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SME PROFILE

CANADA SMALL BUSINESS FINANCING PROGRAM BORROWERS

Innovation, Science and Economic Development Canada
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INTRODUCTION

This report is an update of *SME Profile: Canada Small Business Financing Program Borrowers* (Coe, 2016). Small and medium-sized enterprises (SMEs) are significant drivers of economic growth and employment within Canada's economy, accounting for 99.8%¹ of all businesses and 88.1%² of the total private labour force.

SMEs are also key drivers of job creation, accounting for the majority of net employment growth (86.4%) in Canada.³ Between 2015 and 2019, an average of 101,324 SMEs were created and an average of 90,151 SMEs disappeared annually, representing a net growth of 11,000 SMEs each year.⁴

The Canada Small Business Financing Program (CSBFP) is a loan loss-sharing program designed to facilitate access to financing for SMEs to establish, expand, modernize, and improve their businesses, which ultimately stimulates economic growth and creates jobs for Canadians.

The purpose of this report is to profile the general characteristics of CSBFP borrowers, as well as to compare the differences between CSBFP borrowers and non-CSBFP borrowers (all SMEs).

It uses data primarily from the *Survey on Financing and Growth of Small and Medium Enterprises* (SFGSME 2020), and therefore, does not include any loans issued under the changes announced in Budget 2021.

CSBFP borrower characteristics will provide Innovation, Science and Economic Development Canada (ISED) with an evidence-based approach to addressing the unique challenges they face, and how the program could better meet their financing needs.

1 Statistics Canada (2022). *Canadian Business Counts, with Employees, June 2022*. Table 33-10-0568-01. Ottawa: Statistics Canada.

2 Small Business Branch (2022). *Key Small Business Statistics*. Ottawa: Innovation, Science and Economic Development Canada.

3 Net employment growth is the difference in total employment between two years.

4 Small Business Branch (2022). *Key Small Business Statistics*. Ottawa: Innovation, Science and Economic Development Canada.

DATA DEFINITIONS

The data for this report are referenced from the *Survey on Financing and Growth of Small and Medium Enterprises, 2020*; the CSBFP Borrowers Awareness and Satisfaction Study;⁵ and, the CSBFP administrative data and key small business statistics from Statistics Canada's CANSIM database.

For additional information, please refer to the [CSBFP Overview and Highlights](#) page in the CSBFP Documentation Centre or the CSBFP's [Open Data](#) tables, which can be found on Open Government.

The analysis contained in this report is broken down into "CSBFP versus all SMEs," which compares the similarities and differences between each group. This involves two distinct samples in the *Survey on Financing and Growth of Small and Medium Enterprises*.⁶ All SMEs does not include CSBFP borrowers, allowing for direct comparisons across various characteristics. Therefore, "all SMEs" is defined as "all other non-CSBFP SMEs."

Small and medium-sized enterprises are defined as commercial, for-profit businesses with fewer than 500 employees and that generated \$30,000 or more in revenue in 2020. Excluded are self-employed and indeterminate businesses. Public administration organizations, such as schools, hospitals, and public utilities, were also excluded from the analysis. This definition should not be confused with CSBFP eligibility, which defines business size by revenue.

5 The CSBFP conducts two awareness and satisfaction studies, one that surveys borrowers and one that surveys lenders. This report refers to the survey on borrowers.

6 This survey sampled 19,283 enterprises and 1,334 CSBFP borrowers. The response rate was about 56%.

1. OVERVIEW OF THE CANADA SMALL BUSINESS FINANCING PROGRAM

The CSBFP is a statutory loan loss-sharing program governed by the *Canada Small Business Financing Act* and administered by ISED. Under the CSBFP, the Government of Canada and financial institutions (which include chartered banks, credit unions, and caisses populaires) share the risk of providing SMEs with term loans and lines of credit.

Term loans can finance the purchase of real property, equipment, leasehold improvements, intangible assets, and working capital costs, whereas lines of credit can only be used to finance working capital costs.⁷

The government is liable to pay lenders 85% of eligible losses on defaulted loans registered under the program. By sharing the burden of risk on loans, the Government of Canada and private sector lenders are able to increase the amount of financing extended to SMEs.

Under the program, a small business can apply for a loan at a financial institution of its choice. Participating financial institutions provide financing to small businesses operating in all sectors (except agriculture) in all provinces and territories.⁸

Not-for-profit, charitable, and religious enterprises that operate a small business are now included as eligible borrowers.⁹ Lenders are responsible for all credit decisions, approving loans, disbursing loan proceeds, registering loans with the CSBFP, administering loans and, in the event of default, realizing on security and guarantees.

⁷ Regulatory amendments to the CSBFP came into force on July 4, 2022, which included new eligible asset classes for term loans for intangible assets and working capital costs, and a new line of credit financing product for working capital costs.

⁸ The *Canadian Agricultural Loans Act* Program is a loan guarantee program designed to increase the availability of loans to farmers and agricultural co-operatives and is administered by Agriculture and Agri-Food Canada.

⁹ Legislative amendments to the CSBFP came into force on June 30, 2021, which removed the restriction excluding not-for-profit, charitable, and religious enterprises as eligible borrowers.

CSBFP Parameters

Borrower eligibility

Businesses with annual gross sales of \$10 million or less are eligible to use the program. Agricultural organizations are excluded as they come under the *Canadian Agricultural Loans Act* (CALA) program.

Loss-sharing ratio

The government shares in eligible losses after realization on security. Its share of eligible losses for loans in default is 85%. Lenders are responsible for the remaining 15%.

Eligible expenses

Term loans can be used to finance equipment, real property or immovables, leasehold improvements, intangible assets, working capital costs, and program registration fees. Lines of credit can be used to pay for working capital costs and program registration fees.

Maximum loan amount

The loan amount cannot exceed \$1.15 million, which includes the following:

- ✔ \$1 million for term loans of which a maximum of \$500,000 includes:
 - Equipment and leasehold improvement loans; and,
 - \$150,000 for intangible assets and working capital costs.

Plus

- ✔ \$150,000 for lines of credit for working capital costs.

Maximum financing coverage

The maximum period of government coverage on a CSBFP loan is 15 years for term loans. The maximum term for a line of credit is 5 years; however, at the end of the 5-year term, the lender and borrower have the option to renew for an additional 5 years or convert the remaining line of credit amount to a CSBFP term loan with a maximum 10-year coverage period.

2. CSBFP LENDING TRENDS

In 2021–22, Canadian small businesses received 5,004 CSBFP loans valued at \$1.23 billion. Compared with the previous year, the number and value of loans made were up by 33.8% and 41% respectively. This significant increase in lending can be attributed to eased COVID-19 restrictions and the winding down of emergency response business support programs relative to the previous year. The average loan size in 2021–22 was \$246,507, an increase of 5.3% relative to 2020–21. It is expected that this amount will continue to increase.

Increasing trends

Accommodation and Food Services Sector and Retail Trade Sector

Over half of CSBFP borrowers (56%) currently operate in the accommodation and food services or retail trade sectors, compared with 32% in 1999–2000.

Loan size

Over the past five years, the average loan size increased at a rate of approximately 4.1%.

Historically, the average loan size has increased at a rate of approximately 5.2% since 1999–2000.

Loan volume

CSBFP loans have increased significantly in terms of number and total value relative to the previous year. This may be driven by eased COVID-19 restrictions, the winding down of emergency response business support programs, and improved economic conditions relative to the previous year.

Claims

Claims attributed to loans made in prior years with higher lending levels are now materializing at a faster pace than before. In addition, this could be attributed to the adverse economic environment that resulted from the COVID-19 pandemic, as many SMEs faced challenges with cash flow and staying afloat, particularly those hit hardest in the accommodation and food services sector, which represents almost half of CSBFP borrowers. It's expected that claim volumes will continue to increase in proportion to the level of lending, which is expected to increase annually due to the recent changes made to the CSBFP to include new eligible loan classes, higher loan amounts, and a new flexible financing product.

Requests for external financing

The percentage of CSBFP borrowers requesting external financing (defined as any funds obtained from outside the firm), as well as all other SMEs, has increased by 18% since 2017.

In 2021–22, most CSBFP loans were made to small businesses in Ontario and Quebec, accounting for 41 and 21% of total lending by value of loans, respectively. Alberta was the third-largest user of the program, accounting for 17% of loans by value. Businesses operating in the accommodation and food services sector accounted for the largest share of loans by industry, at 43% of total loan value in 2021–22. Retail trade was the next largest sector, at 15% of total loan value. CSBFP borrowers, as defined by revenue, are very small. Approximately 41% of borrowers in 2021–22 generated revenues of \$500,000 or less, while over 90% generated revenues of \$2 million or less.

