SOURCES OF SME BUSINESS DEBT FINANCING IN ATLANTIC CANADA

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OVERVIEW AND EXECUTIVE SUMMARY

Financing for small and medium-sized enterprises (SMEs) continues to be a key focus for government and industry. In response to the need for data, the Conference Board was asked to help characterize the SME lending markets in Atlantic Canada as it had done for Canada as a whole in its September 1997 report entitled *What's New in Debt Financing for Small and Medium Sized Enterprises?* In the course of this work, funded by the Atlantic Canada Opportunities Agency (ACOA), the Conference Board not only reviewed debt financing in Atlantic Canada but also updated its database so as to be able to describe any growth that has occurred in the debt financing market since the publication of the 1997 study.

The findings suggest that total business debt financing in Canada increased almost 9 per cent during 1997 to reach $295.1 billion by year-end. Of this total, debt financing to SMEs accounted for 40.6 per cent and increased 7.4 per cent during 1997 to reach $119.9 billion (see Table 1). In comparison, debt financing to SMEs at year-end 1996 totaled $111.6 billion and accounted for 41.2 per cent of the total debt financing market. This suggests that the growing debt financing trends continued during 1997 with above-GDP growth for both large and small loans.

Table 1 — SME Business Debt Financing
CAN $ Millions

SME Market (year end 1997)

	Non-residential mortgages	Commercial loans	Lease contracts	Total
Domestic banks	4,672	58,177	842	63,691
Foreign banks	163	3,679	53	3,896
Life insurers	2,589	-	21	2,610
Trust & mortgage loan	2,494	435	115	3,044
Credit unions/caisses populaires	6,882	8,609	-	15,491
Specialized finance companies	417	10,762	5,184	16,363
Crown corporations	-	8,839	-	8,839
Credit card companies	-	5,930	-	5,930
Total	17,218	96,431	6,215	119,864

SME Market (year end 1996)

	Non-residential mortgages	Commercial loans	Lease contracts	Total
SMEs				
Domestic banks	4,212	51,364	628	56,204
Foreign banks	190	2,902	72	3,164
Life insurers	2,805	-	25	2,830
Trust & mortgage loan	4,570	755	165	5,491
Credit unions/caisses populaires	6,718	9,707	-	16,424
Specialized finance companies	435	9,260	5,650	15,345
Crown corporations	-	7,690	-	7,690
Credit card companies	-	4,426	-	4,426
Total	18,930	86,104	6,540	111,574

Source: The Conference Board of Canada

The research suggests that lending to SMEs in Atlantic Canada reached $7 billion in 1997 and accounted for 5.8 per cent of total debt financing to SMEs in Canada (see Table 2). While this is slightly less than the proportion of small business in Atlantic Canada, which is closer to 8 per cent (Statistics Canada), it does match Atlantic Canada's share of Canada's GDP and reflects the fact that Atlantic Canada small businesses generally tend to be smaller and/or require smaller loans than Canadian SMEs in general.[1]

Table 2 — SME Business Debt Financing in Atlantic Canada
CAN $ Millions

SME Market in Atlantic Canada (year end 1997)

	Non-residential mortgages	Commercial loans	Lease contracts	Total
Domestic banks	334.0	4,159.7	60.2	4,553.9
Foreign banks	3.9	88.3	1.3	93.5
Life insurers	112.6	-	0.9	113.5
Trust & mortgage loan	67.1	18.3	4.8	90.2
Credit unions/caisses populaires	25.5	322.8	-	348.3
Specialized finance companies	16.7	430.5	207.4	654.6
Crown corporations	-	691.5	-	691.5
Credit card companies	-	456.7	-	456.7
Total	559.8	6,167.8	274.6	7,002.2

SME Market in Atlantic Canada (year end 1996)

	Non-residential mortgages	Commercial loans	Lease contracts	Total
Domestic banks	307.9	3,754.7	45.9	4,108.5
Foreign banks	4.8	72.6	1.8	79.1
Life insurers	122.0	-	1.1	123.1
Trust & mortgage loan	122.9	31.7	6.9	161.6
Credit unions/caisses populaires	18.9	248.5	-	267.4
Specialized finance companies	17.4	370.4	226.0	613.8
Crown corporations	-	605.0	-	605.0
Credit card companies	-	449.2	-	449.2
Total	593.9	5532	281.7	6,407.7

Source: The Conference Board of Canada

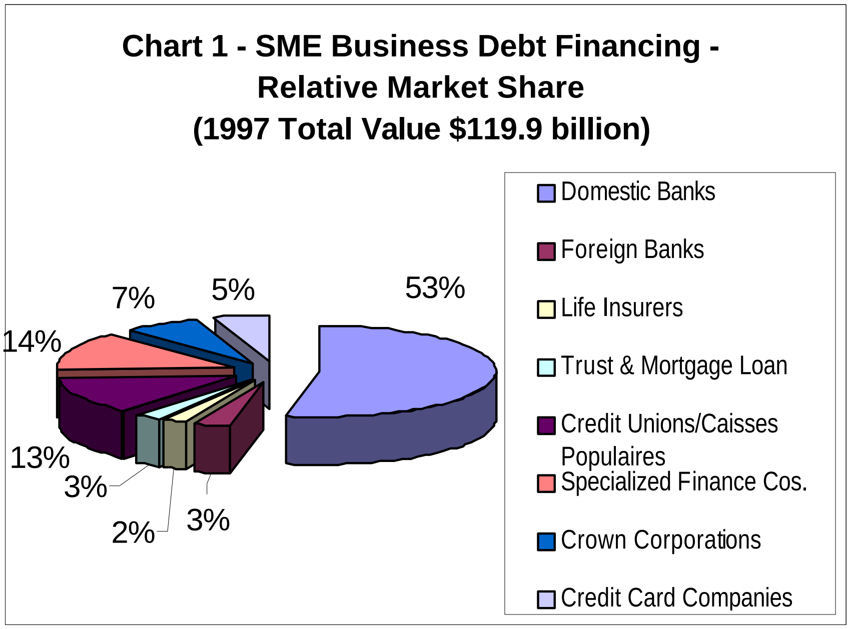
[1] See Roy B. Norton, *The Current Market for Small Business Financing*, Industry Canada, April 1998 (Ottawa).

