 North American Industrial Classifications (NAICs), showing the number and amount of loan authorizations / investments for each category. (*List of NAICs will need to capture KBIs.*)

f) By **gender of customer** according to number and amount of loan authorizations / investments as in 1(a).

g) By **region** (currently reported by Atlantic, Quebec, Ontario (by four sub-regions), Prairies, BC and Territories) and using the customer's postal code, broken down by the number and amount of loan authorizations / investments as in 1(a) broken down by rural/urban.

2. Loan loss ratios

- reported on an annual basis, broken down by dollar authorization / investment thresholds as in 1(a), by region as in 1(g) and by industry as in 1(e).

3. Loan approval ratios

- broken down by all variables in 1(a) [loan authorizations only] through 1(g).

4. Knowledge-Based Industries

- data should include coverage of the suppliers and types of financing going to KBIs. Revising the current standard definition of KBIs, based on the old Standard Industrial Classifications, to reflect the new North American Industrial Classification Codes will be required to establish a consistent definition of KBIs.

5. Aboriginal Business

- provide coverage of financing to aboriginal businesses.

To increase the scope and coverage of small business financing data StatCan would have to initiate data gathering surveys with a number of new financial service industries that have not previously provided detailed breakdowns of data related to their small business lending or investing activities. The Canadian Venture Capital Association and the Canadian Finance and Leasing Association have both been publishing data on the activities of their members in financing SMEs but more detail is likely to be required to integrate it with the data collected from the chartered banks. Even in the case of bank data, the level of detail and breakdown will have to be increased substantially to fulfill the above requirements for the StatCan data collection regime.

In addition, there are other institutions, including trust companies (primarily Canada Trust), life insurance companies, credit unions and caisse populaire, that have not provided significant data on their small business financing activities in the past. However, other than the caisse populaire in Quebec these latter institutions have not been major players in SME financing in Canada and any data available may be very limited in quantity and scope. As a result, StatCan would likely focus initially on improving the banking data and expanding the collection of data from venture capitalists, leasing companies and caisse populaire. Data on the lending and investment activities of government programs, including SBLA, the regional agencies, BDC and other federal and provincial programs, would also have to be gathered and integrated into the data collection system.

Proposed Data Analysis Approach

The proposed SME Finance Group to be established within Industry Canada would undertake analyses and research on small business financing issues through analyzing the data gathered and published by StatCan, conducting supplementary surveys to gather further information and data, and undertaking research on specific small business financing problems. From a policy perspective, this Group would identify trends in small

business financing from analyzing the data provided by StatCan, assess the public policy issues that are emerging from these analyses and determine the need for supplemental information and data to deal with these trends and issues. The Group would then initiate surveys to provide the required information and data through contracting with either StatCan or other suppliers, as appropriate.

Two specific surveys for which the SME Finance Group would have responsibility would be the following:

- an annual survey of SME experience with respect to their needs, expectations and satisfaction with financial institutions that is currently conducted by Thompson Lightstone for the CBA; and
- periodic benchmark surveys of small business users, including KBIs, that would provide a better understanding of the types of financing they require and the sources of funding they rely on, to be conducted once every three to five years.

The role of the Group in undertaking these surveys would be to assist in their design and oversee the undertaking of the surveys on a contract basis by StatCan or other providers (although it could be less costly and more expedient to have StatCan undertake these surveys directly rather than on a contract basis). Once the survey information is available the Group would then analyze the survey information from a policy perspective and determine the issues that are identified by the surveys. Combining the survey analyses with their analyses of the SME financing data collected by StatCan, the Group would work with StatCan to help it prepare an annual report on the state of small business financing to be tabled with the House of Commons Industry Committee.

In addition, the Group would be in a position to undertake continuing research on special topics related to SME financing issues. These research projects could be focused on both longer-term issues and immediate issues that require a short-term response to deal with a specific problem encountered in the marketplace. There are many possible topics for special research that could be undertaken using a more focused analytical approach based on greater availability of reliable data, including:

- regional availability of SME financing;
- rural / urban differences in availability;
- gender discrimination in the provision of SME financing;
- special financing requirements of KBIs;
- financing needs of aboriginal businesses;
- the availability of financing to youths;
- the roles and motivations of angel investors;
- the investment patterns of venture capitalists;
- impediments in the Canadian IPO market; and
- the provision of SME financing through electronic means.

The analyses and research undertaken by the SME Finance Group would be the basis for systematic and rigorous policy analysis to deal with small business financing issues from

a longer-term perspective. For example, this would provide policymakers with greater insight into what will be important for small business financing 10 years down road. However, it will take a number of years for the data collection system and analytical resources to produce substantial analytical results that will be useful to policymakers.

Results Achievable from the Proposed Response

The recommended response to the MacKay Task Force recommendations provides the opportunity to develop comprehensive and objective longitudinal SME financing data and the analytical capability to use these data effectively for the long-term benefit of small business in Canada. This would expand the research and analytical resources available to the government for assessing current small business financing programs and developing long-term small business financing policies. As the MacKay Task Force pointed out there is need for a "sustained effort to improve understanding of small business financing from a longer-term perspective" through more systematic and rigorous policy analysis.