Decreasing trends

Manufacturing Sector and Transportation and Warehousing Sector

Only 7% of CSBFP borrowers currently operate in the manufacturing or transportation and warehousing sectors, compared with 26% in 1999–2000.

3. GENERAL CHARACTERISTICS OF CSBFP BORROWERS

Age, experience, gender, education, and geographic location

The *Survey on Financing and Growth of Small and Medium Enterprises, 2020*, revealed that CSBFP borrowers are younger and less experienced than all SMEs (Table 1). This can be attributed to the fact that a significant proportion of these borrowers are financing start-up firms.¹⁰ In addition, about 26% of decision makers/owner operators in CSBFP-supported firms indicated that they had less than five years' experience, compared with 6% of decision makers/owner operators in all SMEs.

While CSBFP borrowers may, on average, be less experienced than other SME borrowers surveyed, they were also found to differ slightly from all SME borrowers with respect to gender and education. CSBFP-supported enterprises are more likely to be wholly or majority owned by women compared with all SMEs. About 62% of CSBFP-supported enterprises and 69% of all SMEs in Canada are wholly or majority owned by men, while 22% of CSBFP-supported enterprises and 17% of all SMEs are wholly or majority owned by women. Women and men have an equal stake in ownership about 17% and 14% of the time for CSBFP borrowers and all SMEs, respectively.

In terms of education, CSBFP borrowers tend to be slightly more educated than their counterparts, having less than a high school diploma (5 versus 7%), a high school diploma (16 versus 22%), a college/trade school/CEGEP diploma (32 versus 30%), a bachelor's degree (33 versus 25%), or a master's degree or above (15% for both).¹¹

Quebec is well represented in CSBFP loans (21% of total lending by value in 2021–22) when compared with other demographic and economic indicators, largely due to the fact that the program is popular among caisses populaires in Quebec. Accordingly, CSBFP borrowers identified their first language as something other than English 53% of the time, compared with 38% for all SMEs, and CSBFP borrowers are more likely to come from a visible minority than all SMEs.

10 According to CSBFP administrative data, approximately 67% of loans (by value) were made to firms less than one year old in 2021–22.

11 CEGEP is a public school that provides the first level of post-secondary education in Quebec.

CSBFP Borrower Profile

Age and experience

CSBFP-supported enterprises are predominantly small start-ups whose borrowers tend to be younger and have less experience than all SMEs.

Language and ethnicity

CSBFP borrowers are more likely to identify a non-official language as their mother tongue and come from a visible minority.

Gender

CSBFP-supported enterprises are more likely to be wholly or majority owned by women than all SMEs.

Location and industry

Most CSBFP borrowers operate in Ontario and Quebec in the accommodation and food services or retail trade sectors.

Obstacles to growth

The rising cost of inputs was identified as the number one barrier to growth by CSBFP respondents.¹²

Growth, innovation, and international trade

CSBFP borrowers have higher levels of technology adoption, are more growth oriented and are more likely to innovate than all SMEs, but less likely to export.

12 Input cost is the set of costs incurred to create a product or service.

Table 1: General profile of CSBFP borrowers versus all SMEs, 2020

CSBFP Borrowers	Characteristics	All SMEs
<p>22% wholly or majority owned by women</p> <p>17% equally owned by women and men</p> <p>11% minority owned by women</p> <p>51% wholly owned by men</p>	Gender	<p>17% wholly or majority owned by women</p> <p>17% equally owned by women and men</p> <p>11% minority owned by women</p> <p>59% wholly owned by men</p>
<p>4% less than 30 years old</p> <p>33% 30 to 39 years old</p> <p>36% 40 to 49 years old</p> <p>25% 50 to 64 years old</p> <p>2% 65 years old or older</p>	Age	<p>1% less than 30 years old</p> <p>13% 30 to 39 years old</p> <p>24% 40 to 49 years old</p> <p>47% 50 to 64 years old</p> <p>15% 65 years old or older</p>
<p>47% identified English as their mother tongue</p> <p>21% identified French as their mother tongue</p> <p>32% identified a non-official language as their mother tongue</p>	First language	<p>62% identified English as their mother tongue</p> <p>18% identified French as their mother tongue</p> <p>20% identified a non-official language as their mother tongue</p>
<p><i>Years of experience managing or owning a business:</i></p> <p>26% less than 5 years</p> <p>32% 5 to 10 years</p> <p>42% more than 10 years</p>	Experience	<p><i>Years of experience managing or owning a business:</i></p> <p>6% less than 5 years</p> <p>19% 5 to 10 years</p> <p>75% more than 10 years</p>
<p>5% less than a high school diploma</p> <p>16% high school diploma</p> <p>32% college, trade school or CEGEP diploma</p> <p>33% bachelor's degree</p> <p>15% master's degree or above</p>	Level of education	<p>7% less than a high school diploma</p> <p>22% high school diploma</p> <p>30% college, trade school or CEGEP diploma</p> <p>25% bachelor's degree</p> <p>15% master's degree or above</p>
<p>1% majority owned by an Indigenous person</p>	Indigenous	<p>1% majority owned by an Indigenous person</p>
<p>16% majority owned by a visible minority</p>	Visible minority	<p>9% majority owned by a visible minority</p>

Note: Numbers may not add up to 100% due to rounding.
 Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

4. DETAILED CHARACTERISTICS OF CSBFP BORROWERS

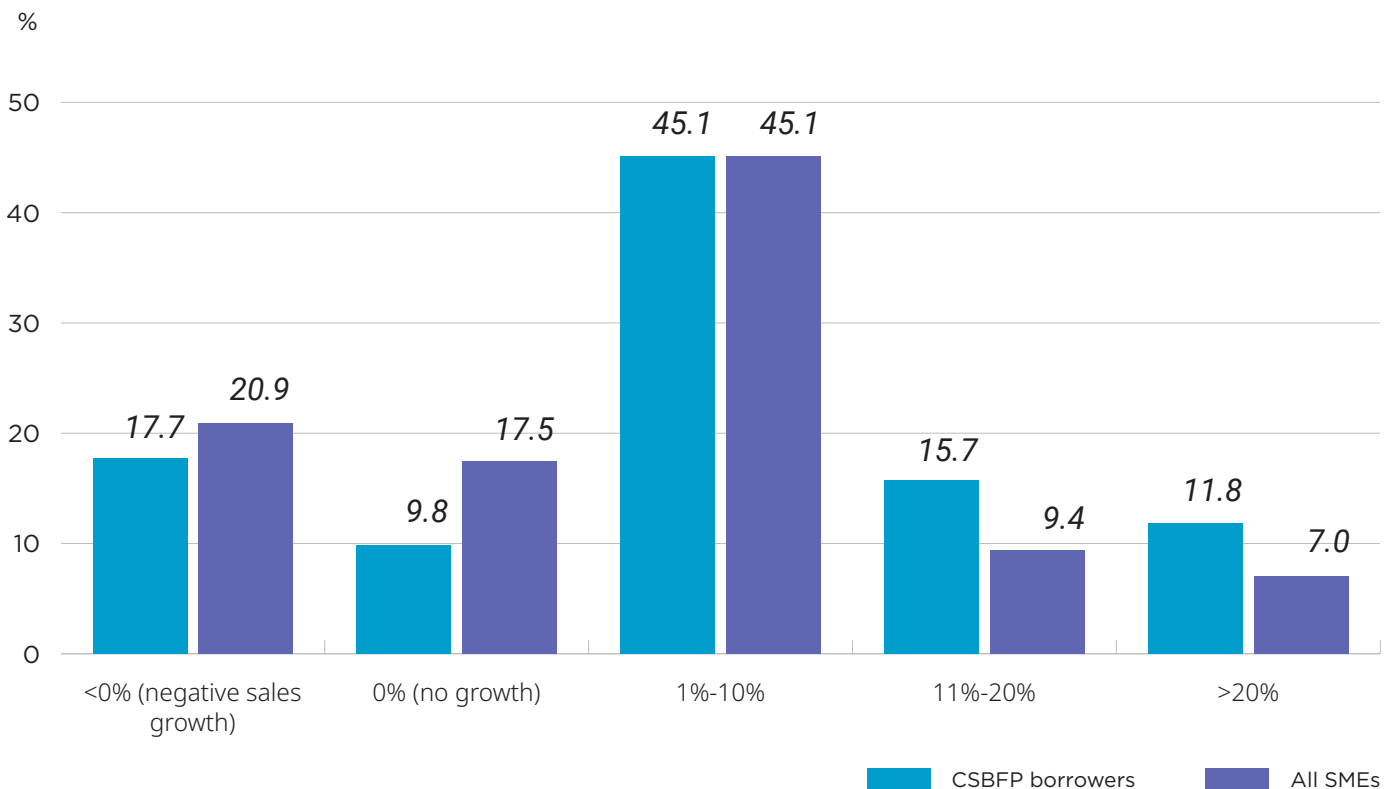
Growth, innovation and international trade

Growth

According to the *Survey on Financing and Growth of Small and Medium Enterprises*, CSBFP borrowers were more likely to have experienced high sales growth, with 12% of respondents indicating that their businesses experienced average annual growth in sales of greater than 20% from 2017 to 2020, compared with 7% for all SMEs (Figure 1).