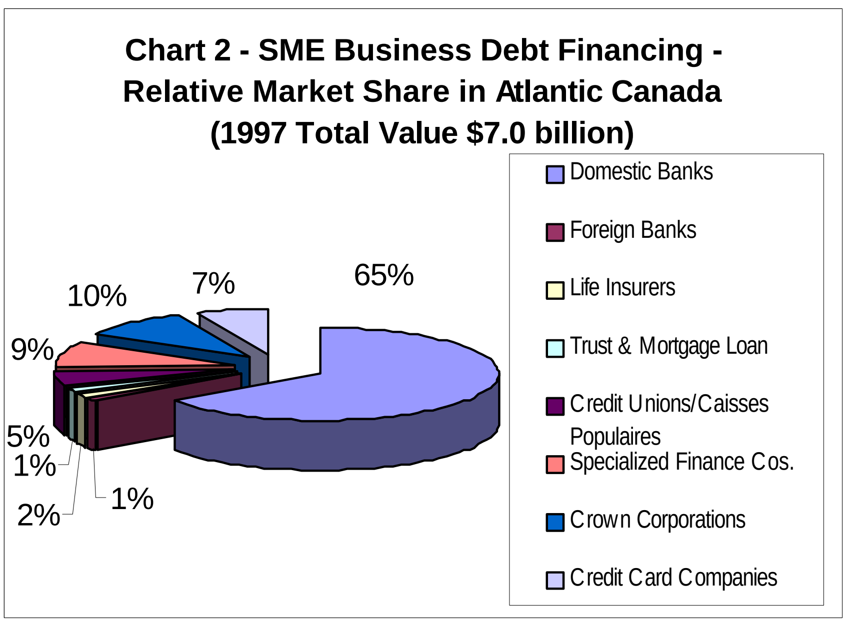
This finding is supported by data from the Small Business Loans Act (SBLA) which show Atlantic Canada representing 7.5 per cent by number of loans but only 6.9 per cent by outstanding amount.

Despite the smaller loan size, Atlantic Canada SMEs appear to be effective users of financing. Indeed, the research shows that they have obtained significant financing from a full spectrum of providers, ranging from financial institutions to governments. Financing choices are similarly broad, and Atlantic Canada SMEs use a variety of alternative loan instruments, from traditional commercial loans to leasing and credit cards.

A clear conclusion is that chartered banks are much more important providers of SME debt financing in Atlantic Canada than in the rest of Canada. Thus, the greatest share of debt financing in Atlantic Canada came from chartered domestic banks, which accounted for 65 per cent of total SME debt financing provided to the region in 1997, compared to 53.1 per cent for Canada as a whole, followed by Crown corporations at 9.9 per cent (7.4 per cent for Canada as a whole). The smallest share of SME business lending in the region was attributed to the trust and mortgage loan sector, which comprised only 1.3 per cent of total business lending (See Chart 1 and Chart 2). This is a substantial reduction from 1996 when the findings showed trust companies providing 2.5 per cent of the SME financing.

There are many reasons for this result. First, credit unions in Atlantic Canada are smaller than those in Quebec and in several other regions of the country. This augments the relative importance of bank-provided financing in the Atlantic Canada deposit-taking sector. This, combined with the fact that almost all of the large trust companies are now owned by banks or insurance companies, creates a situation where banks make up the lion's share of the deposit-taking sector in the Atlantic Canada region. Finally, there is a data availability issue: the small size of the market for financial services in the region means that Atlantic Canada lending often gets consolidated in with Ontario and Quebec statistics.





The final reason deserves further explanation. During the course of our research, it became apparent that many non-bank providers of lending products service clients electronically through data centres. Some of their loans or leases can therefore be booked outside Atlantic Canada even though they are actually done with Atlantic Canada customers. Indeed, there may be fairly significant tax reasons for doing this.[2] As a result, consolidated accounting might also help explain the relative size of the bank presence in the SME debt market of the Atlantic region.

Such data distortions were found to be particularly present in the leasing business, whose firms tend to view the market as North American rather than regional. Thus, many reported that the small size of the Atlantic Canada market did not warrant keeping separate data on operations in the region. Newcourt Credit, for instance, maintains data by

[2] See *Supporting Governments, 1997 edition*, The Conference Board of Canada, February, 1998 (Ottawa).

product line but not by region. It was suggested that in this situation a lease provided by a local branch of a national computer firm to a Moncton small business client would show up through the head office of that national computer firm as a small computer lease, not as a lease in Atlantic Canada. Another example is Canada Trust, which for business reasons, consolidates Quebec, Eastern Ontario *and* Atlantic Canada within its Eastern Canada data.

In the case of our estimates, we made every effort to use allocation procedures that are based in the available data. Nevertheless, the results have to be interpreted with caution, as it is possible that some of the estimation procedures underestimate the actual size of the market. Indeed, most non-bank providers reported that Atlantic Canada represented around 4 per cent of their SME market, which was substantially less than the share held by chartered banks. This is either because it reflects reality or because it reflects data that misrepresent the importance of small business clients from Atlantic Canada. In reviewing the data on the following pages, the reader should keep this in mind.

The report does suggest that the SME debt market appears to be less developed in Atlantic Canada than in Canada as a whole. Indeed, there may be fewer local suppliers, less breadth, fewer providers and fewer local choices. This is an important finding, which may suggest an additional role for government agencies whose mandate it is to fill this possible regional financing gap.

Despite this conclusion, debt financing to SMEs in Atlantic Canada appeared to have increased rapidly in many instances (see Table 3). Indeed, financing provided by the co-operative sector increased at the fastest rate from 1996 to 1997, rising 30.3 per cent to $348.3 million, followed by business lending by foreign banks, whose holdings of business debt increased 18.2 per cent to $93.5 million. The largest decrease in business debt financing occurred for trust and mortgage loan companies, whose holdings of business debt fell 44.2 per cent from $161.6 million to $90.2 million. This is largely the result of the acquisition of National Trust by a major chartered bank during the period.

Table 3 — PERCENTAGE GROWTH IN SME FINANCING TO ATLANTIC CANADA
1996-97

	Non-residential mortgages	Commercial loans	Lease contracts	Total
Domestic banks	8.5%	10.8%	31.2%	10.8%
Foreign banks	- 17.8%	21.7%	- 28.8%	18.2%
Life insurers	- 7.7%		- 17.6%	- 7.8%
Trust & mortgage loan	- 45.4%	- 42.4%	- 30.4%	- 44.2%
Credit unions / caisses populaires	34.7%	29.9%		30.3%
Specialized finance companies	- 4.0%	16.2%	- 8.2%	6.6%
Crown corporations		14.3%		14.3%
Credit card companies		1.7%		1.7%
Total	- 5.7%	11.5%	- 2.5%	9.3%

Source: The Conference Board of Canada

INTRODUCTION

Financing for small and medium-sized enterprises (SMEs) continues to be a key focus for government and industry. In response to the need for data, the Conference Board published its study *Alternative Sources of Debt Financing for Small and Medium-Sized Enterprises* in 1995. In 1997, with assistance from Industry Canada, The Business Development Bank of Canada, the Canadian Bankers Association (CBA), and the Canadian Finance and Leasing Association, the Conference Board conducted a follow-up study entitled *What's New in Debt Financing for Small and Medium-Sized Enterprises ?* Both reports concluded that small business financing was broader and much more vibrant than was originally thought.

