

Small Businesses Loans Act

sense to have the Act in place for five years. I caution the Minister that perhaps some of the things he is doing in the Act should be tied in some way to the cost of living.

For instance, in terms of the definition of small business, the Minister admitted in the material which he distributed that the increase to \$2 million will partially deal with inflation. It would make more sense to build into the Act some inflationary component so that two or three years from now, if we have an accumulation of 10 per cent or 15 per cent inflation, we do not have to come back to make an amendment. It should be a mechanism which automatically works its way along and reflects conditions in the market-place.

It will also allow for more stability in the small business sector. Applicants will know that for five years the funds will be there, assuming the Government is prepared to ensure that the ceiling is high enough. However, we question whether the legislated \$1 billion limit is adequate. We are clearly reaching \$900 million per year now, and with the improvements in the Bill there may be further demand. I would appreciate hearing from the Minister later as to the annual indication of how much the ceiling will be so that we will know whether or not \$1 billion in terms of a legislated floor is something which perhaps should be improved now rather than finding out a year or two from now that there is a problem with it.

One aspect which we on this side of the House really like is the fact that finally the banks of the country will be forced to take their responsibility for supporting small businesses. In terms of the 90-10 split, perhaps we would have used a different ratio; perhaps it would have been 80-20 or 70-30. However, I think the principle is important. Although they accept their share of the responsibility, they are demanding collateral from applicants. In effect, they are being insured twice—once by the Government and once by the applicant. I recognize that there is a need for collateral. Perhaps the Minister could address this subject at a future point, that is, the relationship between the Government insurance aspect and the kind of collateral which the banks are demanding. Sometimes I think they demand too much and put small business persons in the situation of not being able to take advantage of other aspects of the market-place because they have had to lock up everything with banks for capital expenses even though they are insured by the Government. Then they do not have any equity to acquire operating or inventory financing which they may desperately need in order to survive. I encourage the Minister to look at that to see what impact it has and whether or not an improvement could be made in committee.

The most controversial aspect of the Bill is the user fee. The Minister proposes that the banks should pay the Government a fee to help offset the cost of defaults which may occur. The Canadian Federation of Independent Business and the Canadian Organization of Small Business have both suggested very strongly that that change will give the banks an excuse not to play ball or to avoid using the Small Businesses Loans Act. While I share their concern—and I have spoken to the Minister about this—we have to ensure that they are not allowed to withhold their funding under the Small Businesses Loans Act.

• (1200)

However, I disagree with the suggestion by those two organizations that the small business people should be paying the fee. The last thing they need is yet another expense on top of the cost of borrowing and the cost of running a small business in this day and age. They do not need a fee of 1 per cent or 1.8 per cent up front on their total capital request to add to their economic burden.

I encourage the Minister not to accept the arguments of the two small business organizations in the context of not placing the burden on the applicant. It rightfully belongs with the banks. As I indicated before, they have to accept their responsibility as well. If we were debating amendments to the Bank Act as opposed to the Small Businesses Loans Act, we could suggest mechanisms that would require the banks to set aside a chunk of their capital, earmark it for the small business sector and make it available at realistic rates of interest and on realistic terms. That Bill is not before us so we have to work within the context of this Act.

We did a quick survey of the co-operative financial institutions of this country. Although they are not exactly excited about the prospect of having to pay this fee, they did indicate quite clearly that they would not use it as an excuse not to participate. They believe that the Small Businesses Loans Act is a good vehicle for them to support people who come to them.

I suggest that the Act should be broadened. It now restricts the availability of capital to acquisitions and, therefore, cannot use capital for operating or inventory. As my colleague from Kamloops-Shuswap (Mr. Riis) indicated in this House quite some time ago, we would be pleased to see that provision changed so that they could use the insurance aspects to gain access to operating capital.

There is something else we would prefer to see. I am in a quandary because I will have to say glowing things about the Conservative Government of Ontario in doing so. What is worse, it was the Hon. Claude Bennett who initiated this program. The Ontario Development Corporation with branches of the Eastern Development Corporation and the Northern Ontario Development Corporation provides funding to small and medium size enterprises throughout the province. One of its key programs is the provision of financial assistance at a fixed rate of interest for a fixed period of time, that is, 15 years. The rate established is the going rate of the day, but they can guarantee those small businesses that for the next 15 years they will not have to pay anything more than the market rate of the day. There is that long-term planning capability. They will know from today until 1999 or 2000 what the payments will be.

The other positive aspect of that program is that if the market rate drops below what you are paying, you have the option to pay off the loan with no penalties. That is in Tory Ontario. As part of the discussions we will be entering into with the discussion paper the Minister will be presenting later today, we should look at that option as a means of supporting the small business sector of this country. During the recession a lot of businesses went under, not because they were poor