This was consistent with the findings in the 11 to 20% growth range, which accounted for 16% of CSBFP borrowers and 9% of all SMEs surveyed. About half of each group reported sales growth between 1 and 10%, while the remainder of each group experienced zero or negative growth over the three-year period. In terms of expectations, CSBFP borrowers were more optimistic about the future, with over 32% of CSBFP borrowers expecting average annual growth in sales to exceed 10% over the next three years, compared with 17% of all SMEs.

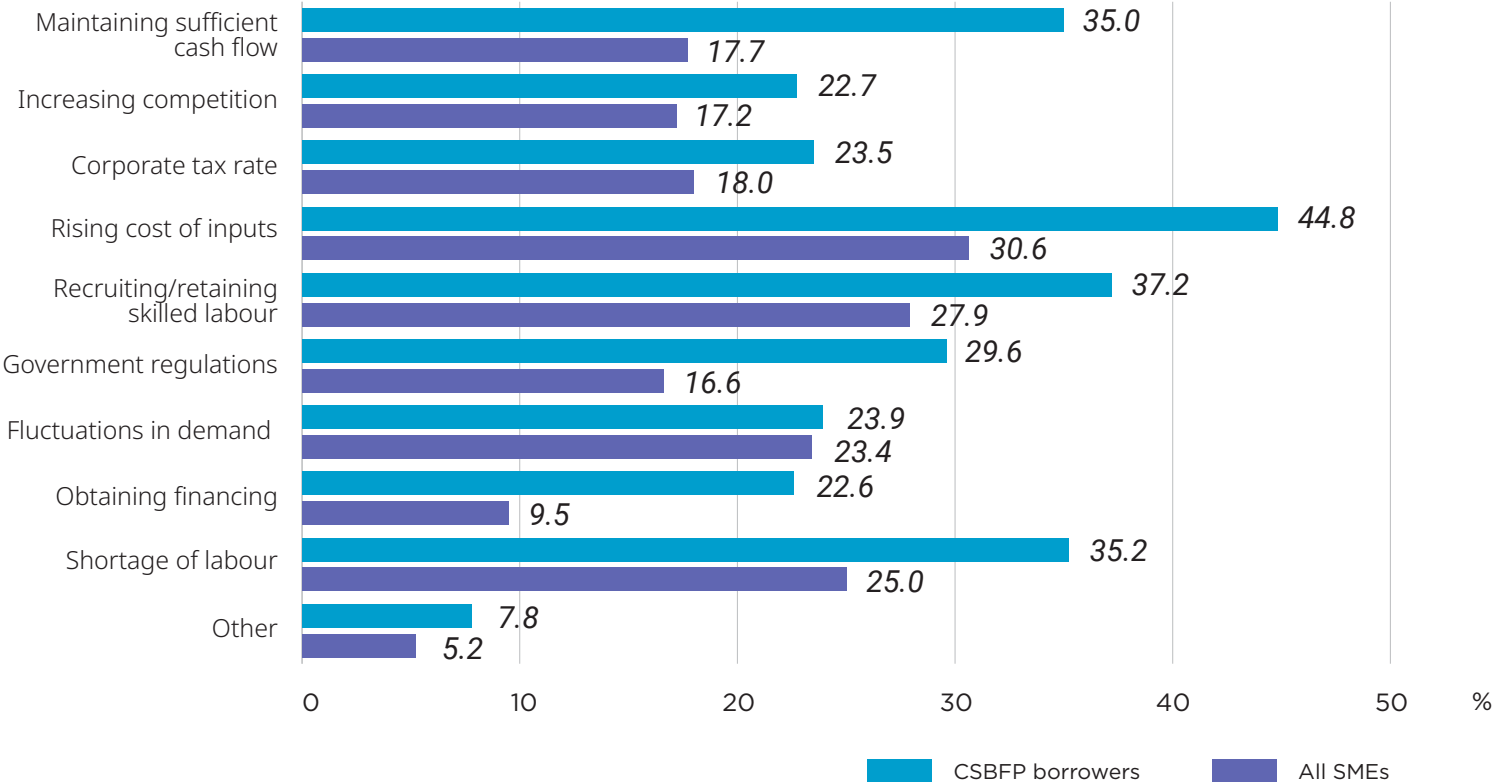
Figure 1: Average annual growth in sales, 2017–2020



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

When asked which factor was a major obstacle to growth, 45% of CBSFP borrowers responded that they had difficulty with the rising cost of inputs (Figure 2). With only 31% of all SMEs citing the same factor, this serious barrier to growth may signify an increased need for CSBFP financing among younger, less experienced, and growth-oriented entrepreneurs to mitigate against demand and supply shocks. In general, CSBFP borrowers identified all obstacles to growth as being more severe than all SMEs. The least significant obstacles to growth were increased competition and access to financing for both CSBFP borrowers and all SMEs.

Figure 2: Major obstacles to growth, 2020

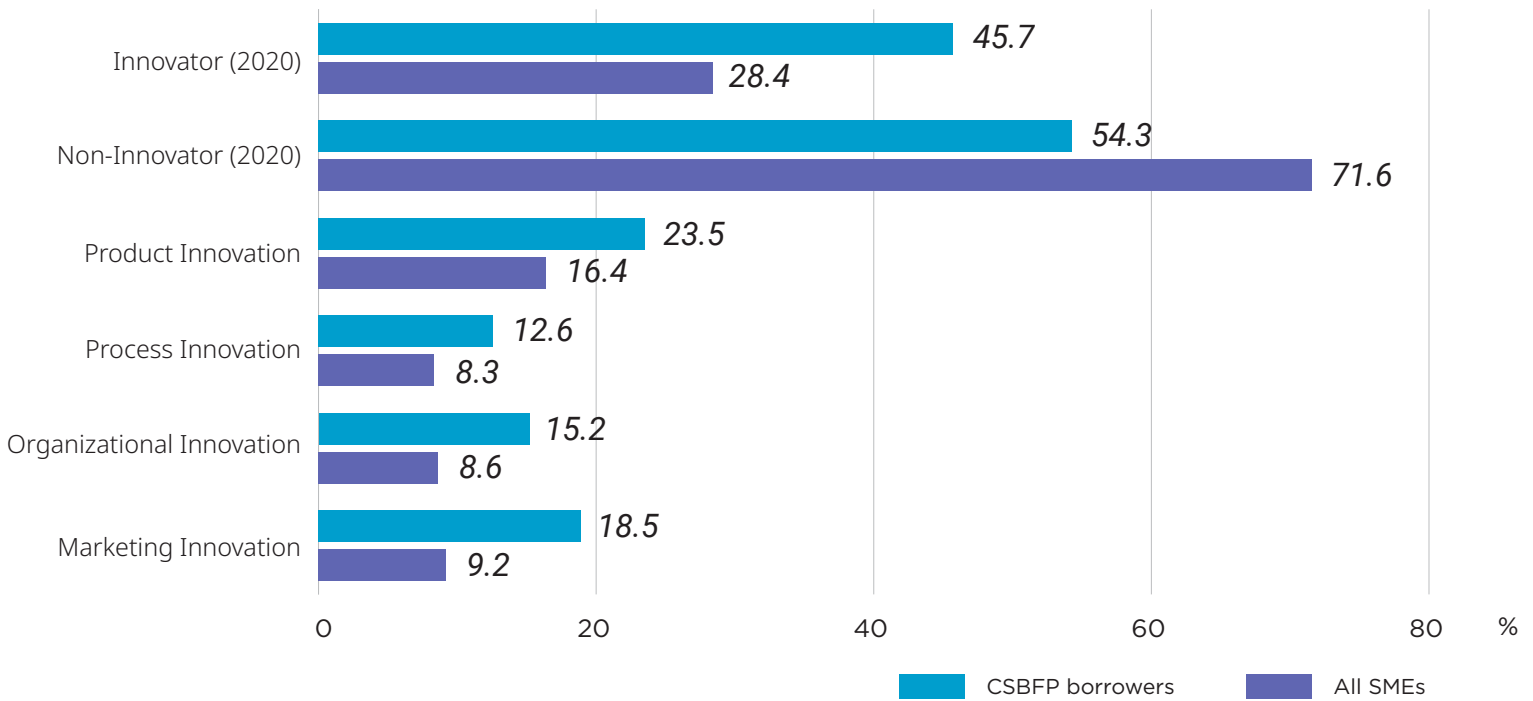


Note: Rounding of numbers results in discrepancy among some bars.
 Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises, 2020*.