The reports characterized the SME debt market as growing rapidly, supported by a large number of providers and supplying very innovative financing options for small business. Indeed, the second report concluded that the availability and accessibility of business debt financing for SMEs had improved substantially since the Conference Board's original study was completed in 1996. Reasons included increased awareness of the importance of this segment of the market, changes to the *Small Business Loans Act* and the Business Development Bank of Canada (which has been given a new mandate) and the creation of new partnerships between Crown corporations and private financial institutions.

During the summer of 1998, a question emerged as to whether the trends contained in the studies were applicable to other regions of Canada. This question created the need for this report, which examines the SME debt-financing trends in Atlantic Canada. The research was funded by the Atlantic Canada Opportunities Agency (ACOA), which is obviously keenly interested in the issue. The Conference Board gratefully acknowledges their support of this initiative.

Carving out a region from the 1998 study was by no means a trivial task. One of the reasons is a shortage of research on SME debt financing, largely because data are not readily available. Similarly, it was very difficult to obtain data on the importance of SME debt financing in Atlantic

Canada. As a result, the study had to rely extensively on the knowledge and willingness of many providers of financing to share often confidential data with the Conference Board. The Board gratefully acknowledges the contribution of all sectors of the financial services industry to the success of the project. The design and method of the research, as well as the content of the report, were determined solely by The Conference Board of Canada in keeping with Conference Board guidelines for financed research. The Appendix provides the reader with explanatory notes that describe the data sources, methodology and the types of financial instruments used in the study.

PROVIDERS OF BUSINESS DEBT FINANCING

Domestic Banks

Domestic banks are an important provider of financial services, consistently providing more than half of the debt financing to businesses in Canada. This trend continued in 1997, and total business debt financing by the domestic chartered banks increased approximately 15 per cent from 1996 to reach $184.6 billion at year-end 1997. Commercial loans, at 91.3 per cent, accounted for the greatest share of this lending, increasing 14.9 per cent during 1997 to reach $168.6 billion. The greatest increase in domestic bank lending to business, however, occurred in the category of lease contracts, which grew from $1.8 billion in 1996 to $2.4 billion in 1997, an increase of 36.1 per cent. Non-residential mortgages provided by banks grew 12.5 per cent to $13.5 billion in 1997. The data related to debt financing trends for Canada as a whole can be found in the Appendix.

> *Lending to SMEs in Canada*: Business lending to SMEs by Canadian domestic banks totalled $63.7 billion in 1997, a 13.3 per cent rise from 1996. The greatest financing to SMEs occurred in the form of commercial lending, which reached $58.2 billion at year-end 1997, up from $51.4 billion in 1996 (an increase of 13.2 per cent). Non-residential mortgage lending to SMEs was estimated at $4.7 billion (an increase of 10.9 per cent from 1996), while debt financing in the form of lease contracts was estimated to be $842 million (an increase of 34.1 per cent from 1996). Table 1 provides figures for SME debt financing in Canada.
>
> *Lending to SMEs in Atlantic Canada:* Chartered banks appear to be comparatively more important providers of debt financing in Atlantic Canada than in Canada as a whole. Of the total amount of business debt financing provided to SMEs in Canada, $4.6 billion was allocated to Atlantic Canada. Commercial loans outstanding for SMEs in Atlantic Canada accounted for the largest share and increased slightly to reach an estimated $4.2 billion at year-end 1997. In 1997, it was determined that 7.2 per cent of all commercial loans under $1 million were in Atlantic Canada. Based on this

method of calculation, SME debt financing to Atlantic Canada in the form of non-residential mortgages and lease contracts was estimated at $334.0 million and $60.2 million, respectively. Table 2 provides figures for SME debt financing in Atlantic Canada.

Foreign Banks

Business debt financing by foreign banks increased at almost twice the rate of that for domestic banks, with a rise of 23.1 per cent in total lending to businesses. With a total of $24.3 billion, business debt financing by foreign banks accounted for 8.3 per cent of the total market. The increase in total business debt financing is attributed primarily to a 26.8 per cent increase in commercial loans outstanding. The remaining lending categories of non-residential mortgages and lease contracts declined at rates of 14.4 per cent and 25.8 per cent, respectively.

Lending to SMEs in Canada: Lending by foreign banks to SMEs increased over 1997 to reach $3.9 billion, with commercial loans outstanding accounting for the greatest share of this amount at 94.4 per cent. In 1997, the total value of commercial loans provided to SMEs by foreign banks increased 26.8 per cent to reach $3.7 billion. At year-end 1997, non-residential mortgages and lease contracts held by foreign banks for SMEs totaled an estimated $163.0 million and $53.0 million, respectively.

Lending to SMEs in Atlantic Canada: Of the total amount of debt financing of $3.9 billion provided to SMEs by this sector, an estimated $93.5 million was provided in Atlantic Canada. Commercial loans accounted for the greatest share of this lending at $88.3 million. The proportion of business debt financing by foreign banks to SMEs allocated to this region was estimated at 2.4 per cent. These small numbers reflect a propensity for foreign banks to be relatively less active in Eastern Canada or, indeed, outside the communities where their home countries are represented. Data on the size of non-residential mortgages or lease contracts by province are not publicly available. For the purposes of this study, it was assumed that foreign banks allocate the same percentage of their other business debt financing to Atlantic Canada as they do for commercial loans. Consequently, the remaining categories of non-residential mortgages and lease contracts provided to SMEs in Atlantic Canada in 1997 were estimated at $3.9 million and $1.3 million, respectively.

Trust and Mortgage Loan Companies

The pace of consolidation in this sector continues to be rapid, resulting in fewer trust companies and a decline in the sector's share of the debt financing market. The banks have been particularly active in acquiring trust company assets. From 1994 to 1997, assets of independent trust companies and other deposit-taking intermediaries have declined from $76.8 billion to $55.1 billion. With the acquisition of National Trust by Bank of Nova Scotia during the summer of 1997, Canada Trust remains the only independent trust company of significant size. This is largely reflected by the data on total debt financing provided to business by independent trust and mortgage loan companies, which declined from $9.6 billion in 1996 to $5.1 billion in 1997, a drop of almost 50 per cent. Non-residential mortgages were particularly affected, as reflected by a decline in the value of non-residential and multiple-unit residential mortgages from $11.7 billion in 1994 to $3.9 billion in 1997. Commercial loans and lease receivables for this sector also continued to decline significantly, falling at rates of 64.8 per cent and 30.4 per cent, respectively, from 1996 levels.

