



CANADA SMALL BUSINESS FINANCING ACT

COMPREHENSIVE REVIEW REPORT
2019-2024

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TABLE OF CONTENTS

1. PREFACE	1
2. EXECUTIVE SUMMARY	1
3. OVERVIEW OF THE CANADA SMALL BUSINESS FINANCING PROGRAM AND FINANCING CHALLENGES FOR SMALL BUSINESSES	4
3.1 PROGRAM DESCRIPTION	4
3.2 SMALL BUSINESS AND THE FINANCIAL MARKETPLACE	5
3.3 CHALLENGES IN ACCESSING FINANCING.....	6
4. CHANGES TO THE CANADA SMALL BUSINESS FINANCING PROGRAM	8
4.1 COMPREHENSIVE REVIEW REPORT 2014–2019	8
4.2 LEGISLATIVE AND REGULATORY AMENDMENTS.....	9
5. PERFORMANCE REVIEW	9
5.1 APPROACH	9
5.2 PROGRAM ACTIVITY	10
5.3 BORROWER PROFILE.....	12
5.4 INCREMENTALITY.....	13
5.5 ECONOMIC IMPACT AND COST-BENEFIT ANALYSES.....	14
5.6 EXPENSES AND REVENUES.....	15
5.7 PROGRAM DESIGN AND ADMINISTRATION.....	18
6. CONCLUSIONS AND POTENTIAL FUTURE DIRECTIONS	20
BIBLIOGRAPHY	23
APPENDIX A: KEY CANADA SMALL BUSINESS FINANCING PROGRAM PARAMETERS.....	24
APPENDIX B: APPROVAL RATES (%) FOR DEBT FINANCING BY BUSINESS CHARACTERISTICS	25
APPENDIX C: CANADA SMALL BUSINESS FINANCING PROGRAM ACTIVITY REVIEW	26
APPENDIX D: BACKGROUND ON COST RECOVERY	30

1. PREFACE

The Canada Small Business Financing Program (CSBFP) is a statutory program designed to facilitate access to financing for Canadian small businesses. Established in 1999, the program is governed by the *Canada Small Business Financing Act* (CSBFA) and administered by Innovation, Science and Economic Development Canada (ISED) in partnership with financial institutions in all provinces and territories. As legislated by the CSBFA, the program operates on a statutory five-year review cycle. This report covers the fifth such review period from April 1, 2019, to March 31, 2024.

2. EXECUTIVE SUMMARY

This comprehensive review examines the extent to which the CSBFP has successfully facilitated small businesses' access to financing over the past five years (2019–2024). Specifically, it gauges the extent to which the program has achieved its objectives of:

- helping new businesses get started and established firms make improvements, modernize and expand, as per the CSBFA; and
- improving small businesses' access to loans that would not otherwise be available or would be available only under less favourable conditions.

This statutory review is informed by extensive evidence-based research studies, targeted discussions with stakeholders and an independent program evaluation conducted by ISED's Audit and Evaluation Branch. The key findings are as follows:

PROGRAM RATIONALE

- The CSBFP remains an important, efficient and effective program in helping small businesses, notably younger, smaller and higher-risk businesses, access financing that may otherwise have been denied.
- Both financial institutions and small businesses across Canada have emphasized that there is an ongoing need for a program like the CSBFP.
- The CSBFP is the only permanent, national loan loss-sharing program accessible in all provinces and territories to small businesses in all sectors (excluding agriculture).

PROGRAM ACTIVITY AND BENEFITS

- During the review period, the CSBFP facilitated access to over 26,000 loans, totalling \$6.67 billion. This accounts for approximately 5% of all new small business loans issued in Canada each year. Since its inception 25 years ago, the CSBFP has helped small businesses in Canada get access to over 200,000 loans valued at almost \$27 billion.
- Lending levels dropped significantly during the 2020–21 pandemic year, but rebounded strongly in subsequent years, reaching an all-time high due primarily to recent program enhancements introduced in 2022.

- The CSBFP served as an important tool post-pandemic by facilitating necessary financing to main street businesses, which helped stimulate economic activity and create jobs, and accelerated the recovery of the Canadian economy.
- Over 75% of the financing requests from CSBFP borrowers would have been denied without the program.
- Nearly 70% of loans (by value) went to start-up businesses less than one year old.
- CSBFP borrowers tend to be more diverse and inclusive than the general small business population.
- Cost-benefit and economic impact analyses found that the program continues to have a positive economic impact and the social benefits exceed its social costs.

EXPENSES AND REVENUES

- During the 2019–24 period, there were 3,935 claims paid representing \$370 million.¹ From a revenue perspective, \$404 million in fees were collected on all new and outstanding loans.
- The CSBFP is expected to be almost fully cost recoverable for this review period. As of March 31, 2024, the estimated net cost to the government is \$19.6 million (on a net present value basis) over the maximum 10–15 year potential life of the loans.

PROGRAM CHANGES AND DESIGN

- In 2021 and 2022, legislative and regulatory amendments were implemented to allow not-for-profit and charitable enterprises to be eligible borrowers, include a new line of credit product, expand loan class eligibility to include intangible assets and working capital costs, and increase the maximum loan amount and associated coverage period for non-real property loans to \$500,000 over 15 years.
- In this report period, stakeholders were generally satisfied with program parameters; however, some raised concerns about the maximum allowable interest rates and the \$1 million limit for real property loans.
- Various stakeholders, particularly financial institutions, have suggested further improvements to the program, such as increasing the maximum loan amounts, as well as broadening loan class and borrower eligibility to better meet the evolving needs of small businesses and entrepreneurs.

1. These claim payments on defaulted loans reflect losses that were incurred during the review period on loans that were made since 2009.

PROGRAM ADMINISTRATION

- The CSBFP is delivered by banks, credit unions and caisses populaires. It leverages the funds of private sector financial institutions, not government funds, by sharing the risk.
- Awareness of the CSBFP remains high (97%) among lenders, but awareness among small businesses remains low (16%).
- Nearly all loans (98%) were registered using the online loan registration system and 100% of claim payments were paid electronically.

CONCLUSIONS AND POTENTIAL FUTURE DIRECTIONS

- The CSBFP continues to address a demonstrable need for financing among small businesses that have challenges in accessing financing. It is unique as it is the only permanent loan loss-sharing program available across all provinces and territories, accessible to all industries (excluding agriculture). It works with financial institutions to provide loans that would not otherwise be available, with about 80% of loans being incremental. This has proven to be beneficial to Canadian small businesses and the economy, at a low cost to the government.
- Although the program has been successful in providing debt financing, many small businesses, especially younger, smaller ones, or those in riskier industries, still face challenges in accessing financing. Some businesses may also avoid seeking loans due to high costs, fear of denial, or lack of awareness.
- Recent changes to the program, such as new loan options for intangible assets and working capital, better position it to support modern small businesses. However, it is recognized that the CSBFP must continue evolving to stay relevant to both lenders and borrowers.
- Based on feedback from stakeholders and recommendations from an independent evaluation, this review recommends that the program explore potential improvements to its parameters such as expanding lender eligibility, broadening small business and loan class eligibility, increasing maximum financing amounts, and adjusting fees. The program should also continue its efforts to increase awareness and streamline administrative processes for both borrowers and lenders.
- Finally, the program played a key role in helping small businesses recover after the pandemic. Looking forward, it could explore ways to become more agile in responding to economic downturns or other external shocks such as natural disasters, thereby supporting more small businesses in times of need.

3. OVERVIEW OF THE CANADA SMALL BUSINESS FINANCING PROGRAM AND FINANCING CHALLENGES FOR SMALL BUSINESSES

3.1 PROGRAM DESCRIPTION

The CSBFP is a statutory program that is designed to increase the availability of financing for the establishment, expansion, modernization and improvement of small businesses in Canada. It is governed by the *Canada Small Business Financing Act* (CSBFA) and administered by ISED. March 31, 2024, marks 25 years of operation for the CSBFP, which was established in 1999 to replace the Small Business Loans Program, which began in 1961.

The Government of Canada recognizes the need for small and medium-sized enterprises (SMEs) to have access to the resources they need to start up, innovate and grow from coast to coast to coast. The CSBFP addresses gaps in the credit market by enabling SMEs to access affordable financing that might otherwise be unavailable or offered under less favourable conditions. By partnering with private sector lenders, the government shares the risk of lending, thereby encouraging financial institutions to extend credit to SMEs. The increase in the amount of financing extended to small businesses through the program is expected to ultimately spur economic activity and create jobs for Canadians.

Under the CSBFP, Canadian small businesses with gross annual revenues of up to \$10 million can receive term loans and lines of credit to finance their business needs, including real property, equipment, leasehold improvements, intangible assets and working capital. The program is open to both for-profit and not-for-profit businesses in all industries except farming.² Borrowers may finance up to \$1.15 million, divided into:

- a maximum of \$1 million for term loans; and
- a maximum of \$150,000 for lines of credit.

Additionally, sub-limits include \$500,000 for equipment and leasehold improvements and \$150,000 for intangible assets and working capital. The maximum government coverage period is:

- 15 years for term loans; and
- 5 years for lines of credit.

The maximum allowable interest rate is the prime (or residential mortgage) rate plus 3% for term loans and prime plus 5% for lines of credit. (See Appendix A for key CSBFP parameters.)

2. The *Canadian Agricultural Loans Act* (CALA) Program provides loan guarantees to farms and agricultural cooperatives.

The CSBFP is available nationally in all provinces and territories. To access the program, small businesses apply directly to the lender of their choice. Financial institutions, which include banks, credit unions and caisses populaires, are responsible for all credit decisions and for applying the same due diligence to the riskier CSBFP loans as they do for conventional loans. Once the loan is approved, the borrower receives the funds from the lender, not the government, and the lender registers the loan with ISED. In the event of a default, lenders must realize on all securities and guarantees in order to reduce the loss before submitting a final claim for payment, along with all the necessary documentation, to ISED. ISED reviews all claims and pays the lender up to 85% of eligible losses.

3.2 SMALL BUSINESS AND THE FINANCIAL MARKETPLACE

Small businesses represent the vast majority of Canada's economic landscape, driving job creation, productivity, and growth. As of December 2022:

- Canada had 1.2 million employer businesses, of which 98% were small businesses (fewer than 100 employees).
- Small businesses employed over 5.7 million people, accounting for 47% of the private sector labour force.
- SMEs contributed to nearly half of private sector GDP in 2023.³

COVID-19 pandemic

As this review period covers 2019–2024, it is imperative that the COVID-19 pandemic be addressed considering the significant impact it had on Canadian small businesses, particularly in 2020 and 2021. Government-imposed public health measures led to temporary closures for many businesses, with 33% reporting closures averaging 12 weeks.⁴

These interventions had a particularly adverse effect on those in the accommodation and food services industry, with prolonged shutdowns, reduced demand and supply chain issues. The federal government also launched a number of temporary emergency support programs aimed at helping businesses pay their employees and stay afloat during closures, which included the Canada Emergency Business Account (CEBA), the Canada Emergency Wage Subsidy (CEWS) and the Highly Affected Sectors Credit Availability Program (HASCAP).