Innovation

Nearly 50% of CSBFP borrowers identified themselves as innovators, having taken steps to innovate in at least one area of their business between 2017 and 2020, compared with 28% of all SMEs (Figure 3). CSBFP borrowers were stronger innovators across all four categories of innovation during the review period, with the most common innovation activity for each group being product innovation. Furthermore, 24% of CSBFP borrowers and 16% of all SMEs indicated that they innovated a new or significantly improved good or service over the three-year period. Respondents indicated they were less likely to innovate with respect to the process or method by which they produce goods and services (process innovation) and in the area of organizational practices (organizational innovation).

Figure 3: Innovation activity, 2017–2020



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises, 2020*.

CSBFP borrowers were more likely to own intellectual property and recorded higher levels of innovation related to their businesses. In 2020, 22% of CSBFP borrowers held at least one type of intellectual property, compared with 16% of all SMEs. The most common form of intellectual property was registered trademarks for CSBFP borrowers (16%) and non-disclosure agreements for all SMEs (10%).

International trade

In terms of sales destinations, the vast majority of CSBFP borrowers and all SMEs sold to customers within their municipality (Figure 4). The more established group of all SMEs was slightly more likely to conduct sales outside of their municipality but within their province/territory, and outside Canada. This can be explained by the fact that Canadian SMEs are highly concentrated in the accommodation and food services sector and retail trade sector, which are brick-and-mortar in nature and predominantly service a customer base within a commutable distance.

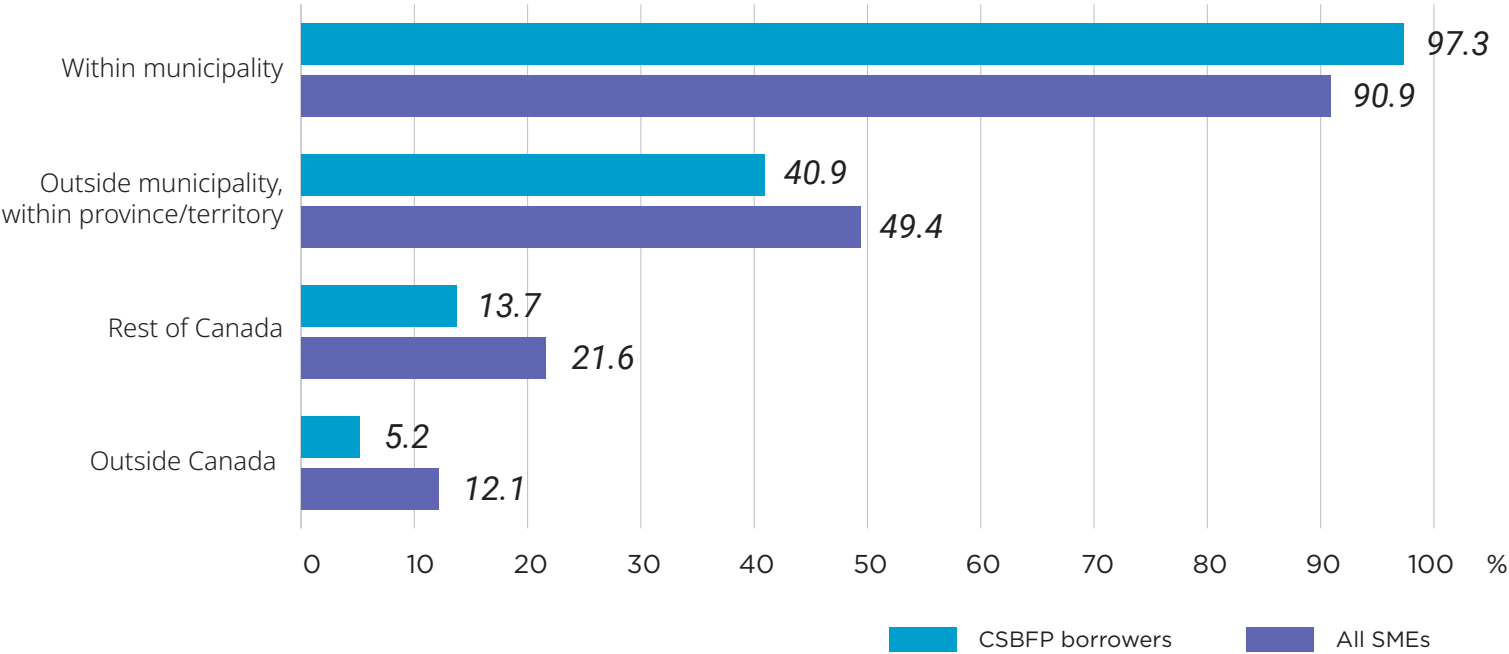
Roughly 5% of CSBFP borrowers and 12% of all SMEs engaged in export activity in 2020, which remain the same as 2017 levels.¹³ The low level of export activity can be attributed to the high proportion of lending in the accommodation and food services sector.

¹³ Small Business Branch (2022). *Summary of the Survey on Financing and Growth of Small and Medium Enterprises, 2020*. Ottawa: Innovation, Science and Economic development.

The recent expansion of the CSBFP to include intangible assets and working capital costs as eligible loan classes, together with higher loan amounts, could help increase the propensity of CSBFP borrowers to export, as SMEs that engage in exporting generate higher sales, larger pre-tax profit margins, and better returns on assets, on average, than non-exporters.

As well, exporters are more research and development intensive and growth oriented.¹⁴ About 90% of respondents from each group cited the local nature of their business as the reason why they did not export. Other issues, such as administrative obstacles, market knowledge, border knowledge, and logistics, were not seen as major barriers to international markets by either group.

Figure 4: Sales destination, 2020



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

14 Seens, Daniel (2015). *SME Profile: Canadian Exporters*. Ottawa: Industry Canada.

5. INDUSTRIAL CHARACTERISTICS

Four industry sectors and one miscellaneous category accounted for almost three quarters of CSBFP loans by value (Table 2). In 2021–22, 40% of CSBFP borrowers were active in the accommodation and food services sector, which represents about 2% of Canada’s gross domestic product.¹⁵ The concentration of borrowers in the accommodation and food services sector reflects the high degree of risk involved in starting up an enterprise in this sector.

According to the Office of the Superintendent of Bankruptcy Canada, accommodation and food services led all other sectors in 2022 with 4.9 insolvencies per 1,000 businesses.^{16,17} Retail trade, another risky sector, received 15% of CSBFP loans in 2021–22, totalling \$188 million, and reported 2 insolvencies per 1,000 businesses.

Table 2: Top five sectors with CSBFP loans, 2021–2022

Sector	Number of loans	Value of loans (\$000)	Percentage of total value of loans
Accommodation and food services	2,018	526,650	43
Retail trade	775	187,781	15
Other services (except public admin)	682	145,793	12
Health care and social assistance	228	58,595	5
Personal care services	164	39,418	3

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

15 Statistics Canada (2022). *Gross Domestic Product (GDP) at Basic Prices, by Industry, Monthly*. Table: 36-10-0434-01. Ottawa: Statistics Canada.