Lending to SMEs in Canada: Of the total amount provided in business debt financing by independent trust and mortgage loan companies, lending to SMEs accounted for almost 59.8 per cent and totaled an estimated $3 billion at year-end 1997. Non-residential mortgages represented the largest share of the sector's business debt financing portfolio at $2.5 billion, followed by commercial loans at $435 million.

Lending to SMEs in Atlantic Canada: SME debt financing provided to Atlantic Canada accounted for 3 per cent of the national total for SME debt financing by this sector at year-end 1997 and was estimated at $90.2 million. This amount was composed of $67.1 million in non-residential mortgages, $18.3 million in commercial loans outstanding and $4.8 million in lease contracts.

Credit Co-operatives

Total business debt financing provided by the co-operative sector declined slightly (-5.7 per cent) to $17.2 billion in 1997. The lending activities of the co-operative sector focus primarily on non-residential mortgages and commercial loans, which in 1997 accounted for shares of 44.4 per cent and 55.6 per cent, respectively.

> *Lending to SMEs in Canada*: In terms of debt financing to SMEs, credit co-operatives continued to be a strong force in 1997. By year-end, this sector had provided financing of $6.9 billion to SMEs in the form of non-residential mortgages. This was 47.3 per cent more than that provided by domestic banks ($4.7 billion). The other debt financing provided by the co-operative sector to small business was in the form of commercial loans which declined 11.3 per cent to $8.6 billion in 1997.
>
> *Lending to SMEs in Atlantic Canada:* Lending to SMEs in Atlantic Canada by the co-operative sector accounted for 5 per cent of total SME debt financing in the region. This contrasts with the data for the Canadian SME debt market as a whole, where the sector accounts for closer to 12.9 per cent. This is largely a result of the importance of the Confederation des caisses populaires et d'ecomonies Desjardins in the province of Quebec, which tends to skew the perception of credit union activity on a national basis. The credit union movement is not as important in Atlantic Canada as it is in Quebec. As a result, the sector provides relatively less financing to SMEs.
>
> Nevertheless, total SME debt financing by credit unions and caisses populaires to Atlantic Canada increased 30.3 per cent overall to an estimated $348.3 million, up from $267.4 million, with non-residential mortgages increasing 34.7 per cent to $25.5 million and commercial loans rising 29.9 per cent to $322.8 million. The $322.8 million in commercial loans is composed of $65.7 million in corporate loans, $130.4 million in farm non-mortgage loans and $126.7 million in lines of credit.

Life Insurers

Life insurers do not typically engage in commercial lending but do hold business debt as part of their investment portfolios. Life insurer activity associated with debt financing in Canada focuses primarily on non-residential mortgages and corporate debentures. The greatest share of debt financing to business is provided in the form of non-residential mortgages which, in 1997, reached $24.2 billion. This accounts for the greatest share of the total value of non-residential mortgages held by all financial institutions, at 47.3 per cent. The only other form of business debt financing provided by the sector is lease receivables which, at year-end 1997, were valued at $192 million, down 17.6 per cent from the previous year.

> *Lending to SMEs in Canada*: The amount of business debt financing that was allocated to SMEs at year-end 1997 was estimated at $2.6 billion, down from $2.8 billion for 1996. Non-residential mortgages accounted for the majority, while lease contracts comprised the remainder, with an estimated total of $21 million.
>
> *Lending to SMEs in Atlantic Canada:* The amount of debt financing provided by this sector to SMEs in Atlantic Canada was estimated to be $113.5 million at year-end 1997, an amount representing 4.4 per cent of the sector's national total debt financing to SMEs. This estimated total was composed of $112.6 million in non-residential mortgages and $890,000 in lease receivables. The percentage of 4.4% is based on Canadian Life and Health Insurance Association (CLHIA) data on total life insurance company mortgage holdings by province.

Specialized Financial Institutions

Business debt financing provided by specialized financial companies, such as GE Capital and Newcourt Credit, has increased substantially over recent years, reflecting the rapid growth of the industry. In particular, the industry has seen the emergence of some large players, which have become a major alternative source of credit for large and small businesses.

At year-end 1997, total business debt lending by this sector reached $29.8 billion, accounting for the second largest share (10.1 per cent) after the domestically chartered banks. Commercial loans comprise the greatest portion (65.8 per cent) at $19.6 billion. Of the total commercial loans outstanding held by specialized finance companies, wholesale financing accounted for the largest share at $7.7 billion (39.3 per cent), followed by retail financing at $6.5 billion (33.2 per cent). Financing in the form of lease receivables represented the next largest portion of total business debt financing at $9.4 billion while non-residential mortgages accounted for the remaining $759 million.

> *Lending to SMEs in Canada*: Debt financing provided to SMEs by specialized finance companies was estimated at $16.4 billion for 1997. Of this total, commercial loans outstanding comprised the bulk at an estimated $10.8 billion, followed by lease contracts at an estimated $5.2 billion. SME debt financing in the form of non-residential mortgages accounted for the smallest share at an estimated $417 million. Overall, this sector was second only to the domestic chartered banks in providing SME debt financing.
>
> *Lending to SMEs in Atlantic Canada:* At year-end 1997, debt financing by specialized finance companies allocated to SMEs in Atlantic Canada reached $654.5 million, accounting for 4 per cent of total national SME lending by this sector. In terms of the overall debt financing market for SMEs in the region, specialized finance companies ranked third. They placed well behind the domestic banks, which held $4.6 billion in debt financing for SMEs in Atlantic Canada, and close behind crown corporations which held $691.5 million. The $654.5 million total for specialized

finance companies is composed of $430.5 million in commercial loans outstanding, $207.4 million in lease receivables and $16.7 million in non-residential mortgages.

Credit Cards

As indicated in earlier studies, credit cards constitute a significant source of funding for SMEs. However, quantifying the market for business debt financing through the use of credit cards is difficult, due to the fact that data are not readily available on the use of credit cards by business. Using techniques described in the methodology, it was estimated that the total debt financing provided to SMEs through credit cards reached approximately $5.9 billion for 1997, up from $4.4 billion for 1996[3]. Credit card usage by SMEs in Atlantic Canada for 1997 was estimated at $456.7 million.

There are differences in credit card usage by province. For example, compared to the national average, fewer Atlantic Canada small businesses reported using credit cards in 1997, but a slightly higher percentage carried balances on their credit cards (see Table 4).

Table 4 —Thompson Lightstone & Company Limited Survey Results	**1996 Survey Data (Table 13) Atlantic Canada (Canada)**	**1997 Survey Data (Table A6) Atlantic Canada (Canada)**
Number of SMEs in Survey	326 (2,615)	287 (2,519)
Per cent using Credit Cards	53 % (44 %)	50 % (54 %)
Percent that pay off balance in full each month	N/A	66 % (71 %)

Source: Thompson Lightstone & Company Limited[4]

[3] The reader should note that the figure *excludes* department store credit cards, which are captured in figures for specialized finance companies.