As a result, in 2020, approximately 82% of SMEs in Canada requested external financing, with over 76% requesting at least one type of government financing such as CEBA and CEWS.⁵ About 24% requested trade credit and 16% sought debt financing (e.g., mortgages, term loans, lines of credit or credit cards) while the remaining sought leasing and equity financing. This is in considerable contrast to the pre-pandemic situation in 2017 where approximately 50% of SMEs requested external financing with debt financing being the most common type, and only 4% requested government financing.

3. Innovation, Science and Economic Development Canada. *Key Small Business Statistics, 2023*.

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

5. Ibid.

In 2021, the financial marketplace began to return to normal lending levels. As government emergency support programs were phased out, private sector financing to businesses returned to pre-pandemic levels by the end of 2021 and then grew throughout 2022 and 2023. In 2022, new small business credit disbursements (i.e., loan authorization under \$1 million) accounted for \$31.1 billion.⁶ The value of CSBFP lending in the same year (2022–23) was \$1.5 billion, which represents approximately 5% of all new small business lending in Canada.

The CSBFP played a key role in post-pandemic recovery; however, its current legislative and regulatory framework limits the program's ability to be agile and respond quickly to economic shocks, like COVID-19. While government support programs were effective in addressing the financial needs of small businesses through temporary non-CSBFP measures during the pandemic, the CSBFP's lengthy amendment process made it challenging to act swiftly. This highlights a potential missed opportunity for the CSBFP in future economic crises (e.g., economic downturns, natural disasters) where a more agile response could help support a greater number of small businesses with much needed financing via an established program with existing distribution channels.

3.3 CHALLENGES IN ACCESSING FINANCING

One of the most significant determinants of SMEs' success is having access to sufficient and appropriate financing. Access to capital enables small businesses to invest in new technologies, infrastructure and assets, helping to foster innovation and stimulate growth.

Credit conditions

While the credit market for business financing had been strong for several years, including the beginning of this review period, the COVID-19 pandemic followed by a surge of inflation served as economic shocks that created additional challenges for accessing business financing and exacerbating financial concerns for SMEs. For example, in 2022, the average interest rate charged to SMEs increased to 6.2% from 4.1% in 2021,⁷ reflecting a tightening of credit conditions for SMEs.

Barriers to financing

Small businesses, particularly younger and micro-businesses, face higher barriers in accessing financing due to insufficient sales or cash-flow, higher loan default risk, shorter credit histories and track records, inadequate collateral, and greater year-to-year fluctuations in sales and earnings. Due to uncertainties about the integrity of the borrower and potential future returns, financial institutions may be reluctant to extend financing to potentially profitable SMEs. Various business characteristics, such as size, age, and industry, impact the ability of a small business to access financing due to the risk level associated with each of these factors. (See Appendix B for approval rates for debt financing in Canada categorized by business characteristics.)

6. Innovation, Science and Economic Development Canada. *Biannual Survey of Suppliers of Business Financing—Data analysis, second half 2023*.

7. Organisation for Economic Co-operation and Development, *Financing SMEs and Entrepreneurs*, 2024.

Over the nine-year period from 2014–22, on average, approximately 24% of Canadian small businesses requested debt financing each year, according to ISED’s *Credit Conditions Survey* and Statistics Canada’s *Survey on Financing and Growth of Small and Medium Enterprises*. Of those that requested financing, 87% were approved and 13% were declined. These statistics have been fairly stable over the past decade, with some higher approval rates in 2021, possibly due to the increase in temporary government emergency support programs aimed at helping SMEs access financing during the pandemic (Table 1).

TABLE 1: ACCESS TO DEBT FINANCING FOR CANADIAN SMALL BUSINESSES

Year	Request rate (%)	Approval rate (%)	Average amount authorized (\$)
2014	28	81	167,541
2015	23	88	350,000
2016	26	82	270,000
2017	26	87	311,265
2018	27	83	268,000
2019	31	89	451,064
2020	16	89	314,000
2021	17	94	550,851
2022	18	88	673,376

Sources: Innovation Science and Economic Development Canada, *Credit Conditions Survey* (2015, 2016, 2018, 2019, 2021, 2022) and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises* (2014, 2017, 2020).

When requests for debt financing are denied, the main reasons provided by lenders were: insufficient sales or cash-flow (34%), poor or lack of credit history (26%), business operates in an unstable industry (13%), insufficient collateral (9%), and the project is considered to be too risky (8%).⁸ While there is likely a portion of debt financing requests that are turned down due to poor business cases, other small businesses may choose not to apply for external financing because they consider the cost of financing to be too high, perceive the application to be too cumbersome or think that their request would be denied.

Younger SMEs, particularly start-ups of two years or less, tend to have lower approval rates when compared with older and more established businesses, most likely due to some of the reasons stated above. For example, in 2022, businesses two years old or younger had an approval rate of 78% for debt products, whereas the approval rates for SMEs three to ten years old were 82% and 90% for SMEs over 10 years of age.⁹

Debt financing approval rates and loan terms also vary by industry. The highest approval rates, on average over the past nine years, are in the primary sectors including agriculture, forestry and mining (91%), the wholesale sector (89%) and the construction sector (89%). In contrast, the lowest approval rates are in the accommodation and food services sector (82%), followed by the manufacturing sector (85%) and the transportation and warehousing sector (86%).

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

9. Innovation, Science and Economic Development Canada. *Credit Conditions Survey*, 2022.

Overall, despite a recovery from the pandemic, increased inflation leading to tighter lending conditions and other long-standing challenges faced by SMEs affect their ability to access financing. For example, a number of businesses face greater constraints due to a lack of credit history, insufficient collateral, unstable sales and earnings and higher loan default rates. Some small businesses also have more difficulty obtaining the financing they need due to their characteristics, sectors and/or regions. In these higher-risk situations, lenders regularly offer lower loan amounts, demand more collateral to cover potential losses, charge higher interest rates and request increased borrower equity.¹⁰ These less favourable conditions may significantly hinder a small business' ability to obtain the financing they need. Due to these gaps in the commercial lending market, governments at various levels leverage programs and initiatives to offer additional support and promote private sector lending to start-ups and small businesses, such as through loan loss-sharing programs.

4. CHANGES TO THE CANADA SMALL BUSINESS FINANCING PROGRAM

4.1 COMPREHENSIVE REVIEW REPORT 2014–2019

The 2014–2019 Comprehensive Review Report, tabled in Parliament in 2020, highlighted several key findings:

- The CSBFP continued to be an important, efficient and effective program in helping small businesses, especially younger, smaller and higher-risk businesses, access financing that may otherwise have been unavailable.
- The CSBFP facilitated access to over 27,000 loans worth \$5.15 billion from 2014 to 2019.
- CSBFP loans were highly incremental. Without the program, over 80% of all CSBFP loans would have been denied or only approved under less favourable conditions.
- For the first time, the CSBFP was expected to be fully cost recoverable for loans made during the review period.
- Program awareness remained high among lender representatives and low among small businesses.

Through targeted discussions and studies, stakeholders expressed that they were generally satisfied with the program but that certain parameters, such as the \$350,000 limit on lending for equipment and leasehold improvements, and restricted eligible loan classes, may no longer be suitable for current market conditions. Small businesses also expressed a need for flexible cash flow financing to help finance day-to-day expenses, which was not met by the fixed-term asset-based financing options under the CSBFP.

10. Audit and Evaluation Branch (ISED). *Canada Small Business Financing Program Lender Awareness and Satisfaction Study—Technical Report*, 2024.

4.2 LEGISLATIVE AND REGULATORY AMENDMENTS

Following the recommendations from the 2014–2019 Comprehensive Review Report, Budget 2021 announced the Government of Canada’s commitment to increase support for small businesses by making changes to the CSBFP. The purpose of these improvements was to modernize the program to better meet the changing financing needs of businesses. This resulted in a series of amendments to the CSBFA and its regulations.

On June 30, 2021, legislative amendments were implemented to:

- remove the restriction excluding not-for-profit, charitable and religious enterprises as eligible borrowers.

On July 4, 2022, legislative and regulatory changes came into force to:

- introduce a line of credit financing option of up to \$150,000;
- expand eligible loan classes to include intangible assets (e.g., intellectual property) and working capital;
- increase the overall maximum financing amount from \$1 million to \$1.15 million;
- increase the maximum loan amount for non-real property loans from \$350,000 to \$500,000 and the associated maximum term from 10 to 15 years; and
- make other minor technical and administrative changes to reduce administrative burden.

5. PERFORMANCE REVIEW

5.1 APPROACH

To inform the review of the CSBFP, a number of research studies, discussions and ongoing analyses were undertaken. They can be grouped into the following categories:

Program evaluation

An independent program evaluation was conducted by ISED’s Audit and Evaluation Branch, based on a performance measurement strategy that the Treasury Board of Canada Secretariat recommends be used for assessing major policies, programs and initiatives.¹¹

Stakeholder discussions and studies

Awareness and satisfaction studies of lenders, small businesses and CSBFP borrowers were conducted. Interviews with ISED officials, financial institutions (including both frequent and less frequent users of the program), small business associations and support organizations, and academic experts were conducted as part of the program’s evaluation and this review.

11. Prior to the 2009–14 review period, program evaluations were carried out by external contractors. However, in 2013, ISED’s Audit and Evaluation Branch began conducting the evaluations in an effort to reduce overall costs.

Economic impact and benefits analyses

Studies were undertaken on the program's incrementality, economic impact and cost-benefit analysis.¹²

Cost recovery analysis

Lending, default and claim experiences under the CSBFP were examined, and cost recovery forecasts based on various statistical models were developed.