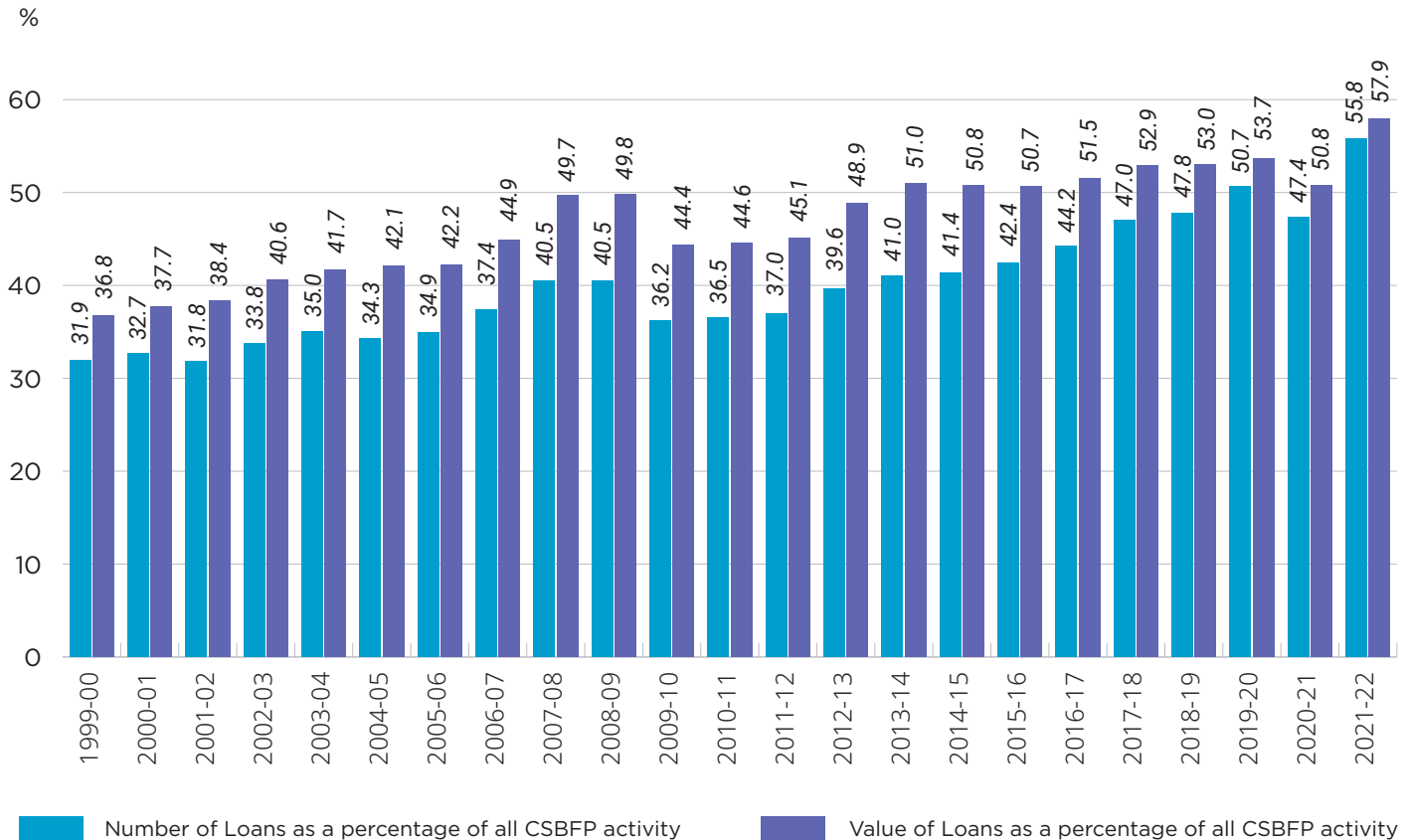
16 A business is considered “insolvent” if it makes a proposal to creditors or files a claim for bankruptcy.

17 Office of the Superintendent of Bankruptcy Canada (2022). *Insolvency statistics in Canada by North American Industry Classification System (NAICS)*. Ottawa: Office of the Superintendent of Bankruptcy Canada.

Since 1999–2000, the CSBFP has experienced an upward trend in lending to the accommodation and food services sector and retail trade sector.

Figure 5 illustrates the share of these sectors in CSBFP activity, which accounted for 58% of loan value and 56% of loan registrations in 2021–22. This represents an increase of 21 percentage points in loan value and 24 percentage points in loan numbers since 1999–2000.

Figure 5: Accommodation and Food Services Sector and Retail Trade Sector as a share of all CSBFP activity, 1999–2022



Note: Rounding of numbers results in discrepancy among some bars.
Source: CSBFP administrative data, 2022.

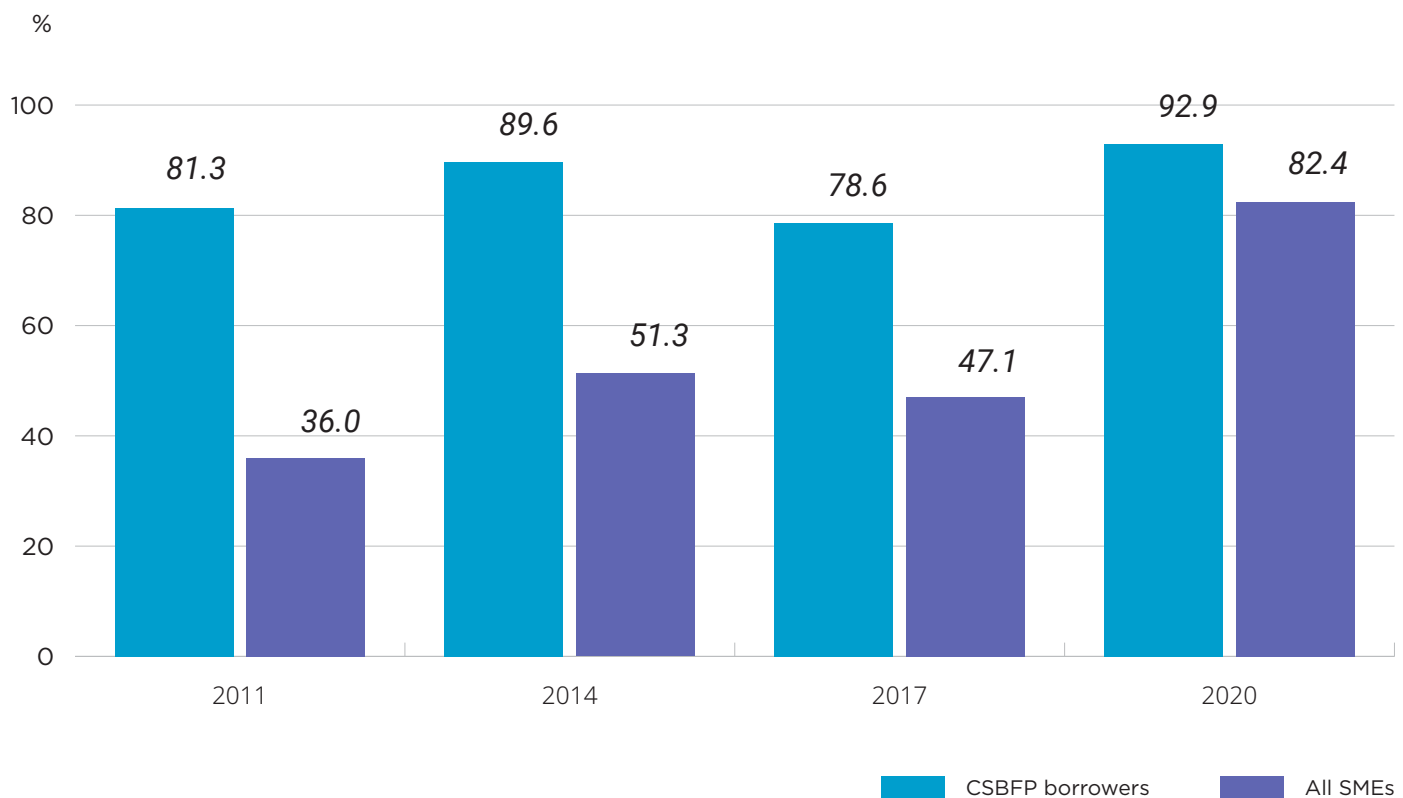
The data suggest that financial institutions consider business proposals from these sectors to be in a higher-risk category, making them suitable candidates for the CSBFP. This may also be a sign that CSBFP term loans have been closely aligned with the needs of brick-and-mortar establishments.

Recent legislative and regulatory changes to modernize the program could help diversify the CSBFP loan portfolio by supporting more innovative and service-oriented enterprises, which may have a greater need for more flexible financing to address intangible needs, such as intellectual property, and working capital costs such as marketing, wages, and start-up expenses.

