

Small Businesses Loans Act

on both sides will co-operate in the speedy passage of this Bill. This measure, together with other efforts by the Government such as the Federal Business Development Bank, is helping small businesses to weather the current economic downturn and to position themselves to take part in impending economic recovery. It is important that support be provided to small firms. This measure ensures that this will be so.

There are a number of key areas of the Act that are considered for amendment and which, from time to time, are changed. These areas generally include the size of the eligible firm, the size of a loan, the interest rate and the purpose of the loan. I have examined each of these issues with the view to determining whether amendments are warranted at this time.

The eligibility under the Act is currently limited to firms with gross annual revenues not in excess of \$1.5 million. A recent study showed that some 95 per cent of all firms in Canada have annual revenues of less than \$1.5 million. Based on that information, there would appear to be little reason to increase the size of the firm eligible for assistance at this time.

● (1410)

The maximum amount of the loan that may be outstanding to any one firm is \$100,000. This figure has been considered, too, but we have found over the years that the average loan is in the area of about \$26,000. I see no need for extending the upper limit at this time.

In 1978, the maximum interest rate chargeable was changed from a fixed rate to a floating rate, based on prime plus 1 per cent. As all Hon. Members know, there has been a substantial and sustained growth in the number and total dollar volume of loans guaranteed since that interest rate change was made in 1978. The new rate provides the lender with a margin of profit necessary to make loans, and it provides the borrower with loan funds at 2 to 3 per cent below the rate that would be charged on similar non-guaranteed loans.

I would now like to talk briefly about a subject that has been raised with respect to the Small Businesses Loans Act, and that is, working capital. Possibly the most attractive feature of the SBLA is the absence of red tape associated with it and the lack of unnecessary intervention of the bureaucracy in the private lending area. These activities are totally in the hands of the borrower and of the lender. We believe that any change now might upset that up-to-now smooth relationship between the two.

This passive approach to administration that we have had is possible in large part because the purposes of SBLA loans are limited to the purchase of fixed or moveable equipment, improvement or modernization of plant equipment or premises, the construction of premises, or the purchase of land.

I am sure that all Hon. Members would agree that fixed-asset loans are relatively low risk and require less monitoring than receivable or inventory loans that are more volatile by nature.

A recent study by a major financial institution showed that its working capital loans were 2.5 times more risky than its

next highest risk category. The higher risk level of such loans is also borne out by the loss rate of other Government programs supporting such loans. Should the SBLA be amended to accommodate these types of loans, I believe that the passive nature of the program would be jeopardized.

In asking this House to provide for continuation of the Small Businesses Loans Act, I am also taking into account my recent request to the Small Business Consultative Committee to examine the SBLA, its impacts and the means by which it might be improved in greater detail. As some Hon. Members may be aware, the Small Business Consultative Committee is my main source of advice from the small business community. It is made up of people from all across the country from British Columbia to Newfoundland. They meet, and I meet with them, regularly and I have asked them to look particularly at a number of areas with regard to the advancement of policy for small businesses including the Small Businesses Loans Act. There are 22 members. They include small business owners, representatives of financial institutions, association executives and indeed people from every region of the country, as I have said before.

It has appointed sub-committees on tax policy, the FBDB, and the future strategic thrusts of the Government in the small business field. It has approved its own work program and elected its own chairman. It has requested briefings from officials of the Small Business Financing Review, the FBDB, the Department's priorities and the Small Businesses Loans Act. These men and women on that committee have given of their time and their experience, and I want to thank them for it at this time. They have given their time and experience to a process which must be described, I believe, as the fullest dialogue which the Government has ever established with the private sector regarding opportunities and constraints facing small businesses in Canada.

The Consultative Committee has already raised a number of concerns, which I share, which must be explored further and which are relevant to the long-term future direction of programs such as the Small Businesses Loans Act. They include the current imbalance toward debt over equity in the financing of small firms as well as the role that Government can play in providing an environment for entrepreneurship and investment in small business, irrespective of the specific programs it makes available.

The Small Businesses Loans Act is just one measure, albeit very important, by the Government to help small firms in Canada. The SBLA complements other thrusts such as the Federal Business Development Bank. The FBDB, through its many offices across Canada, offers financing to small and medium-sized firms by means of loans, loan guarantees, equity financing, or a combination of these. The bank currently has \$1.8 billion in outstanding loans with 32,000 customers. Some of these loans are for working capital. In addition to its extensive lending and management services activities, FBDB has over \$64 million worth of equity investments with 123 customers.