5.2 PROGRAM ACTIVITY

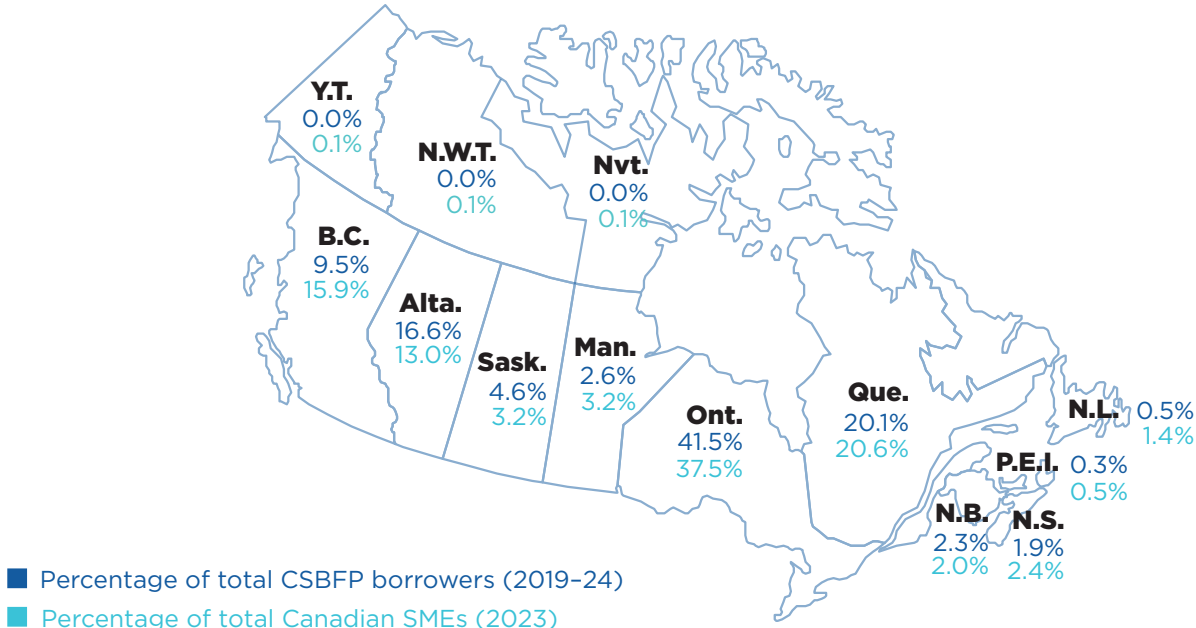
The CSBFP has been instrumental in helping many new businesses get started and established firms make improvements and expand. Over the course of the 2019–2024 review period, the CSBFP facilitated access to over 26,000 loans to small businesses representing \$6.67 billion. The average loan size during this period was \$253,000.

CSBFP loans had the following characteristics over the 2019–2024 review period:

- 68% (\$4.6 billion) of loans went to start-up businesses that were less than a year old;
- 72% (\$4.8 billion) of loans went to small businesses with gross annual revenues of \$1 million or less, and 92% (\$6.1 billion) of loans went to small businesses with gross annual revenues of \$2 million or less;
- loans were used for leasehold improvements (54%), real property (23%), equipment (22%), intangible assets (0.6%) and working capital costs (0.4%);
- the majority of lending (by value) went to small businesses in the accommodation and food services (45%), retail trade (13%), and health care and social assistance (4%) sectors; and
- based on geographic area, lending under the program generally reflected the population distribution of SMEs by province and territory, with the exception of British Columbia, with the majority of lending going to borrowers in Ontario and Quebec (Figure 1).

12. The methodologies of these studies were originally developed and/or validated by the private sector and academics.

FIGURE 1: PERCENTAGE DISTRIBUTION OF CSBFP BORROWERS (2019–24) VERSUS CANADIAN SME POPULATION BY REGION, 2023



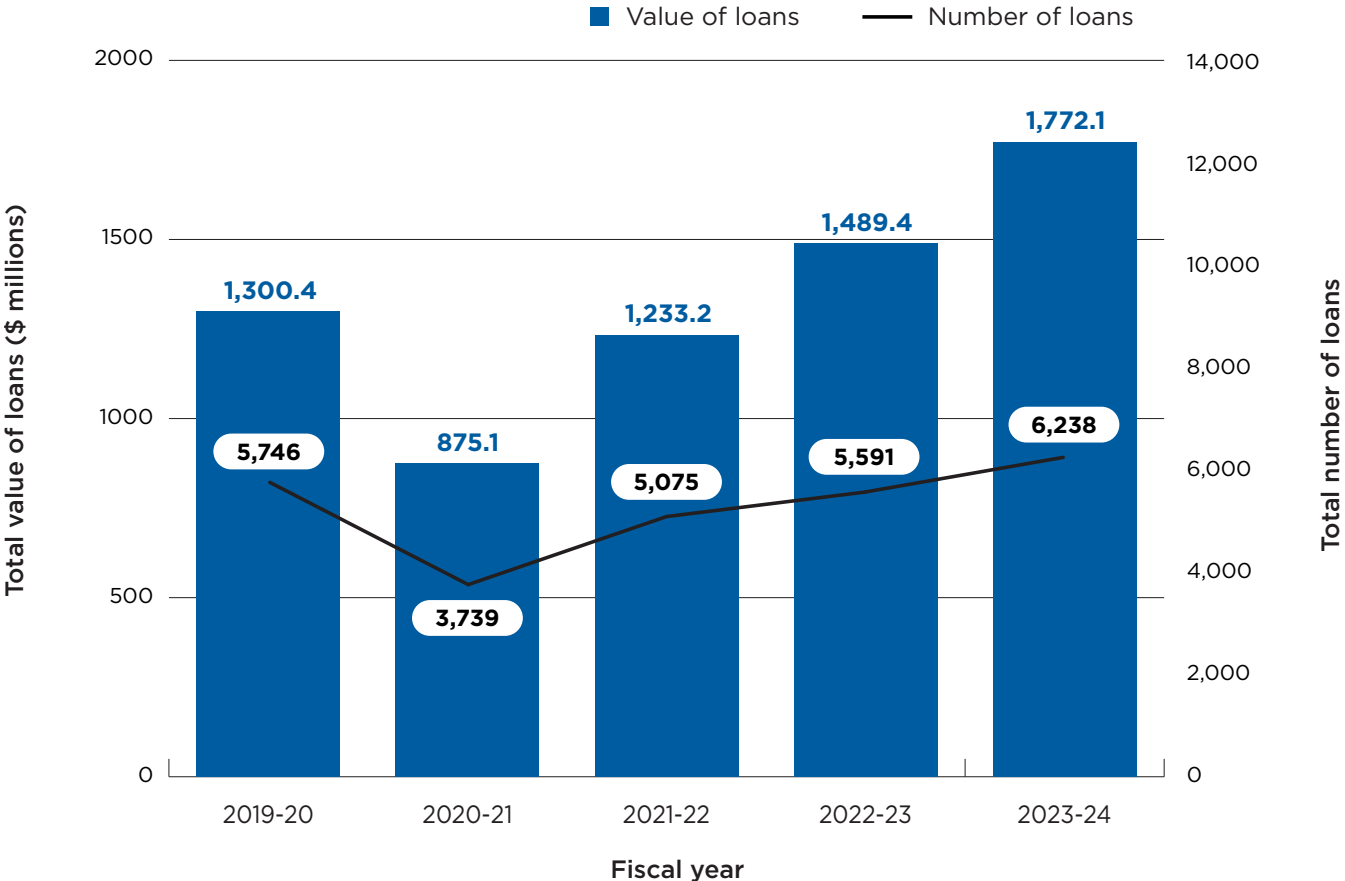
The CSBFP is demand-driven and does not target any particular region or sector. As a result, any variations in program uptake reflect choices made by lenders and borrowers.

While overall program loan values were higher from 2019–20 to 2023–24 than those during the previous lending period, lending levels dropped significantly during the COVID-19 pandemic in 2020–21. This was primarily attributable to the tightening of credit markets and the introduction of government emergency support programs (e.g., HASCAP, CEBA). In the following year, lending levels showed remarkable resilience, rebounding substantially to pre-pandemic levels. By 2022–23 and 2023–24, lending reached historical highs, fuelled by improved economic conditions, recent program enhancements, and the phase-out of emergency support programs. For example, in 2023–24, the CSBFP facilitated 6,238 loans worth nearly \$1.8 billion in new lending, which represents an increase of 36% in total loan value from 2019–20.

On the other hand, as the value of lending has increased, the number of loans to small businesses declined slightly by 3.7% when compared with the 2014–2019 review period, which was primarily due to the substantial reduction in program usage during the pandemic. For instance, in 2020–21, the CSBFP registered 3,739 loans valued at \$875 million, which represents a decrease in both the number (35%) and value (33%) of loans compared with the previous year. In the following year, the CSBFP played a significant role in supporting the economic recovery of main street businesses by helping them access much needed financing during the pandemic. In 2021–22, the CSBFP registered 5,075 loans valued at \$1.23 billion, which represents an increase of 1,336 (36%) in the number of loans and an increase of \$358.1 million (41%) in the value of loans relative to 2020–21. Furthermore, the number and value of loans increased substantially in the following years to close out the review period. These findings highlight how effective the program was in helping small businesses recover and in rebuilding the economy during the pandemic and post-pandemic.

Although tightened credit markets and the introduction of emergency response programs were the primary causes of the reduction in the number of loans for this lending period, other factors may have also contributed. For example, it may be that a large proportion of the small business population is unaware of the program, or perhaps the program is becoming less effective and program parameters (e.g., borrower and loan class eligibility) may need to be expanded or modified to ensure that the financing needs of small businesses continue to be met. Finally, lenders may be hesitant to use the program if they perceive that the administrative burden is too high.

FIGURE 2: NUMBER AND VALUE OF CSBFP LOANS, 2019-2024



Note: See Appendix C for more information on program activity.

5.3 BORROWER PROFILE

The CSBFP continues to address a demonstrable need for financing among SMEs, including SMEs from underrepresented groups, who experience significant challenges in accessing financing. The report *SME Profile: Canada Small Business Financing Program Borrowers* profiles the general characteristics of CSBFP borrowers and compares them against Canadian SMEs, primarily using data from the 2020 *Survey on Financing and Growth of Small and Medium Enterprises*.

The CSBFP borrower profile study found that CSBFP loans are most likely to be disbursed to start-ups with young and less experienced owners.¹³ 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. Further to the independent evaluation conducted by ISED's Audit and Evaluation Branch, there may be opportunities to increase this representation.

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.

Results from the study 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 were identified in improving CSBFP enterprise entry to international markets through exports and facilitating access to flexible financing.

However, as financing for working capital is highly sought after by CSBFP borrowers and all SMEs, recent regulatory and legislative changes address the program's long-standing need for additional loan classes (i.e., intangible assets and working capital costs) and a flexible financing product (i.e., lines of credit) for the short-term operational needs of small businesses.

5.4 INCREMENTALITY

The primary objective of the CSBFP is to facilitate lending to small businesses by extending financing that would not otherwise be available (full incrementality) or would only be available under less favourable conditions (partial incrementality), such as higher interest rates, additional collateral requirements, lower loan amounts, or more borrower equity.

The *Incrementality Study of the CSBFP*¹⁴ examined full incrementality and found that the CSBFP is 75.8% fully incremental. In other words, three-quarters of debt financing requests from small businesses receiving CSBFP loans would have been denied without the existence of the program, which represents an increase from the previous study in 2018 (69%). This methodology was also repeated using different threshold approaches for determining whether CSBFP borrowers would have been approved or rejected without the program and the estimates for full incrementality ranged from 72.6% to 90.5%.