6. FINANCING

Data suggest that more Canadian SMEs are requesting external financing (Figure 6).¹⁸ Requests for financing by CSBFP borrowers increased by 14 percentage points between 2017 and 2020, with about nine out of ten firms applying for financing in 2020. All SMEs saw an increase of 35 percentage points in requested financing during the same period, with over 80% of all SMEs applying for financing in 2020.

Figure 6: Requested external financing



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Personal financing was the most popular source of capital for each group, with over 70% of all respondents indicating that they used personal assets to start up their businesses (Table 3). CSBFP borrowers were far more reliant upon financial institutions as a source of financing, at 76%, compared with all SMEs, at 35%.

¹⁸ CSBFP borrowers have, by definition, obtained financing from a financial institution and a government program. Therefore, 100% of respondents should have indicated that they relied on these sources for financing. The 93% request rate can be partially attributed to the financial literacy of respondents or respondents misrepresenting themselves as the principal decision maker during the data collection process.

Table 3: Sources of financing for start-ups, 2020

Source of financing	CSBFP borrowers (%)	All SMEs (%)
Personal financing	73	76
Financial institutions	76	35
Friends or relatives	22	13
Government loans, grants, subsidies	23	4
Capital leasing	8	6
Trade credit	6	7
Retained earnings	5	6
Angel investors and venture capital	1	1
Other	3	5

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

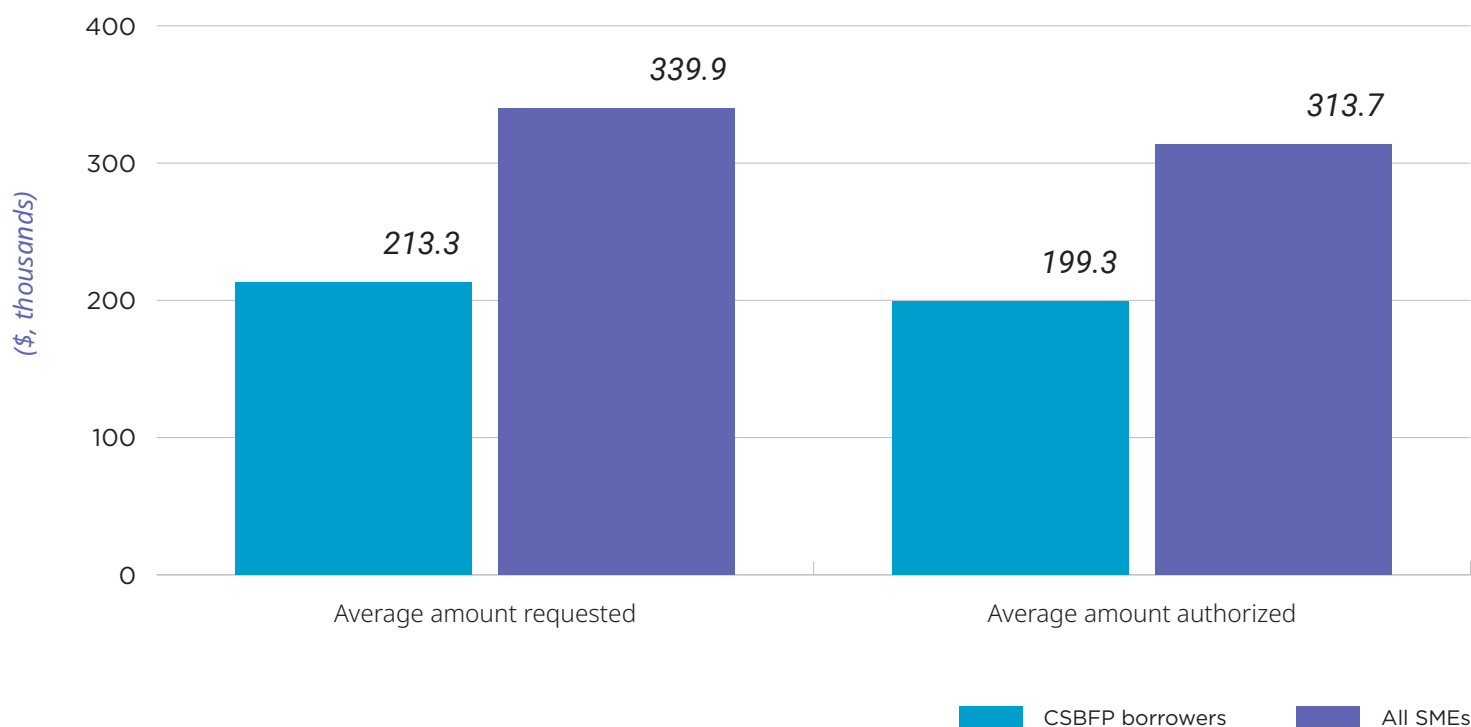
6.1 Debt financing

Debt financing is when a firm raises money for working capital or capital expenditures by selling bonds, bills or notes to an individual and/or institutional investors. Data show that CSBFP borrowers requested and were approved for debt financing more often than all SMEs. This can be explained by the fact that CSBFP borrowers tend to request lower amounts of financing, which is easier for financial institutions to approve. Figure 7 shows that the average amount of debt financing requested by all SMEs in 2020 was \$339,900, compared with \$213,300 for CSBFP borrowers. In the end, all SMEs were authorized to receive over one and a half times the amount of financing as CSBFP borrowers, at \$313,700 and \$199,300 respectively.

Table 4 confirms that in 2020, the most popular type of debt financing requested by CSBFP borrowers was term loans (18%) followed by line of credit and credit card financing¹⁹ (each at 16%), while all SMEs relied most frequently on cash financing (13%), such as lines of credit and credit card financing over term loans (5%).

¹⁹ Credit card financing is not available through the CSBFP.

Figure 7: Amount of debt financing, 2020



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Table 4: Debt financing request and approval rates, 2020

		Non-residential mortgage (%)	Line of credit (%)	Term loan (%)	Credit card (%)	Overall (%)
CSBFP borrowers	<i>Request rate</i>	7	16	18	16	38
	<i>Approval rate</i>	100	86	94	93	94
All SMEs	<i>Request rate</i>	3	7	5	6	16
	<i>Approval rate</i>	96	83	89	90	91

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

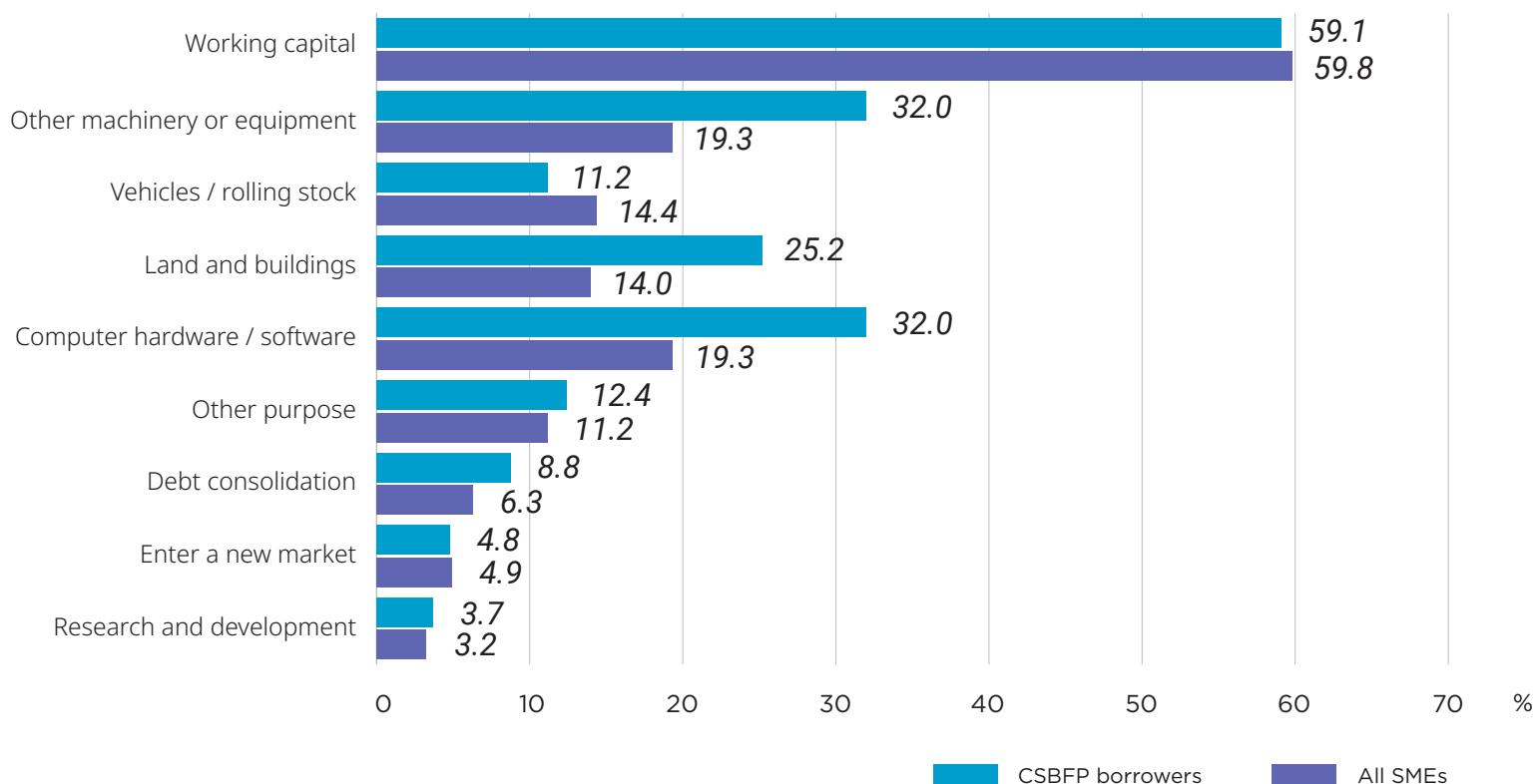
Overall debt financing approval rates for CSBFP borrowers and all SMEs were 94% and 91%,²⁰ respectively, which supports the Organisation for Economic Co-operation and Development’s finding that Canada is among the world’s leaders in ease of access to financing for entrepreneurs.²¹ The number one reason why CSBFP borrowers were turned down for debt financing was due to having insufficient collateral.