[4] Reproduced from Thompson, Lightstone & Company Limited, *Small and Medium Sized Businesses In Canada: An Ongoing Perspective of their Needs, Expectations and Satisfaction with Financial Institutions*, (Toronto: Canadian Bankers Association, 1997) and Thompson, Lightstone & Company Limited, *Small and Medium Sized Businesses In Canada: Their Perspective of Financial Institutions and Access to Financing*, Toronto, April 24, 1996.

SME Financing-Related Initiatives of Government Agencies

Having recognized the importance of SMEs to the Canadian economy, governments at all levels have sought to support small business. This support has been delivered both directly through Crown corporations and indirectly through agencies.

In some cases, governments have set up Crown corporations that directly support SMEs by means of commercial loans and other financial products. Examples of such corporations include the Business Development Bank of Canada (BDC) and the Farm Credit Corporation (FCC). These lenders offer direct financial support to SMEs, which is included in the report as government financing for SMEs.

In other cases, the government chooses to guarantee all or part of eligible loans provided to SMEs though market intermediaries such as banks and credit unions. Some of these transactions are covered by the *Small Business Loans Act*. For the purposes of the report, financing to SMEs that is facilitated through guarantees is reported as part of the lending estimates provided by the respective financial institutions actually providing the loans and not as government lending.

Finally, government support sometimes takes the form of direct grants to SMEs or of grants and loans to special development corporations, which in turn provide grants or loans to SMEs. Such financing is mentioned in the report but is not included in the financing figures because of the difficulty in identifying such mechanisms and determining, in a consistent and comprehensive manner, the level of commercial financing provided across Canada.

Business Development Bank of Canada: Following changes made to its mandate in 1995, the Business Development Bank of Canada has taken a more active role as a lender to SMEs. In 1997, BDC's business loans portfolio held an estimated $4.4 billion in outstanding loans and commitments. Based on interviews with BDC officials, it was estimated that approximately 80 per cent of the total value of this portfolio in 1997 was with SMEs.[5] For 1996, data provided by the

[5] The definition used to estimate lending to SMEs is based on loans outstanding valued at less than $1 million.

BDC indicate that the comparable figure was 78 per cent. Consequently, at year-end 1997, it was estimated that $3.5 billion in commercial loans was provided to SMEs, a 17.2 per cent increase from 1996. Of this total, loans provided to SMEs in Atlantic Canada accounted for 9.8 per cent or $345.6 million.

Farm Credit Corporation: The Farm Credit Corporation (FCC) continues to be a strong force in the agricultural sector. In 1997, the value of total loans held by the FCC was $5.3 billion, up from $4.7 billion for 1996. The portion of this total that was held in Atlantic Canada was $345.9 million in 1997, an amount representing approximately 6.5 per cent of the national total of $5.3 billion.

Table 5 — Financing Provided by Crown Corporations

In Canada ($ millions)	**1996**	**SME 1996**	**1997**	**SME 1997**
BDC	$3,851	$3,003	$4,400	$3,520
FCC	$4,687	$4,687	$5,319	$5,319
TOTAL	$8,538	$7,690	$9,719	$8,839
In Atlantic Canada ($ millions)	**1996**	**SME 1996**	**1997**	**SME 1997**
BDC	$373.0	$290.9	$432.0	$345.6
FCC	$314.1	$314.1	$345.9	$345.9
TOTAL	$687.1	$605.0	$777.9	$691.5

Sources: Company annual reports.

Other Initiatives in support of SMEs.

Export Development Corporation: While the Export Development Corporation (EDC) provides support to SMEs in the form of insurance services, loans are typically not issued directly to Canadian companies but rather are provided to foreign purchasers of Canadian exports. This financing is important, as it allows Canadian SMEs to successfully bid on and finance export sales opportunities. Because the financing is not provided directly to the SME, the activities of the EDC are not included as part of the financing activities of government as defined for the purpose of the study.

Small Business Loans Act: Since 1961, the Government of Canada has supported small business in Canada via a strategic partnership with financial institutions. This strategic partnership exists in the form of the *Small Business Loans Act*, which allows financial institutions and the government to "share the risks inherent in extending credit."[6] In its 37 years, the SBLA has facilitated the financing, creation and/or improvement of more than 500,000 businesses. During this time, financial institutions have been able to provide small and medium-sized enterprises with more than $20 billion in financing. Loans guaranteed during 1997-98 total $1.9 billion in Canada and more than $145 million in Atlantic Canada. These amounts are down from almost $2 billion for Canada as a whole in 1996-97 and up from $140 million for Atlantic Canada during the same period last year. The comparable number for SBLA-supported loans outstanding in Canada as at March 31, 1998, is almost $5.9 billion. Please see Table 6 for the SBLA financing data for Canada and Atlantic Canada for 1997-98.

Table 6 — SBLA-based Lending,

April 1, 1997, March 31, 1998

Total SBLA lending 1997-98	**Number of SBLA loans**	**Loans provided ($000)**
Atlantic Canada	2344	145142
Canada	28755	1951892

Source: SBLA Annual Report for the period ended March 31, 1998.

Atlantic Canada Opportunities Agency: ACOA's main tool for assistance to SMEs is the Business Development Program. It offers interest-free, unsecured loans, which are repayable as of early 1995. Over the 1993-98 period, the Business Development Program supported the creation or maintenance of almost 44,000 jobs. Client surveys indicate that without ACOA assistance only 5 per cent of investments would have gone ahead as planned. ACOA's annual report indicates that its outstanding loan portfolio totaled $326.4 million in 1997-98. Because direct support from ACOA takes the form of unsecured, non-interest bearing loans, the Conference Board has not included ACOA spending in the totals in the various charts and tables.

[6] Industry Canada, *Small Business Loans Act: A Presentation to the House of Commons Standing Committee on Public Accounts*, Ottawa: Industry Canada, February 1998.

In addition, ACOA funds 40 Community Business Development Corporations. In 1997-98, ACOA provided $19.3 million in funding to these corporations, which in turn supported the expansion and/or establishment of 1,500 businesses with funding totaling $38.3 million. As at December 31, 1997, these corporations had more than $78 million in loans outstanding to SMEs.

National Research Council: The National Research Council (NRC) has been providing support to technology-dependent small businesses through its collaborative research programs, including its Industrial Research Assistance Program (IRAP). During 1997-98, the NRC spent $462 million, of which $279 million was targeted at supporting research institutes and $98 million was under the IRAP program. IRAP grants and contributions have been instrumental in enabling a number of SMEs to make technological breakthroughs that enable them to obtain other financing to support their business. Nevertheless, because the form of funding is not compatible with the definition of financing used for the report, the Conference Board has not included NRC spending in the totals for the various charts and tables.