The *Lender Awareness and Satisfaction Study* examined partial incrementality of the CSBFP.

13. Cho, Christopher (ISED). *SME Profile: Canada Small Business Financing Program Borrowers*, 2023.

14. Rivard, Patrice (ISED). *Incrementality Study of the Canada Small Business Financing Program*, 2024.

Using responses from lenders who had direct experience with the program, the study found that about one quarter would have been approved with less favourable conditions.¹⁵ Lenders indicated that the less favourable conditions would have included smaller loan amounts, greater collateral requirements, increased borrower equity, shorter amortization periods and/or higher interest rates. These results are consistent with the findings from the 2018 study.¹⁶

5.5 ECONOMIC IMPACT AND COST-BENEFIT ANALYSES

Government loan loss-sharing programs have long been a policy tool leveraged by governments around the world to support SMEs and drive economic growth by filling gaps in commercial lending markets and providing businesses with access to financing that would not otherwise be available or only available under less favourable terms. The expectation is that the extension of financing that would not otherwise have been approved (i.e., incrementality) will provide firms with necessary capital while also generating direct and indirect economic and social benefits for the recipient businesses, such as employment and production, and benefits to the overall economy. To calculate the CSBFP's effectiveness and efficiency and inform the evaluation and comprehensive review of the program, a firm-level economic impact analysis and a cost-benefit analysis were conducted.

The firm-level economic impact analysis of the CSBFP found that program borrowers, when compared to similar non-borrowers, experienced greater economic growth in terms of revenues, profits and total salary paid to employees by 5.7 (\$69,000), 6.3 (\$39,000) and 5.6 (\$14,000) percentage points, respectively.¹⁷ CSBFP borrowers were also 1.8 percentage points more likely to be active (survival rate) compared with businesses that did not participate in the program. However, these estimates should not be viewed as causal, as there may be other growth-related factors that have not been accounted for. Consequently, the results do not establish that CSBFP borrowers experienced faster growth solely due to receiving program loans; rather, they suggest that CSBFP borrowers grew faster when controlling for various, but likely not all, factors associated with firm growth.

The results of the cost-benefit analysis indicate that the social benefits of the CSBFP exceed the social costs. The results are driven largely by the estimated GDP impacts of the program, which arise when CSBFP borrowers receive incremental loans through the program and use these loans to finance investments that would not otherwise be possible. When GDP impacts are taken into consideration, it is estimated that the program's net social benefits exceeded social costs by nearly \$5 billion over the nine-year period from 2013 to 2022, or \$403 million or more annually.¹⁸ In other words, every dollar spent on program costs contributes an additional seven dollars of benefits (i.e., a 7:1 benefit-cost ratio).

15. Audit and Evaluation Branch (ISED). *Canada Small Business Financing Program Lender Awareness and Satisfaction Study—Technical Report*, 2024.

16. R.A. Malatest. *Canada Small Business Financing Program Lender Awareness and Satisfaction Study*, 2018.

17. Durodola and Rivard (ISED). *Canada Small Business Financing Program: A Firm-Level Economic Impact Analysis*, 2024.

18. Durodola, Christi-Anna (ISED). *Canada Small Business Financing Program: Cost-Benefit Analysis*, 2024.

When these GDP impacts are excluded, the net social benefit is still positive though more modest, with benefits exceeding social costs by nearly \$1.4 billion over the nine-year evaluation period (exceeding \$110 million annually), which translates to a benefit-cost ratio of 2.7:1. Therefore, every dollar spent on program costs contributes an additional \$2.7 of benefits. In addition, CSBFP borrowers also estimated that for this same nine-year period, these CSBFP loans would directly contribute to an additional 155,000 full-time employees, or on average, 17,200 new hires per year.

These findings are further corroborated by the CSBFP's Borrower Awareness and Satisfaction Study, which asked borrowers if the CSBFP loan they received had impacted their business positively, negatively, or not at all. Specifically, borrowers were asked to examine the impact the loan had on the business' ability to start-up, grow, increase sales and/or profits, increase productivity or efficiency, increase employment levels, and stay in business. In each case, the majority of borrower respondents indicated that the loan they received from the program had a positive impact on their business, most noticeably on the business's ability to start-up (82%), grow (70%), and stay in business (69%).¹⁹ The study also showed that program borrowers and the broader SME community agree that there is a continued need for the program.

5.6 EXPENSES AND REVENUES

The program's main expenses arise from claim payments that ISED makes to lenders when a loan defaults. However, loans issued in any given year can default at any point during their potential 15-year term. To help mitigate these expenses, the CSBFP charges an upfront registration fee of 2% and an annual administration fee of 1.25% on all loans. Since the CSBFP is a statutory program, all fees and claims for losses are directed into and out of the Consolidated Revenue Fund.

Claim expenses

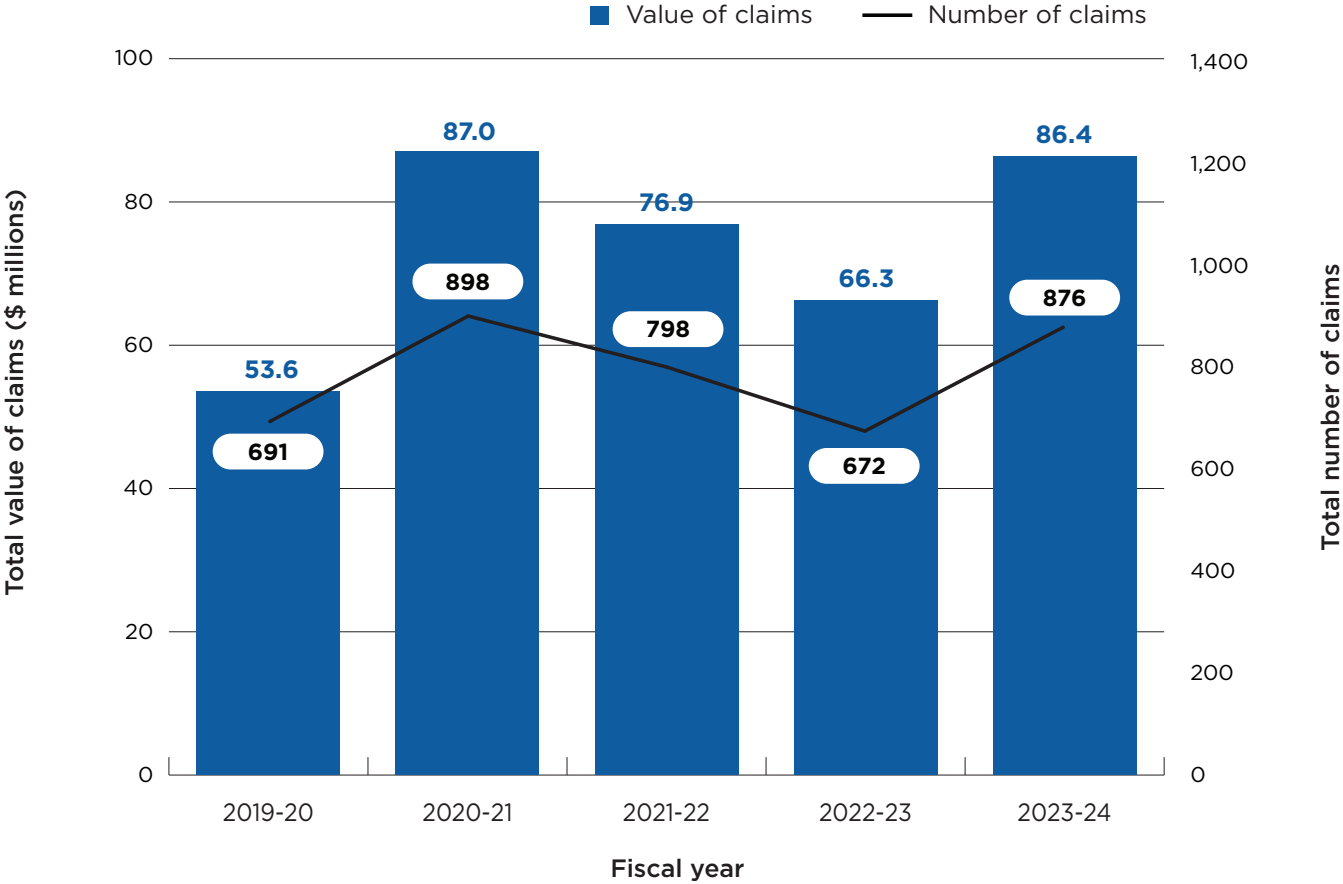
From 2019 to 2024, there were 3,935 claims (valued at \$370 million) paid to lenders, averaging \$94,100 per claim (Figure 3). These claim payments reflect losses that were incurred during the review period on defaulted CSBFP loans made since 2009. In order to control the government's exposure, a cap is placed on claims paid for each lender, which is based on the total value of loans registered by that lender within a five-year period. For most large volume lenders, the cap is approximately 12% of their CSBFP loan portfolio.

During the review period, small businesses were significantly affected by the economic downturn resulting from the COVID-19 pandemic. Government lockdowns and social distancing measures adversely affected small businesses' ability to generate adequate revenues to cover their expenses, resulting in a significant increase in claims paid due to increased loan defaults.

19. EKOS Research Associates Inc. and Ference & Company Consulting Ltd. *Canada Small Business Financing Program Awareness and Satisfaction Study, 2023-2024.*

Despite all this, the remaining liability cap of major financial institutions is expected to remain at an adequate level, as it is estimated that a portion of their reserve will remain unused. Government emergency support programs (e.g., CEBA, HASCAP) also provided additional liquidity to small businesses to help keep them afloat, which may have mitigated some of the impact on CSBFP borrowers.

FIGURE 3: NUMBER AND VALUE OF CSBFP CLAIMS, 2019-2024



Operating costs

In addition to paying claims for loss, the program’s operating costs are approximately \$3.1 million annually for a staff of approximately 28. This includes costs to register the loans, review the claims, process the fees and claim payments. It also includes the IT systems costs that support the administration of the CSBFP. The program facilitated over \$1.3 billion annually in financing for small businesses over the five-year period.

Fee revenues

There are two fees associated with the CSBFP: a one-time 2% registration fee based on the amount of the loan registered and an annual 1.25% administration fee based on the outstanding loan balance during the life of the loan. Over the 2019–2024 period, \$404 million in program fees were collected (\$130 million in registration fees and \$274 million in administration fees). These program fees are used to offset the program expenses associated with claims for loss on defaulted loans.

As per the *Directive on Charging and Special Financial Authorities* (Directive), Departments that impose fees must establish and implement a plan to regularly review the activities for which fees are charged.²⁰ To adhere to the Directive, ISED officials conduct an annual review of the CSBFP's fees as part of the overall ISED Fee Review Plan. This periodic review evaluates several factors, including the cost of delivering the activity, revenue trends, cost recovery rates, and service standard performance. During the 2019–24 review period, ISED officials conducted annual reviews of the CSBFP fees, and the results were satisfactory, leading to no recommendations for additional in-depth reviews. Moving forward, ISED will continue to periodically assess the fees under the CSBFP to ensure that fee practices align and comply with government-wide standards.