This approach would permit Canada to attain the standards set by other countries, like the U.S. and U.K., which have recognized the need to monitor SME financing on a regular basis. The Task Force found that the Bank of England now reports annually on small business financing and discusses current developments and other specific topics that are of concern to SMEs. In addition, the Federal Reserve must now report to Congress every five years on the availability of small business financing. Canada has similar needs and the proposed Industry Canada response to the Task Force recommendations will fill these gaps in reporting on the state of small business financing in Canada.

This need for more data, information and analysis of SME financing issues will be particularly vital as Canada moves increasingly into the "new economy" through the establishment and growth of KBI businesses. By expanding the coverage of KBI financing in the proposed data collection and analytical structure proposed by Industry Canada, the analysis and resolution of financing issues facing KBIs will become more effective. KBI financing will be given a high priority in the collection of data and in the data analysis undertaken by Industry Canada.

As the Task Force has concluded:

...the creation of a timely, comprehensive, focused data base, together with regular analysis of specific issues, will allow a regular, fact-based, public discussion of SME and KBI financing issues. Such a discussion will provide critical input for developing effective public policy in these important areas.

Implementation Steps

To implement Industry Canada's proposed response to the MacKay Task Force recommendations regarding the collection and analysis of SME financing data, the following steps would be required:

Negotiations and legislative changes:

To initiate the proposed response Industry Canada would have to negotiate with the CBA and other financial institutions to obtain their cooperation in providing the data that StatCan would require for its SME financing databases. The negotiations with the CBA should be relatively straightforward as they are already publicly providing SME data directly to the House of Commons Industry Committee and other government and private sector users. However, if expansion of the CBA data was required, lengthy negotiations with the individual chartered banks could be required to determine the amount and types of data that they are able and willing to provide in addition to the data that they are currently providing.

Negotiations with other regulated and unregulated institutions providing SME financing would be even more complex and time consuming as most of these institutions have not been providing substantial amounts of SME data up until now. They also have more limited resources available to develop data collection systems and many have only marginal involvement in SME financing. Collection of data from unregulated institutions would require moral suasion efforts but, if these failed, legislative changes may be required to enable StatCan to collect data from these SME financing providers. In the case of provincially regulated institutions like the credit unions and caisses populaires, this may require delicate handling to ensure that federal-provincial relations are not effected. The cooperation of provincial regulators would be most helpful in putting data reporting requirements in place to integrate these institutions into the data collection system. StatCan currently has arrangements with the provinces to collect data on credit union and caisses populaires through the provincial regulators but these facilities may not be adequate for collecting SME financing data.

Provision of resources

The federal government would have to provide additional financial resources to StatCan for the development and implementation of the institutional survey and to Industry Canada for the SME surveys required for the collection of SME financing data, as outlined in the cost estimates for Option 3 above. These resources would be required over a one year time period from the initiation of the data collection proposals. As indicated in the Option 3 cost estimates, both financial and human resources would be required by Industry Canada for the formation and operation of the SME Finance Group over a one-year period following the decision to establish this analytical capability in the department. Resources would also have to be provided to Industry Canada to undertake the initial negotiations with financial institutions involved in implementing the data collection proposals.

Time frame

The integration of the current data collected by the CBA into the StatCan data collection system could probably be accomplished relatively quickly but expansion of the banking data would be time-consuming and difficult. As a result, the initial banking data collected by StatCan would probably have to be limited to the current data collected by the CBA. Inclusion of other institutions in the StatCan collection system would also require considerable time to achieve both in terms of negotiations to obtain cooperation and in

terms of the institutions developing systems to provide the data. Integration of the current CBA data could probably be accomplished within 6 months of initiation but expansion of the banking data and the extension to other institutions could require a further one to two years to complete.

The transfer of responsibility from the CBA to StatCan, through Industry Canada, for the SME survey of needs, expectations and satisfaction ratings would require StatCan to design and undertake a test survey and then develop a full survey for this purpose. StatCan has estimated that both the test and actual surveys could be completed within one year of initiating the transfer of this survey. The proposed benchmark demand-side survey of SMEs could also be integrated into this survey process on a periodic basis, with the first survey being undertaken in conjunction with the first StatCan survey of SME needs, expectations and satisfaction ratings.

In terms of establishing the SME Finance Group in Industry Canada, the timing would probably parallel the timing of the StatCan survey process, with the required human resources being acquired over the initial one-year period of the survey schedule. The initiation of data analyses, additional special surveys and specific research projects would occur as data became available from StatCan during the first year of operations. At the end of the first year, Industry Canada, in conjunction with StatCan, would prepare the initial report on the state of SME financing to be tabled with the House of Commons Industry Committee.

Conclusions:

- The MacKay Task Force found that Canada has a shortage of well-founded, long-term data on which to base an informed debate about the issue of access to financing for SMEs.
- Depending on the private sector to develop solutions on its own is not likely to yield results, due to the competitive conditions in which institutions operate.
- While voluntary compliance is preferable, there is a moderate likelihood of there being a need for legislative authority. If so, this has implications for federal-provincial relations.
- Providing Statistics Canada with the mandate to gather data without the resources to develop policy responses may lead to demands for action, to which the government is unequipped to respond, in policy terms.
- That the A-base of Statistics Canada be increased by \$2.5 million and that of Industry Canada be increased by \$1.45 million to provide the additional resources required to carry out this task.
- That results from this investment will begin to be seen in year one, but trends will not emerge for some years thereafter.

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