By comparison, insufficient sales/cash flow was the most common factor preventing all SMEs from accessing debt financing. Over half of all respondents to the *Survey on Financing and Growth of Small and Medium Enterprises* relied on debt financing to meet their working capital needs (Figure 8).²²

Working capital is often used for paying suppliers, marketing, wages, and other short-term debt obligations and has been available through the CSBFP since July 2022. All SMEs used debt financing for vehicles/rolling stock and to address working capital needs slightly more than CSBFP borrowers.

On the other hand, CSBFP borrowers relied on debt financing more than all SMEs to cover costs for other machinery or equipment (32%), land and buildings (25%), computer hardware and software (32%), debt consolidation (9%), and research and development (4%).

Figure 8: Intended use of debt financing, 2020



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

20 It should be noted that approval rates may be somewhat biased as they do not consider discouraged entrepreneurs who choose not to request financing because of expectations that their request will be denied, or approved for a lesser amount and/or under less favourable terms.

21 Schwab, Klaus and Zahidi, Saadia (2020). *The Global Competitiveness Report Special Edition 2020: "How Countries are Performing on the Road to Recovery"*. Geneva: World Economic Forum.

22 Working capital is most frequently financed through lines of credit.

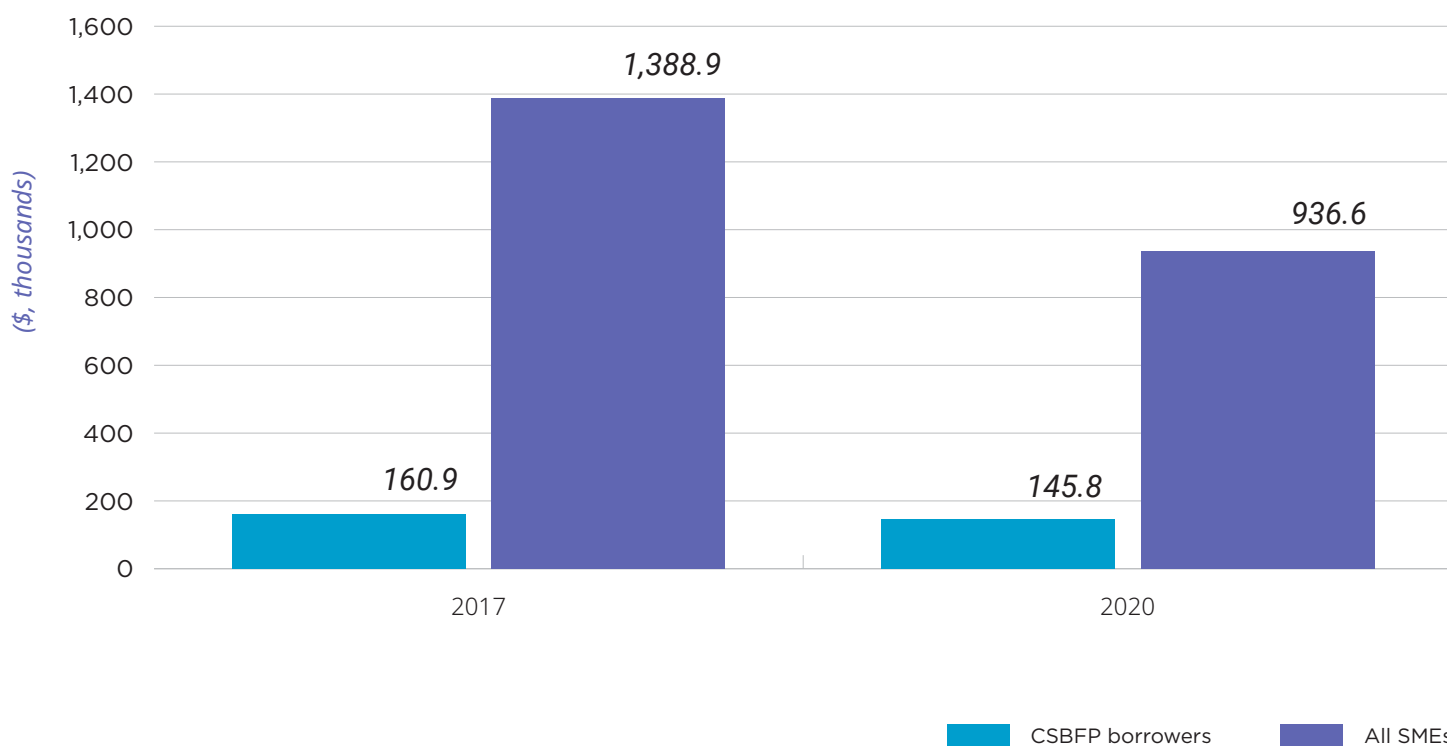
6.2 Equity financing

Equity financing is the process of raising capital through the sale of shares (ownership) in an enterprise. Figures 9 and 10 reveal a significant decrease in the average amount of equity financing provided to all SMEs from 2017 to 2020, suggesting that all SMEs requested equity financing less often, but in larger amounts in comparison with CSBFP borrowers during the review period. In contrast, CSBFP borrowers requested equity financing more often, but in smaller amounts. Over the period, the total amount of equity provided has decreased by 9% (\$15,102) for CSBFP borrowers and by 33% (\$452,364) for all SMEs.

This is an indication that businesses are seeking lower levels of equity financing than before. This could be attributed to businesses wanting to retain higher levels of ownership during the COVID-19 pandemic. Over the period 2017–2020, an inverse relationship can be observed between the two groups as requests for equity financing declined from 4.5 to 2.4% for CSBFP borrowers, while it increased from 0.8 to 1% for all SMEs.