Cost recovery

Cost recovery under the CSBFP refers to the extent to which program revenues from fees help to offset program expenses from claims. The Auditor General has emphasized the importance of diligently monitoring the financial performance of the loan portfolio and periodically updating the program's cost recovery models.

In order to estimate the level of cost recovery, ISED, in collaboration with academics, has developed forecasting models that use a multivariate analysis of the historical claims received combined with statistical and econometric-based models to project future claims against the forecasted revenues. ISED updates its forecasting models regularly to ensure they reflect the most recent economic conditions and claims experience.

As at March 31, 2024, the estimated cost recovery level of loans made during the 2019–24 review period has decreased slightly since 2014–19; however, it is still estimated to be close to fully cost recoverable and higher than the preceding review periods (i.e., 1999–2004, 2004–09, 2009–14). Specifically, it is estimated that the program will be 87% cost recoverable with a net cost of almost \$71 million on \$6.64 billion of lending to SMEs. As a percentage of total lending, this represents a net cost to government of 1.1%. Taking into consideration the time value of money, on a net present value (NPV) basis, the program is expected to be 96% cost recoverable for the 2019–24 lending period with a net cost of almost \$20 million. However, it is important to note that this is not a permanent state as cost recovery is variable and depends on a variety of factors (e.g., the state of the economy, type of lending, level of defaults, etc.).

For more information on the cost recovery of the CSBFP, see Appendix D.

20. Treasury Board of Canada Secretariat. *Directive on Charging and Special Financial Authorities*, 2024.

5.7 PROGRAM DESIGN AND ADMINISTRATION

Program design

Regarding the CSBFP's overall design and administration, lenders continue to express high levels of satisfaction with the program's terms and conditions and the services provided by ISED.²¹ Small business borrowers also reported being largely satisfied with many aspects of the program, such as the assets/expenses that were eligible for financing, and 82% indicated that they would likely consider a program such as the CSBFP when next applying for a term loan or line of credit.²²

Stakeholders did, however, raise some areas for improvement. The most frequently cited improvements by lenders were to reduce the complexity and administrative burden of documentation requirements (e.g., invoices and proof of payment) and to increase the maximum loan amounts, especially for real property loans. Feedback received following the last comprehensive review exercise (2014–2019) also specifically recommended the inclusion of holding companies as eligible borrowers under the program to further enhance capital accessibility to a larger number of applicants.

Borrowers indicated that higher maximum loan amounts, expanding loan classes to include share purchases, and expanding borrower eligibility to include holding companies would be beneficial additional features for the program.

As stated above, both lenders and small businesses recommended increasing the \$1 million maximum loan amount for real property as the current limit has not been modified since 2015 and it may no longer be reflective of the current costs of purchasing real property in Canada.

Overall, additional enhancements to the program could be explored moving forward to promote uptake with lenders and ensure accessibility to affordable financing for a wide range of start-ups and SMEs.

Awareness of program

Lenders are the program's delivery partners, and small business borrowers must apply directly to financial institutions to obtain a CSBFP loan. As borrowers do not directly interact with ISED, small businesses and CSBFP borrowers may not be aware of the program or that their loan was made under the CSBFP.

Since the last comprehensive review, several initiatives were implemented to promote awareness and knowledge of the CSBFP with SMEs, including a national advertising campaign, marketing and social media campaigns; webinar sessions to key stakeholders; participation in select trade shows; and CSBFP pamphlet distributions.

21. Audit and Evaluation Branch (ISED). *Canada Small Business Financing Program Lender Awareness and Satisfaction Study—Technical Report*, 2024.

22. EKOS Research Associates and Ference & Company. *Canada Small Business Financing Program Awareness and Satisfaction Study*, 2023–2024.

The national advertising campaign, specifically, was used to promote the major changes made to the CSBFP in 2021 and 2022. This 8-week campaign ran from February 6, 2023 to March 31, 2023, and also focused on driving awareness to SMEs of CSBFP benefits, branding, and its historical reputation through various media channels. As a result, awareness of CSBFP among borrowers increased by 5 percentage points, from 29% to 34% during the last period and awareness among non-participants increased by 6 percentage points, from 10% to 16%. Despite this increase, CSBFP awareness continues to remain low among small businesses in general and among CSBFP borrowers.

On the other hand, program awareness among loan officers from financial institutions remains very high, with nearly all (97%) recognizing the program by its name.²³ Almost all of the program users (97%) were also aware of the important program changes made to the CSBFP in 2021 and 2022.

Delivery channels

The CSBFP is delivered nationally by a network of financial institutions, which includes chartered banks, credit unions and caisses populaires. The CSBFA defines a “lender” for the purposes of the program as a member of the Canadian Payments Association (CPA) or any other organization designated by the Minister of Small Business. For situations where a lender requires designation from the Minister, the program has a “Policy Respecting Designation of Lenders,” which outlines specific criteria that should be taken into consideration before designating a lender.²⁴

Enabling more small businesses to access financing by supporting other important providers of SME financing in Canada is a priority for the Government of Canada. In order to offer program loans to small businesses, however, individual financial organizations that are not members of the CPA have to apply to the CSBFP for an assessment determining whether they effectively meet the criteria to be designated by the Minister.

Advancing CSBFP IT systems infrastructure

Over this lending period, the CSBFP improved its IT systems infrastructure in several areas. In April 2020, a Secure Document Transfer module was launched to enable the electronic submission of claims for loss, addressing challenges during the COVID-19 pandemic that prevented ISED employees from working on-site to review claim documentation. This change allowed financial institutions to submit claims for loss documentation electronically, which replaced the traditional method of having to fax/mail in paper documentation. As a result, this initiative improved the delivery of services to Canadians, and transformed previously manual paper-based processes into an electronic front-end solution, making the program easier, faster, and more cost-effective for the government and financial institutions.

23. Audit and Evaluation Branch (ISED). *Canada Small Business Financing Program Lender Awareness and Satisfaction Study—Technical Report*, 2024.

24. Innovation, Science and Economic Development Canada. *Policy Respecting Designation of Lenders*, 2016.

Some of the benefits of the initiative include:

- increased efficiency: electronic submission allows for faster receipt and processing of claim documentation; and
- reduced administrative burden and costs: reduction in manual handling of paper documents, costs of materials and physical storage space.

In June 2022, the CSBFP application migrated from on-premise to an Amazon Web Services Cloud environment. This action, initiated by the Treasury Board of Canada Secretariat as part of the Cloud Adoption Strategy, is an important step towards remediating technical debt and enhancing business value. The cloud's unique properties allow for improved speed to solution when coupled with modern delivery methods and automation. In other words, the migration allows for business solutions to be delivered faster than traditional service models and offers tools and features to create more sustainable digital services.

In September 2023, the CSBFP also conducted a major refactoring of its CSBFP/CALA applications, which consisted of modernizing internal libraries and services to improve the efficiency and reliability of the system. This transition moved from older technologies, such as web services, web applications, and Swing apps, to more advanced solutions like RESTful services.

Looking ahead, there may be opportunities to further increase efficiency, improve service delivery and reduce administrative burden by leveraging the IT systems infrastructure and processes.

6. CONCLUSIONS AND POTENTIAL FUTURE DIRECTIONS

The CSBFP is a federal program designed to improve access to financing for Canadian small businesses to help them start-up, expand, innovate and grow. This review has demonstrated that the program continues to be successful and effective at facilitating debt financing to Canadian small businesses.

Evidence suggests that many Canadian small businesses continue to face difficulties in accessing debt financing, particularly younger businesses (i.e., start-ups), smaller businesses (i.e., less than 20 employees), businesses with minimal credit history or collateral and businesses in riskier industry sectors. Additionally, a portion of the small business population may forgo financing due to high costs, the belief they will be denied, challenges in applying, and low awareness of available financing sources.

Federal and provincial governments have programs to encourage financial institutions to provide financing to small businesses in order to help fill the credit gap for younger and riskier businesses.

The CSBFP, however, is distinct as it is the only permanent loan loss-sharing program that is available in every province and territory, is accessible to all industry sectors (excluding agriculture), and works in partnership with financial institutions to provide loans that would not otherwise be available. Findings indicate that CSBFP loans are nearly 80% fully financially incremental. In other words, over three-quarters of loans made to CSBFP borrowers would not have been approved if the program did not exist. These loans are crucial in supporting Canadian small businesses and helping drive the economy forward. They have been shown to have positive benefits and impacts on the Canadian economy at a very low cost to government.

The recent evaluation of the CSBFP found that the program addresses “a demonstrable need for financing among SMEs, including SMEs from underrepresented groups, who experience significant challenges in accessing financing” and continues to play a crucial role in helping higher-risk businesses get access to loans by sharing the risk with financial institutions.²⁵ Additionally, most stakeholders were content with the recent program changes that came into effect during the review period. Several of these key modifications, like the inclusion of new term loan financing classes for intangible assets and working capital costs and a new line of credit financing option strengthens the program’s position to better meet the needs of modern and innovative Canadian small businesses. As these changes are relatively new, it will require more time for the program to fully evaluate and understand the associated impacts.

Despite recent significant enhancements to the program in 2022, the Government of Canada recognizes that in order to remain relevant and effective, the CSBFP must continue to assess whether it meets the evolving needs of lenders and borrowers. Based on feedback from program stakeholders and recommendations from the program evaluation, this review recommends that the program consider exploring potential improvements to its parameters such as expanding lender eligibility, broadening small business and loan class eligibility, increasing maximum financing amounts, and adjusting fees paid by borrowers.

Temporary government support programs, coupled with the CSBFP, were instrumental in helping main street businesses recover and contribute to the economic restart during and after the pandemic. Looking ahead, there may be value in further exploring ways to make the CSBFP more agile and responsive to a wider range of challenges that small businesses may face in the future. For example, in times of an economic downturn or natural disaster, the CSBFP could potentially serve as a critical tool for helping ensure small businesses have greater access to the financing they need to adapt quickly and recover.

In addition, the CSBFP should continue to implement practical strategies to reach lenders, business support organizations (BSOs), SMEs and other government departments to increase awareness and knowledge of the program. The program could also consider targeted marketing campaigns, digital platforms and community outreach initiatives to increase program awareness for entrepreneurs coming from underrepresented groups.

25. Innovation, Science and Economic Development Canada. *Evaluation of the Canada Small Business Financing Program*, 2024.

Finally, the program should continue to explore options to reduce the administrative burden and complexity for both borrowers and lenders, while not compromising program integrity and oversight, with the intent to streamline the program and make it simpler and easier to use.