PATTERNS OF BUSINESS DEBT FINANCING

Overall, commercial loans continue to account for the largest share of total business debt financing in Canada, accounting for 78.4 per cent of total business debt financing in 1997. Over the period from 1996 to 1997, total commercial loans outstanding increased 13.8 per cent to reach $231.3 billion by year-end. Federally chartered domestic banks held the largest volume (72.9 per cent) of this form of lending, followed by foreign banks and specialized finance companies, which held 9.9 per cent and 8.5 per cent, respectively.[7] Non-residential mortgages and lease contracts accounted for a much smaller share of total business debt financing at 17.3 per cent and 4.3 per cent, respectively.

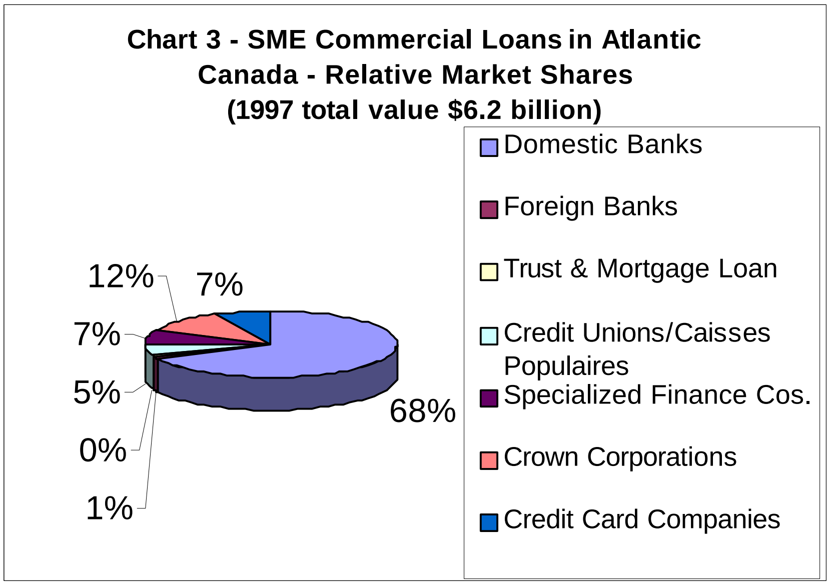
With respect to financing for SMEs in Atlantic Canada, commercial loans accounted for a strong majority of total SME business lending in 1997 at 88.1 per cent. Financing for SMEs in the region in the form of non-residential mortgages and lease contracts for 1997 represented the smaller shares of 8.0 per cent and 3.9 per cent, respectively.

Commercial Loans

Debt financing to all businesses in Canada in the form of commercial loans increased 13.8 per cent during 1997 to reach $231.3 billion. Total commercial lending allocated to small business in Atlantic Canada amounted to an estimated $6.2 billion in 1997, up from the previous year's total of $5.5 billion. The greatest share of SME commercial loans outstanding in Atlantic Canada was attributed to the domestic banks (67.4 per cent), whose market share was valued at $4.2 billion. Foreign bank business debt financing in Atlantic Canada increased by 21.7 per cent in 1997 to reach $88.3 million and accounted for 1.4 per cent of the total SME debt market in the region.

At almost 12 per cent, Government Crown corporations (specifically the Business Development Bank of Canada and the Farm Credit Corporation) took the second largest share of the SME market

[7] The proportion of commercial lending attributed to foreign banks, while slightly improved from 1996 (9.9 per cent), still falls well short of the 15 per cent share held by this sector in 1994, reflecting the continued wariness of the foreign banks over the profitability of lending to businesses in Canada.



for commercial loans in the region. In 1997, total commercial loans to SMEs in Atlantic Canada held by the BDC were valued at $345.6 million, up from $290.9 million in 1996. The Farm Credit Corporation increased its commercial lending to SMEs in Atlantic Canada from $314.1 million to $345.9 million. At this time, the BDC and FCC are the only government-owned agencies, which provide direct commercial lending to Canadian SMEs. Other loans, such as SBLA loans, are guaranteed by government but are provided by private-sector financing institutions, and therefore appear on the books of these institutions. Similarly, the EDC does provide some support to SMEs, but loans are typically not issued directly to Canadian companies but rather are provided to foreign purchasers of Canadian exports.

The greatest increase in market share occurred for the credit co-operative sector, whose holdings of SME commercial loans in the region increased 29.9 per cent to reach $322.8 million in 1997, up from $248.5 million in 1996. This sharp increase resulted in a rise in the co-operative's share of the market from 4.5 per cent in 1996 to 5.2 per cent in 1997. This sector consists of two groups: credit unions, which are generally found across Canada, but outside Quebec, and caisses populaires, which focus on regions with French-speaking populations — Quebec, New Brunswick, Manitoba and parts of Ontario. Figures for credit union and caisses populaires on commercial lending to Atlantic Canada were determined by using Statistics Canada data on business lending by province.

The most important decline in market share was reported for commercial loans by trust and mortgage companies — their holdings of commercial loans in the region decreased over 40 per cent. This decline was largely a transfer of lending from trusts to banks as a result of the merger of

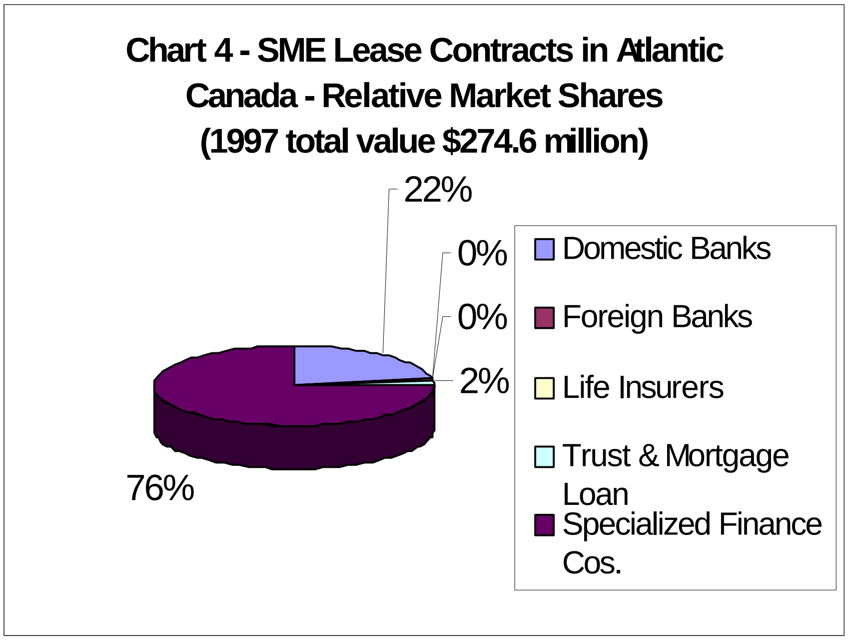
National Trust with ScotiaBank. Because of this, the sector accounted for the smallest share of commercial lending to SMEs in Atlantic Canada in 1997 at 0.3 per cent. The small size of the sector's market share can also be attributed to the fact that the majority of its business debt is held in the form of either non-residential mortgages or large private debt debentures.