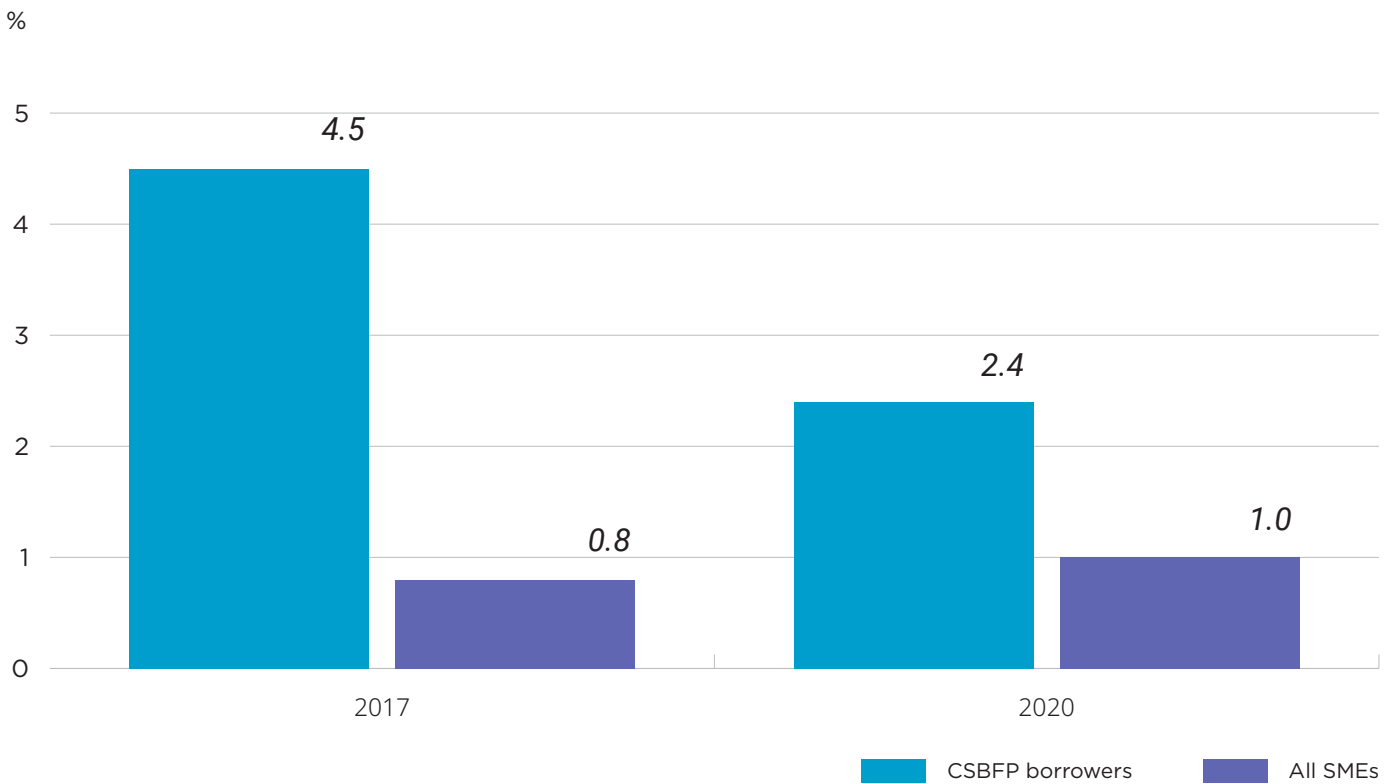
Figure 9: Equity financing obtained by CSBFP borrowers and all SMEs

Average amount of equity financing provided



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Figure 10: Equity financing request rates



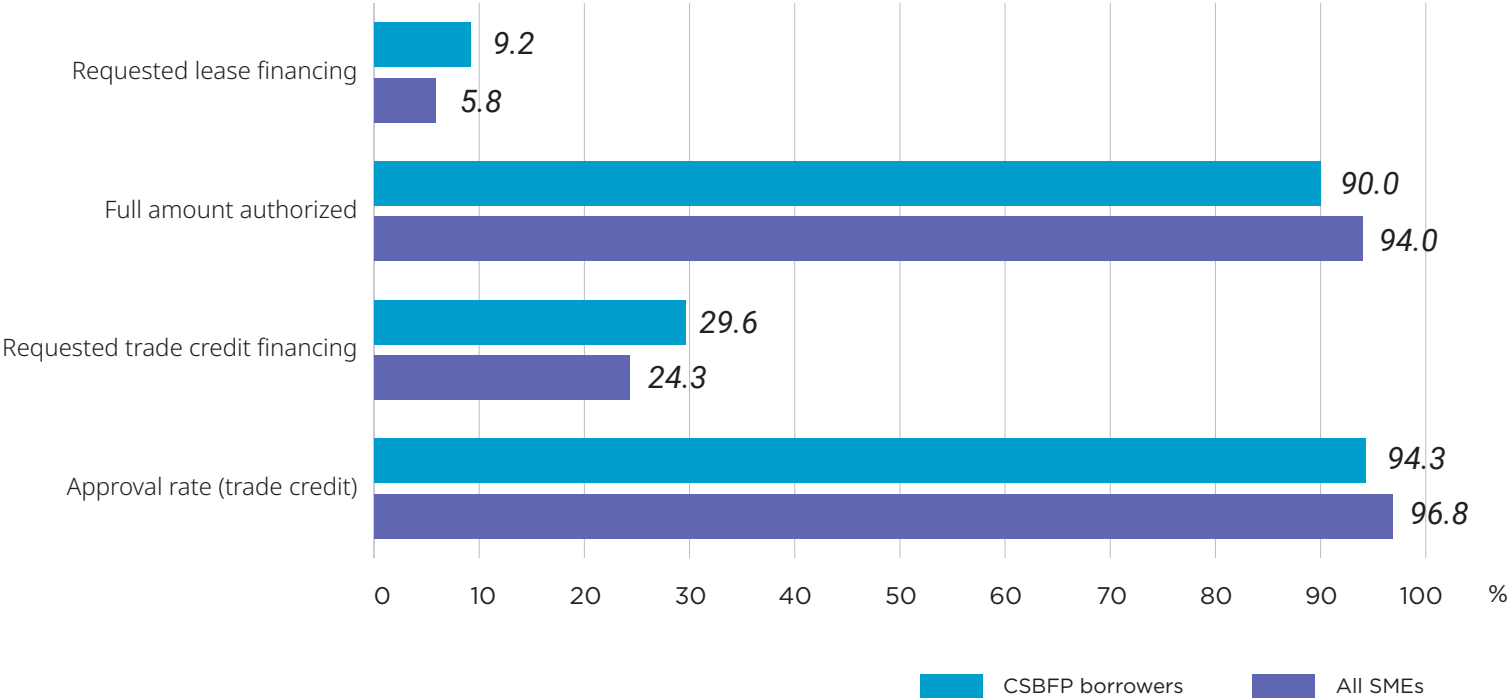
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

6.3 Lease and trade credit financing

A lease is an arrangement whereby the lessor agrees to allow the lessee to use an asset for a stated period of time in exchange for one or more payments. CSBFP borrowers reported a higher request rate for lease financing than all SMEs (9% versus 6%) for the purpose of renting other machinery or equipment (Figure 11). The approval rate for CSBFP borrowers, however, was lower than for all SMEs at 94% versus 99%. In addition, the average amount of lease financing authorized was \$56,200 for CSBFP borrowers and \$100,100 for all SMEs.

Trade credit is an agreement whereby a customer can purchase goods on account (without paying cash), paying the supplier at a later date. In terms of trade credit financing, requests by each group were similar, with nearly all requests being approved. The average amount of trade credit authorized was \$35,900 for CSBFP borrowers and \$79,500 for all SMEs.

Figure 11: Lease and trade credit, 2020



Note: Rounding of numbers results in discrepancy among some bars.
 Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

7. CONCLUSIONS

The CSBFP makes a significant contribution to the economy by ensuring that Canadian SMEs have the necessary affordable financing to start up, grow and, most importantly, succeed in the marketplace. This study found that CSBFP loans are most likely to be disbursed to start-ups with young and less experienced owners. The CSBFP is a national program available to all sectors (except farming) and most CSBFP-supported enterprises tend to be located in Ontario or Quebec in the accommodation and food services, retail trade, or other services sectors.

CSBFP borrowers generally tend to be more diverse than all SMEs with higher percentages indicating a non-official language as their first language and identifying as a visible minority. In terms of representation by gender, CSBFP-supported enterprises tend more to be wholly or majority owned by women compared with all SMEs. Representation by Indigenous groups did not differ between CSBFP borrowers and all SMEs.

Results show that CSBFP borrowers will play an important role in the economy moving forward as their firms were more growth oriented and more likely to innovate, by investing in research and development, compared with all SMEs. Challenges remain, however, in improving CSBFP enterprise entry to international markets through exports and facilitating access to flexible financing.

CSBFP borrowers relied on all types of debt financing, outpacing all SMEs in request and approval rates across several financing products. CSBFP borrowers and all SMEs were almost identical in requesting trade credit financing, while lease and equity financing were found to be more popular among CSBFP borrowers.

As financing for working capital is highly sought after by CSBFP borrowers and all SMEs, recent regulatory and legislative changes will address the program's long-standing need for additional loan classes and a flexible financing product to address the short-term operational needs of small businesses.

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