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APPENDIX A: KEY CANADA SMALL BUSINESS FINANCING PROGRAM PARAMETERS

Parameter	Loan requirements
Eligible small businesses	For-profit and not-for-profit businesses that operate in Canada and have annual gross revenues of \$10 million or less. Farming businesses are not eligible.
Eligible loan classes	<p>Term loans are restricted to financing the purchase or improvement of:</p> <ul style="list-style-type: none"> • equipment; • real property or immovables; • leasehold improvements; • intangible assets (e.g., intellectual property); • working capital; and • CSBFP registration fees. <p>Lines of credit may be made for the financing of working capital costs.</p>
Maximum financing amount	<p>A borrower can finance up to \$1.15 million, which includes the following:</p> <ul style="list-style-type: none"> • \$1 million for term loans, of which <ul style="list-style-type: none"> ◦ a maximum of \$500,000 can be used for equipment and leasehold improvements; and of that, ◦ a maximum of \$150,000 can be used for intangible assets and working capital • \$150,000 for a line of credit.
Maximum interest rate	<p>For terms loans:</p> <ul style="list-style-type: none"> • Floating rate: the lender’s prime rate plus 3% • Fixed rate: the lender’s single-family residential mortgage rate plus 3% <p>For lines of credit:</p> <ul style="list-style-type: none"> • The lender’s prime rate plus 5%.
Length of term	<p>The maximum government coverage period is:</p> <ul style="list-style-type: none"> • 15 years for any term loan; and • 5 years for a line of credit. Before the end of the 5 years, the line of credit may be re-registered for an additional 5 years, or converted to a 10-year program loan or a conventional loan.

Fees	<p>The fees include:</p> <ul style="list-style-type: none"> • 2% registration fee: This amount is paid at the time of registration and can be included in the CSBFP loan. • 1.25% administration fee: An annual fee of 1.25% is paid on outstanding loan amounts. This fee can be included as part of the interest rate charged on the loans.
Loss-sharing ratio	<p>Eligible losses on loans are shared as follows: 85% government and 15% lender.</p>
Cap on claims	<p>For each five-year period (e.g., 2019–24), ISED’s obligation to an individual lender is to pay eligible claims (i.e., 85% of the eligible losses):</p> <ul style="list-style-type: none"> • For term loans: up to a maximum of the aggregate of: <ul style="list-style-type: none"> ◦ 90% of the first \$250,000 in loans registered; plus ◦ 50% of the next \$250,000; plus ◦ 12% of all loans in excess of \$500,000. • For lines of credit: 15% of the aggregate amount of all lines of credit registered.

APPENDIX B: APPROVAL RATES (%) FOR DEBT FINANCING BY BUSINESS CHARACTERISTICS

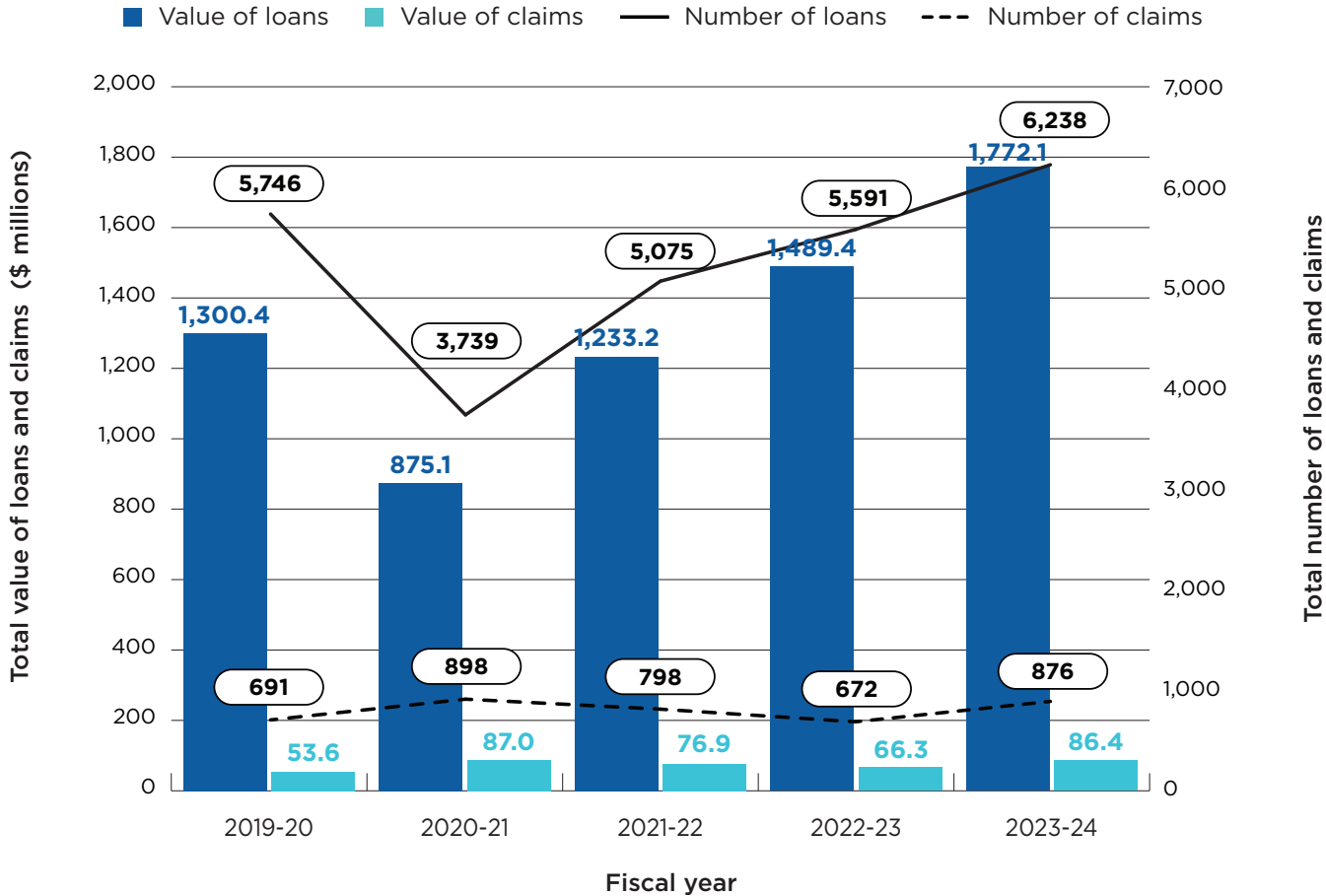
	2014	2015	2016	2017	2018	2019	2020	2021	2022
All SMEs	82	88	82	87	83	89	89	89	88
Number of employees*									
1–4 employees	81	83	82	84	78	84	86	96	89
5–9 employees	81	89	76	86	90	86	89	96	93
10–19 employees	81	89	83	86	87	90	89	95	85
20–99 employees	86	97	92	92	78	97	92	87	83
100–499 employees	96	-	-	98	-	-	96	-	-
Age of business**									
2 years and younger	75	76	86	82	81	85	87	96	78
3–10 years	78	84	74	82	74	87	87	95	82
11–20 years	84	91	81	90	81	89	89	94	90
More than 10 years	88	-	-	91	-	90	91	94	93
Industry***									
Accommodation and Food Services	74	79	80	81	85	88	86	91	74
Construction	83	96	87	84	87	91	84	96	93
Manufacturing	84	83	85	88	84	83	88	80	88
Primary (Agriculture and Fishing, Forestry and Oil and Mining)	93	85	81	96	89	94	92	97	93
Professional Services	83	93	84	86	78	85	87	91	92
Transportation and Warehousing	81	89	89	83	79	83	84	97	87
Wholesale	90	85	81	90	89	89	95	98	86
Retail Trade	80	85	81	84	89	89	88	98	86
Other services	75	-	-	82	-	92	93	92	-
Region****									
Atlantic	86	94	80	88	81	97	88	100	98
Quebec	85	86	80	91	80	92	94	96	91
Ontario	80	89	85	85	84	90	90	87	88
Manitoba and Saskatchewan	85	97	81	84	95	90	85	94	100
Alberta	85	81	78	84	78	81	85	95	81
British Columbia and Territories	76	91	86	85	81	86	81	96	85

Sources: *Credit Conditions Survey* (2015, 2016, 2018, 2019, 2021, 2022) and SFGSME (2014, 2017, 2020).

*The *Credit Conditions Survey* and SFGSME list data by business size differently. The SFGSME combines businesses with 5–9 employees and 10–19 employees and the *Credit Conditions Survey* does not include businesses with 100+ employees. **From 2014–18, the *Credit Conditions Survey* reported on age of business as 3 years and younger, 4–10 years, and more than 10 years. ***The *Credit Conditions Survey* combines Wholesale and Retail Trade and only started providing data on “other services” in 2019. ****The SFGSME combines Manitoba, Saskatchewan and Alberta as Prairies.

APPENDIX C: CANADA SMALL BUSINESS FINANCING PROGRAM ACTIVITY REVIEW

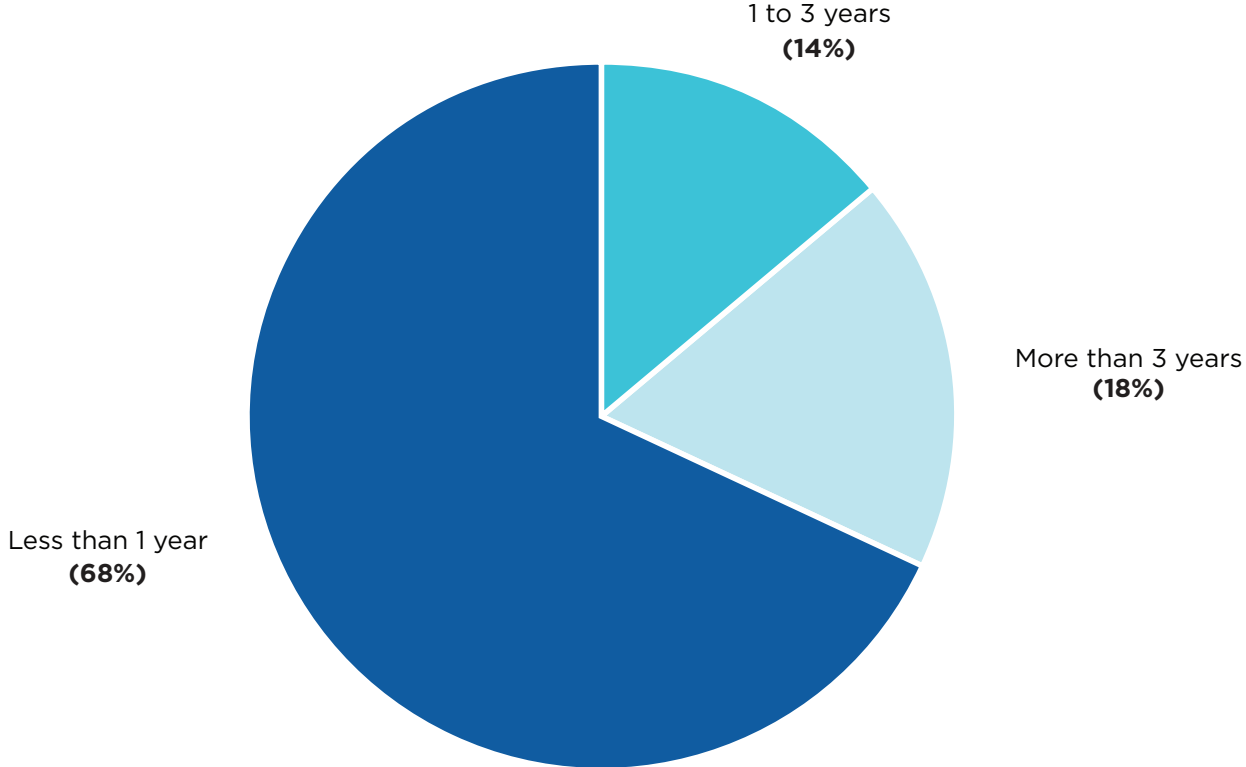
FIGURE C-1: NUMBER AND VALUE OF CSBFP LOANS AND CLAIMS, 2019-24



