

Small Businesses Loans Act

put at their disposal by Government to assist those businesses which are in the risk category, not in the category of defaulting, but in that area where, if given assistance, it will put them in a good risk category. That is happening to a large extent with the Small Business Development Bond. I would like to know whether that may be happening to those who apply under the Small Businesses Loans Act.

The guarantees that we are offering should not interfere that much in the marketplace unless they are given to very large companies where huge amounts of capital go into the hands of one individual. The cost to Government of this kind of loan is almost nothing, unless the loan is in arrears or is defaulted. In my opinion, it is better to go forward in this manner than with a direct loan from Government to business or in the direction of taking some equity position in a business.

This type of program is appealing. There is very little Government bureaucracy attached to it. If Government has some small monitoring mechanism to ensure the lending institutions are following the regulations that Parliament would like, this Bill can be a very effective instrument.

This Act was put in place over 20 years ago to assist small businesses to expand. That should be one of its functions today. We are also in the position today of assisting small businesses to survive. I hope we look at expanding some of the regulations of this Act to assist in that manner. One way that was discussed was to allow the banks and lending institutions to use this Act to assist businesses with operating capital.

What has happened often in recent months is that banks which have been carrying on business have been cutting off that operating capital. I can give the example of a sailboat company. Most sales are in the spring and summer; it has difficulty maintaining itself over the fall and winter. This company is having its capital cut off. As a result, it is being forced into insolvency. It cannot continue to operate and must go into bankruptcy, selling off the boats at a very small amount of their value. It is very sad. If that business had been allowed to exist for a few more months, it could have probably continued. If the economy is in an upturn pattern in the next number of months, it could have been a very viable business on into the future.

In the last year or so, many small businesses have been contacting their Member of Parliament asking what to do when dealing with companies, large or small, that are going bankrupt. I received a call just last week from one such company. It had done \$50,000 worth of business with a fairly large company in the city of Edmonton. That company has gone bankrupt and is asking creditors to accept 25 cents on the dollar. That is very difficult for that small business. In fact, it may drive it into bankruptcy, as I suspect this kind of situation has driven other small business into bankruptcy in the last few years.

This small-businessman suggested that we develop a system to protect small businesses against going into bankruptcy and losing a large amount of capital. He suggested setting up a bond system. When they do business with the Government, they have to be bonded to ensure they are capable of paying

the contractors working for them. You do that by taking out an adequate bond to cover the contract with the Government.

He suggested requiring small businesses to take out bonds to cover contracts with other small businesses. In that way, they would be secured. If they did not have a bond, they would recognize that they are taking a risk. It would then be up to that business as to whether or not it entered a contract. This is an interesting suggestion that might be explored. I discussed the difficulties with him. It is a suggestion that could be implemented in a very positive manner.

In difficult financial times companies have trouble expanding their business. The whole area of new venture capital and new equity capital causes many difficulties for small businesses. New businesses are very vulnerable for the first number of years. That has been pointed out in a very cruel fashion in my constituency in the last number of years.

In 1979 and 1980 the oil business was booming in Alberta. Many small businesses developed quickly to take up the jobs available. Industrial parks around the Edmonton area expanded very rapidly. Canadian entrepreneurs left large companies, Canadian and foreign, and used the expertise they had built up to start their own venture. They were very successful until the National Energy Program hit Parliament and this country, and the results have hurt those businesses tremendously. They were unable to survive and went out of business in large numbers.

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There is a crucial stage when a new company starts up and that crucial stage can be very severely affected by such things as Government interference and Government budgets. In 1980, the Association of Canadian Venture Capital Companies took a survey of some 62 venture capital recipients. The survey showed that risk capital investments in young companies generated significant streams of benefits in the first number of years. With respect to companies founded between 1976 and 1979, each \$100,000 of equity capital invested to 1979 produced an average of \$310,000 of exports, \$10,000 of expenditures on research and \$44,000 in corporate, property and personal income tax. That is significant for an investment of that size.

Surveys which the United States has taken show that almost 80 per cent of all new jobs were created in the last number of years by young firms in the age group of zero to four years. Therefore, most of the new jobs in that country have been created by small businesses which have started up in the last few years. They have not been created by large companies and have not been created to any great extent, in the United States at least, by Government.

In Canada, ventures have chronically suffered from lack of risk equity capital. The more successful a company, it seems, the harder it is to raise additional venture capital or to finance its growth. That, certainly, has been the case during this recent recession because it seems like that type of capital has virtually dried up. One of the reasons must be the recent budgets which have come forward in this House of Commons.