Specialized finance companies ranked fourth in the SME commercial loans market in Atlantic Canada, with a share of 7 per cent, up from 6.7 per cent in 1996. Commercial lending to SMEs in Atlantic Canada by this sector reached $430.5 million at year-end 1997, representing a 16.2 per cent increase from the $370.4 million at year-end 1996. Indeed, it would appear that after tremendous growth in leasing by this group between 1994 and 1996, specialized finance institutions have become more active with commercial loans during 1997. As a result, these firms' lending portfolios have grown much faster than their leasing portfolios. Another reason for the lack of growth in leasing portfolios is securitization — i.e., these leasing portfolios are usually securitized to third party investors as a way to finance future business. This, as well as the apparent increased reliance on direct lending by these companies would tend to reduce the growth rate of on-balance-sheet leases for these companies.

Commercial lending through the use of credit cards by SMEs in Atlantic Canada accounted for 7.4 per cent of the total market at $456.7 million, which is more than that provided by specialized finance companies but less than that provided by Crown corporations and domestic banks. This is an increase over the credit card financing provided to SMEs in the region for 1996 which totaled $449.2 million.

Life insurers are not considered in this category. The lending activities of life insurance companies in Canada typically focus on non-residential mortgages and corporate debentures. Any commercial lending which does take place is typically recorded as investments in corporate debentures. Such instruments are rarely available to SMEs.

Lease Contracts



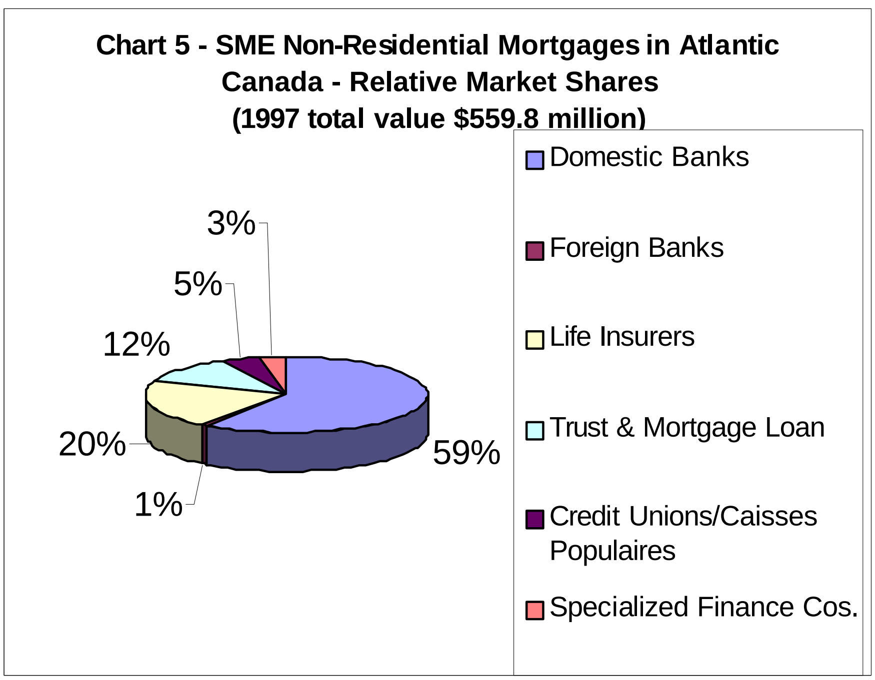
The value of lease receivables held by Canadian financial institutions totaled $12.8 billion in 1997, a 3.9 per cent decline from 1996. In fact, leases accounted for the smallest percentage of total debt financing provided to all businesses in Atlantic Canada. As mentioned above, this appears to be the result of both securitization and increasing attention of specialized finance companies to commercial lending as an alternative to leasing. Thus, securitization, as well as the apparent increased reliance on direct lending by these companies would tend to reduce the growth rate of on-balance-sheet leases for these companies. The largest share of the SME lease market in Canada in 1997 was held by specialized finance companies (83.4 per cent), followed by domestic chartered banks (13.5 per cent). Lease contracts allocated to SMEs in Atlantic Canada were valued at $274.6 million by the end of 1997, accounting for 4.4 per cent of the total value of SME lease receivables held in Canada.

The largest share of the SME lease market Atlantic Canada in 1997 was attributed to specialized finance companies, which held a total value of $207.4 million (75.5 per cent). Domestic banks accounted for the second largest share at 21.9 per cent, with $60.2 million in SME lease receivables attributed to the region. The banking sector was the only sector to experience positive growth in the value of lease contracts allocated to SMEs in Atlantic Canada.

The trust companies sector experienced the greatest decrease (30.4 per cent) in the value of lease receivables held with SMEs in Atlantic Canada. As mentioned above, we suspect that both the domestic bank increase and the trust company decrease are the result of mergers. Overall, the trust sector accounted for only 1.8 per cent of the total 1997 SME lease market in Atlantic Canada. Foreign bank holdings of lease contracts with SMEs in Atlantic Canada similarly declined 29 per cent in 1997 to reach a value of $1.3 million. Finally, life insurers took the smallest share of the SME lease market in the region, with holdings valued at $890,000 (less than 1 per cent of the total).

Non-residential Mortgages

Overall, Canadian financial institutions held $51.1 billion in non-residential mortgages, with the greatest share (47.3 per cent) attributed to the life insurance industry. The smallest portion of non-residential mortgages was held by specialized finance companies (1.5 per cent) followed by foreign banks (2 per cent). Non-residential mortgages of SMEs in Atlantic Canada accounted for 1.1 per cent of the non-residential mortgage total at $559.8 million. Of this amount, domestic banks accounted for the greatest proportion, holding approximately 59 per cent of the total value, followed by life insurers at 20.1 per cent. The domestic banking sector experienced an increased level of activity in 1997 of 8.5 per cent, whereas life insurers experienced a decline (7.7 per cent) in their holdings of SME non-residential mortgages in the region. Foreign banks held the smallest share of non-residential mortgages provided to SMEs in Atlantic Canada with only $3.9 million, an amount accounting for less than 1 per cent of the total value. From 1996 to 1997, foreign bank holdings of SME non-residential mortgages for the region declined 17.6 per cent from $4.8 billion in 1996.