CSBFP lending has increased by 8.6% from 5,746 loans in 2019-20 to 6,238 loans in 2023-24. The value of lending has also increased by 36% from \$1.3 billion in 2019-20 to nearly \$1.8 billion during the same period. Average loan value has increased from \$226,315 in 2019-20 to \$284,089 in 2023-24.

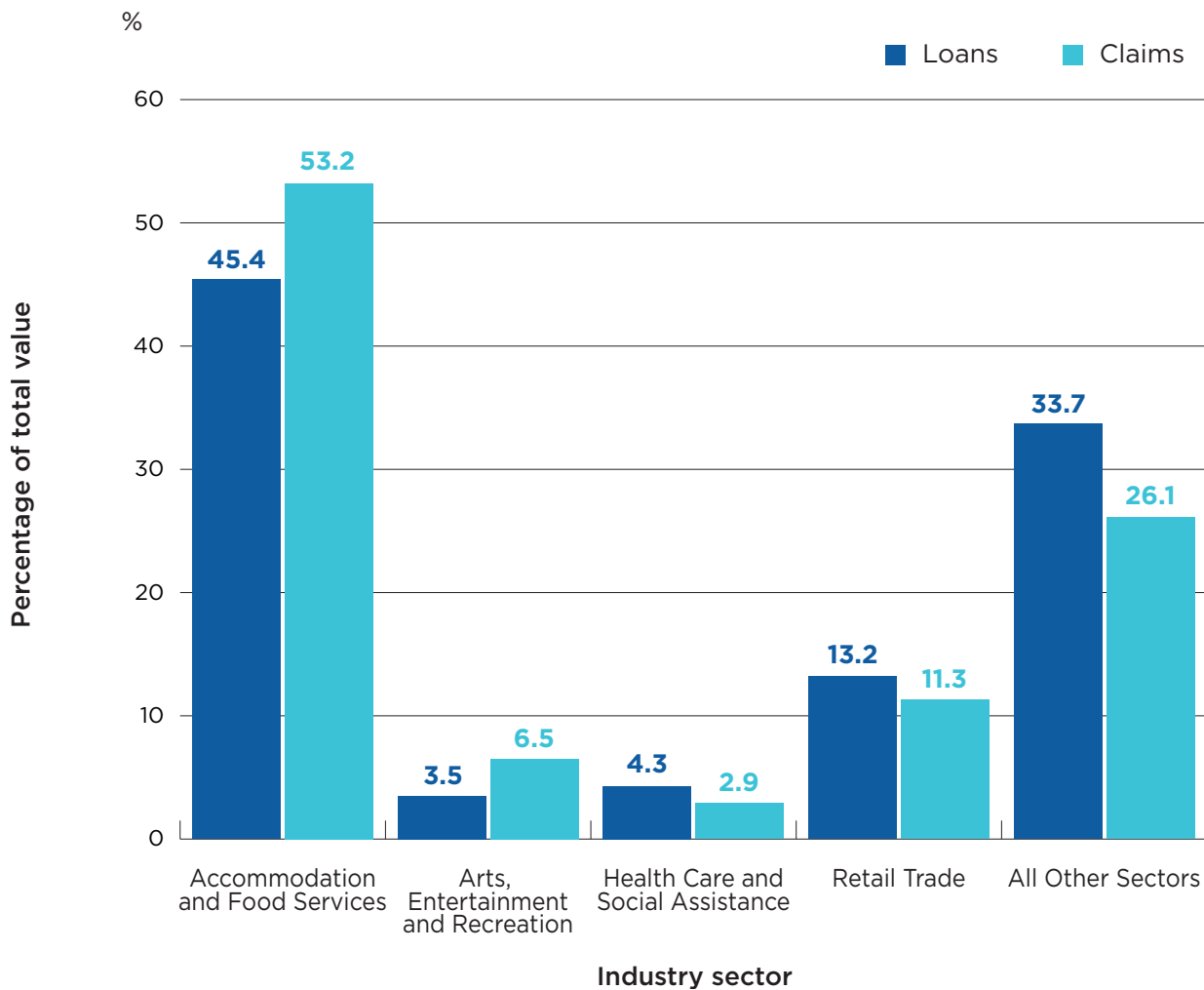
CSBFP overall claims have increased by 27% from 691 claims in 2019-20 to 876 claims in 2023-24. The value of claims has also increased by 61% from \$53.6 million in 2019-20 to \$86.4 million during the same period. Average claim size increased from \$77,551 in 2019-20 to \$98,647 2023-24.

FIGURE C-2: PERCENTAGE OF TOTAL VALUE OF CSBFP LOANS BY AGE OF BORROWER FIRM, 2019–24



Approximately 68% of the value of CSBFP loans were to start-ups and businesses that were less than one year old.

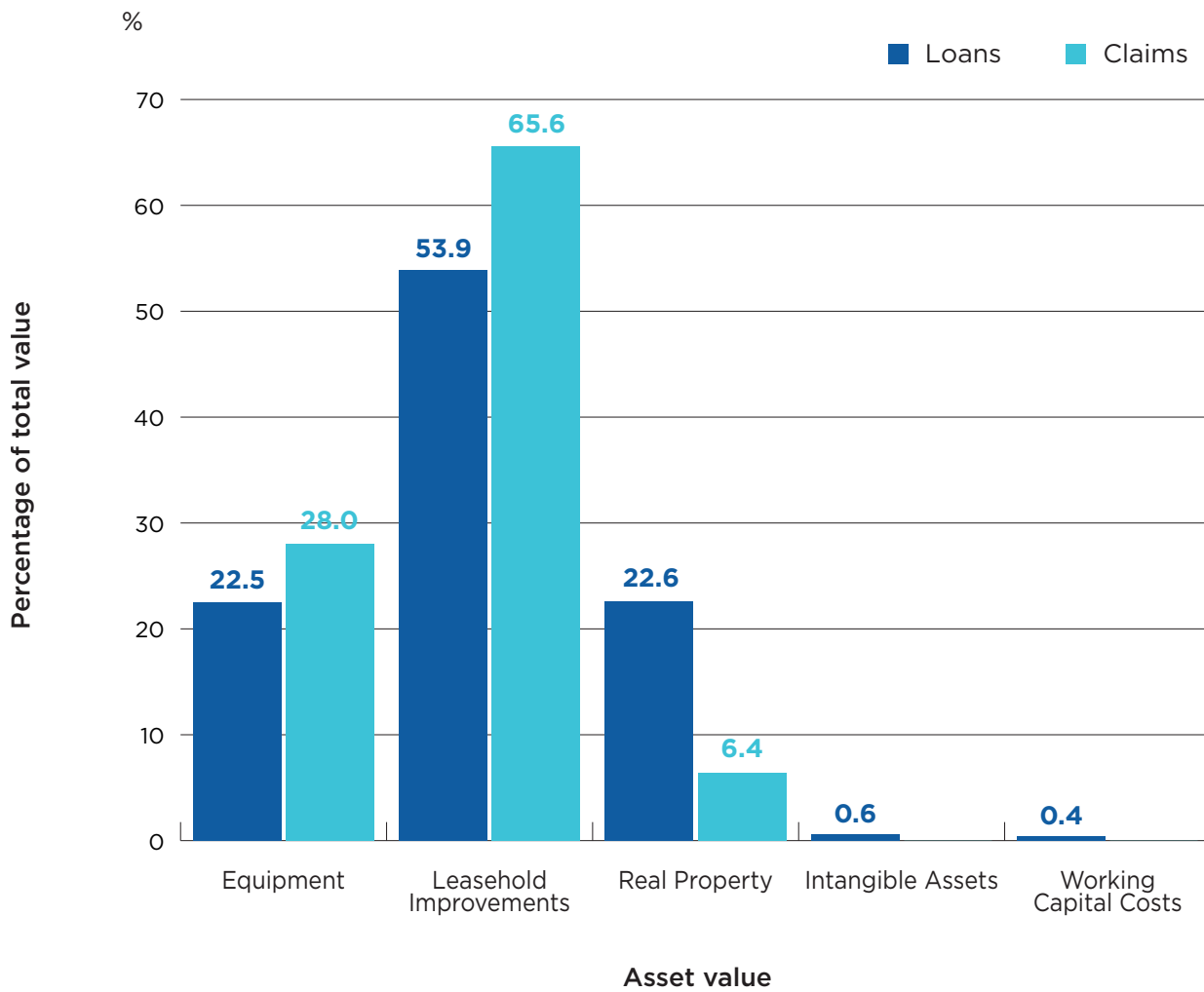
FIGURE C-3: PERCENTAGE OF TOTAL VALUE OF CSBFP LOANS AND CLAIMS BY INDUSTRY SECTOR, 2019–24



Four industry sectors (accommodation and food services, retail trade, health care and social assistance, and arts, entertainment and recreation) accounted for 66% of the value of loans and 74% of the value of claims.

“All other sectors” includes every other industry sector that had a loan percentage below 3.5%. Some examples of these sectors include construction, wholesale, manufacturing, personal care services, repair and maintenance services, educational services and professional services.

FIGURE C-4: PERCENTAGE OF TOTAL VALUE OF CSBFP LOANS AND CLAIMS BY ASSET TYPE, 2019-24



Over the review period, equipment loans accounted for 22% of the value of loans and 28% of the value of claims. Leasehold improvement loans accounted for 54% of the value of loans and 66% of the value of claims. Real property loans accounted for 23% of the value of loans and 6% of the value of claims. Finally, intangible assets and working capital loans accounted for 1% of the value of loans and 0% of the value of claims.

For more detailed information on CSBFP activity, please visit the [Open Government portal](#).

APPENDIX D: BACKGROUND ON COST RECOVERY

The Auditor General has emphasized the importance of diligently monitoring the financial performance of the loans portfolio and periodically updating the program's cost recovery models.

METHODOLOGY

Forecasting program revenues and expenses can be a complex task for several reasons. Firstly, since term loans can have a maximum coverage period of up to 15 years, cost recovery models must consider the entire lifespan of the loans issued in a given year. Secondly, there is a significant lag time between when revenues are received and when claims are paid. Revenues are usually received early on and claims are paid later. Thirdly, lenders have up to five years after a default to submit a claim for loss, which can extend the period to as much as 20 years. Finally, gathering sufficient data on loan risk and lender behaviour can take nearly four years after any changes to the parameters, which is crucial for an effective forecasting model. As a result, revenues and expenses need to be forecasted long into the future, which can make estimating cost recovery levels difficult as they are sensitive to economic shocks and other variables.

In order to estimate the level of cost recovery, ISED, in collaboration with academics, has developed forecasting models that use a multivariate analysis of the claims received in a given month combined with statistical and econometric-based models to project future claims against forecast revenues. ISED updates its forecasting models regularly (at least once a year) to ensure they reflect the most recent economic conditions and they are reviewed by the Office of the Auditor General.

FINDINGS

Table D-1 below presents the current cost recovery forecasts for the five lending periods of the CSBFP (1999–2004, 2004–09, 2009–14, 2014–19 and 2019–24). This table summarizes the revenue and expense streams related to each of these annual cohorts.

For the five years of lending during the current review period (see Table D-1 below):

- Revenues (registration and administration fees) are estimated to reach approximately \$480 million.
- Expenses (claims) are estimated to be approximately \$550 million, resulting in a net cost of \$70.8 million.
- Revenues are estimated to offset expenses by 87.1%.
- The net cost to government for this five-year lending period is estimated to be 1.1% of the total loans issued.

TABLE D-1: COST RECOVERY MODEL SUMMARY FOR CSBFP PERIOD C1 (1999–2004), C2 (2004–09), C3 (2009–14), C4 (2014–19) AND C5 (2019–24)

Cohort	Revenues and expenses (\$ millions)					Cost recovery ¹ (%)	Net cost/loans (%)
	Loans	Registration fees	Administration fees	Claims	Net cost		
1999–00	1,352.3	26.8	48.4	-115.5	-40.3	65.1	-2.9
2000–01	1,159.0	22.9	41.8	-100.2	-35.4	64.7	-3.0
2001–02	899.2	17.8	31.5	-65.1	-15.8	75.7	-1.7
2002–03	951.2	18.8	31.6	-64.6	-14.2	78.0	-1.5
2003–04	999.9	19.8	31.0	-77.3	-26.5	65.7	-2.6
Total (1999–04)	5,361.6	106.1	184.3	-420.7	-130.2	69.0	-2.4
2004–05	1,041.1	20.6	38.9	-81.9	-22.5	72.6	-2.2
2005–06	1,087.7	21.5	38.8	-105.1	-44.9	57.3	-4.1
2006–07	1,024.5	20.2	33.8	-100.0	-46.0	54.0	-4.5
2007–08	987.7	19.5	30.0	-97.8	-48.3	50.6	-4.9
2008–09	901.1	17.8	24.5	-63.5	-21.5	66.3	-2.4
Total (2004–09)	5,042.1	99.6	165.9	-448.7	-183.1	59.2	-3.6
2009–10	952.9	18.8	39.1	-72.3	-14.5	80.0	-1.5
2010–11	1,015.1	20.0	42.4	-74.4	-12.0	83.8	-1.2
2011–12	978.3	19.3	40.0	-64.7	-5.4	91.6	-0.6
2012–13	899.7	17.8	36.3	-66.5	-12.5	81.2	-1.4
2013–14	854.6	16.9	34.7	-59.9	-8.3	86.1	-1.0
Total (2009–14)	4,700.5	92.8	192.4	-337.9	-52.7	84.4	-1.1
2014–15	798.0	15.8	35.2	-46.7	4.2	<i>109.1</i>	<i>0.5</i>
2015–16	876.2	17.2	39.8	-50.3	6.7	<i>113.4</i>	<i>0.8</i>
2016–17	986.5	19.4	45.6	-65.6	-0.6	<i>99.1</i>	<i>-0.1</i>
2017–18	1,163.7	22.9	55.7	-87.6	-9.0	<i>89.8</i>	<i>-0.8</i>
2018–19	1,320.6	26.0	63.6	-113.3	-23.7	<i>79.1</i>	<i>-1.8</i>
Total (2014–19)	5,134.6	101.3	239.9	-363.5	-22.3	93.9	-0.4
2019–20	1,300.4	25.6	68.5	-118.2	-24.2	79.6	-1.9
2020–21	875.1	17.2	47.5	-92.2	-27.5	70.1	-3.1
2021–22	1,233.2	24.2	67.2	-114.7	-23.3	79.7	-1.9
2022–23	1,483.7	29.2	76.8	-113.9	-7.9	93.1	-0.5
2023–24	1,745.6	34.4	89.0	-111.4	12.0	110.8	0.7
Total (2019–24)	6,638.1	130.6	349.0	-550.4	-70.8	87.1	-1.1

Note: Figures in italics are estimates.

¹ Cost Recovery (%) = revenues (registration and administration fees) divided by expenses (claims).

If the time value of money is taken into consideration, the level of cost recovery for the current period improves, as revenues under the CSBFP are received early in the lifecycle of the loans, while loan defaults and subsequent claim payments occur later. In other words, \$1 received or paid today is more valuable than \$1 received or paid five or ten years from now.

Table D-2 provides a similar, but alternate perspective regarding the summary of the revenue and expense streams associated with each CSBFP annual cohort. This table factors in the timing of when the revenues are received and when the expenses are paid, and is presented on a net present value (NPV) basis.

For the five years of lending during the current review period, on an NPV basis:

- Revenues (registration and administration fees) are estimated to reach approximately \$418 million over the life of the loans.
- Expenses (claims) are estimated to be approximately \$438 million, resulting in a net cost of \$19.6 million over the life of the loans.
- Revenues are estimated to offset expenses by 95.5% on a NPV basis.
- The net cost to government for this five-year lending period is estimated to be 0.3% of loans issued.

TABLE D-2: COST RECOVERY MODEL SUMMARY (NPV¹) FOR CSBFP PERIOD C1 (1999–2004), C2 (2004–09), C3 (2009–14), C4 (2014–19) AND C5 (2019–24)

Cohort	Revenues and expenses (\$ millions)					Cost recovery ¹ (%)	Net cost/loans (%)
	Loans	Registration fees	Administration fees	Claims	Net cost		
1999–00	1,352.3	26.1	41.9	-96.6	-28.6	70.3	-2.1
2000–01	1,159.0	22.4	36.4	-83.5	-24.9	70.4	-2.1
2001–02	899.2	17.4	27.5	-54.3	-9.4	82.7	-1.0
2002–03	951.2	18.3	27.6	-53.9	-7.9	85.3	-0.8
2003–04	999.9	19.3	27.1	-64.4	-18.0	72.0	-1.8
Total (1999–04)	5,361.6	103.4	160.5	-352.6	-88.7	74.9	-1.7
2004–05	1,041.1	20.1	33.9	-69.0	-15.0	78.2	-1.4
2005–06	1,087.7	20.9	34.0	-89.0	-34.1	61.7	-3.1
2006–07	1,024.5	19.7	29.8	-85.5	-36.0	57.9	-3.5
2007–08	987.7	19.0	26.6	-84.4	-38.8	54.0	-3.9
2008–09	901.1	17.4	21.7	-55.0	-15.9	71.0	-1.8
Total (2004–09)	5,042.1	97.1	145.9	-382.9	-139.9	63.5	-2.8
2009–10	952.9	18.3	33.7	-60.0	-8.1	86.5	-0.8
2010–11	1,015.1	19.5	36.5	-61.0	-5.0	91.7	-0.5
2011–12	978.3	18.8	34.5	-53.0	0.3	100.5	0.0
2012–13	899.7	17.3	31.2	-55.0	-6.5	88.2	-0.7
2013–14	854.6	16.5	29.6	-49.6	-3.5	92.9	-0.4
Total (2009–14)	4,700.5	90.4	165.4	-278.6	-22.9	91.8	-0.5
2014–15	798.0	15.3	29.7	-43.4	1.7	103.9	0.2
2015–16	876.2	16.8	33.1	-45.8	4.1	109.0	0.5
2016–17	986.5	18.9	37.6	-50.9	5.6	111.1	0.6
2017–18	1,163.7	22.3	45.8	-53.2	14.9	128.0	1.3
2018–19	1,320.6	25.3	52.6	-56.8	21.2	137.3	1.6
Total (2014–19)	5,134.6	98.7	203.6	-293.5	8.8	103.0	0.2
2019–20	1,300.4	24.9	57.4	-95.2	-12.9	86.5	-1.0
2020–21	875.1	16.7	39.6	-71.7	-15.4	78.6	-1.8
2021–22	1,233.2	23.6	55.9	-91.1	-11.7	87.2	-0.9
2022–23	1,483.7	28.4	64.0	-90.7	1.7	101.9	0.1
2023–24	1,745.6	33.4	74.0	-88.8	18.6	121.0	1.1
Total (2019–24)	6,638.1	127.1	290.9	-437.6	-19.6	95.5	-0.3

Note: Figures in italics are estimates.

¹ Net present value (discount rate = 5 percent).

² Cost recovery (%) = revenues (registration and administration fees) divided by NPV expenses (claims).

A comparison of the results for the first five lending periods of the CSBFP shows that cost recovery during 2019–24 has decreased slightly since 2014–19; however, is still estimated to be close to fully cost recoverable and higher than the preceding review periods (i.e., 1999–2004, 2004–09, 2009–14). A slight reduction to the CSBFP’s cost recovery level can be attributed to the COVID-19 pandemic, which occurred between 2020 and 2022 and resulted in higher default and loss rates associated with loans made during the review period. Closer towards the end of the review period, the 2022–23 and 2023–24 annual cohorts are estimated to be fully cost recoverable, which can be attributed to improved economic conditions following the pandemic.

However, as legislative and regulatory changes went through in 2021 and 2022, which increased the maximum loan amount for equipment and leasehold improvements from \$350,000 to \$500,000 and introduced new loan classes for intangible assets and working capital costs, there is potential for the overall risk complexion of the CSBFP portfolio to increase slightly moving forward. These asset types can be riskier, as they are more difficult to secure and realize in the event of a default. It is important to note that the forecasts of models could change at any given time, particularly during an economic downturn or unpredicted external shocks.