Trust and mortgage loan companies took the third largest share of total non-residential mortgages allocated to SMEs in Atlantic Canada at $67.1 million. This sector also experienced the greatest decline in its holdings of SME non-residential mortgages for the region, reporting a decline of 45.4 per cent. The co-operative sector was the only sector, along with the domestic banks, to experience positive growth in its market share, with an increase of 34.7 per cent in its holdings of SME non-residential mortgages for the region.

CONCLUSIONS AND IMPLICATIONS

Financing for SMEs continues to interest policy makers. This is because of studies showing that small and medium-sized enterprises have accounted for 50 per cent of all private sector employment, nearly 43 per cent of gross domestic product and 87 per cent of new jobs created in Canada since the early 1980s. SMEs are particularly important to the Atlantic Canada region, which is home to more than 8 per cent of SMEs in Canada. As a result, the Atlantic Canada Opportunities Agency commissioned this study to look at the state of small business financing in the region.

The study revealed that the ongoing consolidation in the financial services industry is leading to increased concentration of the SME financing sector. As a result, it finds that even though there are many suppliers of debt financing for SMEs, banks appear to provide the lion's share in Atlantic Canada. Indeed, the study shows that two-thirds of all financing for small business in Atlantic Canada is provided by the six large Canadian chartered banks.

Because of the limited nature of much of the SME debt financing data, these findings may be artificial. For many institutions outside the banking sector, data are not readily available or even maintained on a regional basis. Indeed, many of the more important innovations in commercial credit products, services and delivery modes designed specifically to meet the needs of SMEs that were described in our 1997 report entitled *What's New in Debt Financing for Small and Medium-Sized Enterprises?* may well have served to further camouflage the extent to which providers of financial products serve small business borrowers in Atlantic Canada.

Data on the total business debt financing market and estimates of SME debt financing show that SME lending growth, at 7.4 per cent for Canada and 9.3 per cent for Atlantic Canada, continues to outpace that of the economy in general. This is good news for this important sector of our economy. However, the study also demonstrates that there is considerable variance between regions in the way small business is financed. One possible explanation is that the small business financing sector in Atlantic Canada is more inclined to use traditional forms of financing relative to the rest of the country. It is therefore possible that financing markets in the Atlantic region are less developed than those of other regions of the country. Another possibility is that firms just do not keep track of their activities in the region and that these are instead consolidated within national accounts or as part of North American databases. Finally, the financing growth rates of the region may be influenced by the stage in the economic cycle, with more SMEs able to repay debts. This is suggested by the data compiled by Norton, who found the average bank loan to SMEs in Atlantic Canada to be only 75 per cent of the authorized amount. Since the report uses outstanding loans as opposed to authorized loans, any loan repayments by SMEs are reflected in a gap between the authorized amounts and outstanding amounts.[8]

In the end, it would appear that the size of the business debt financing market targeted at SMEs continues to be widely misunderstood, largely because analysts do not have access to regionally based data for non-bank lenders. Clearly, sources of SME funding are broader than the banking sector, and one of the main conclusions of the report is that SMEs in Atlantic Canada are being funded by a wide variety of providers of financial services using various innovative products, services and delivery channels.

[8]see Roy B. Norton, *The Current Market for Small Business Financing*, Industry Canada, April 1998 (Ottawa).

Table 7 — SME Debt Financing in Atlantic Canada
Estimates ($ millions)

	Non-residential mortgages			Commercial loans			Lease contracts		
Financing source	**'96**	**'97**	**per cent change**	**'96**	**'97**	**per cent change**	**'96**	**'97**	**per cent change**
Domestic banks	307.9	334.0	8.5	3754.7	4,159.7	10.8	45.9	60.2	31.2
Foreign banks	4.8	3.9	-17.8	72.6	88.3	21.7	1.8	1.3	-28.8
Life insurers	122	112.6	-7.7	-	-	-	1.1	0.9	-17.6
Trust & mortgage loan companies	122.9	67.1	-45.4	31.7	18.3	-42.4	6.9	4.8	-30.4
Credit unions/caisses populaires	18.9	25.5	34.7	248.5	322.8	29.9	-	-	-
Specialized finance companies	17.4	16.7	-4	370.4	430.5	16.2	226	207.4	-8.2
Crown corporations	-	-	-	605	691.5	14.3	-	-	-
Credit cards	-	-	-	449.2	456.7	1.7	-	-	-
Total	593.9	559.8	-5.7	5532	6167.8	11.5	281.7	274.6	-2.5

Source: The Conference Board of Canada

A final thought is that intersectoral consolidation and the acquisition of the assets of some companies by other providers of financial services, particularly banks, have served to further concentrate small business lending within the hands of the six major Canadian chartered banks. Indeed, consolidation largely explains why Canadian chartered banks appear to account for an increased proportion of total business debt financing in 1997 compared with both 1996 and 1994. However, non-bank providers of debt financing continue to be significant, providing up to 45 per cent of financing to all businesses, depending on the market segment. In the case of financing targeted at SMEs in Atlantic Canada, the figure is much less important, at about 34 per cent of the total.

This increased concentration is not necessarily bad, and the data generally show gradually increasing lending to SMEs, including those in Atlantic Canada. Indeed, SMEs can choose from a wide variety of providers, which are offering increasingly sophisticated and customized products and services. Several alternatives to the Canadian chartered banks exist, including the credit union sector whose importance has recently been growing rapidly — by over 30 per cent between 1996 and 1997.

APPENDIX

Summary Table: Total Business Debt Financing in Canada

CAN $ Millions

Total Market Size (year end 1997)

	Non-residential mortgages	Commercial loans	Lease contracts	Total
Domestic banks	13,541	168,630	2,441	184,612
Foreign banks	1,019	22,995	333	24,347
Life insurers	24,199	-	192	24,391
Trust & mortgage loan	3,944	783	360	5,087
Credit unions/caisses populaires	7,647	9,565	-	17,212
Specialized finance companies	759	19,567	9,425	29,751
Crown corporations	-	9,719	-	9,719
Credit cards	-	n.a.	-	
Total	51,109	231,259	12,751	295,119

Total Market Size (year end 1996)

	Non-residential mortgages	Commercial loans	Lease contracts	Total
Domestic banks	12,034	146,754	1,794	160,582
Foreign banks	1,190	18,138	449	19,777
Life insurers	26,214	-	233	26,447
Trust & mortgage loan	6,821	2,222	517	9,560
Credit unions/caisses populaires	7,464	10,785		18,249
Specialized finance companies	791	16,837	10,272	27,900
Crown corporations		8538		8538
Credit cards		n.a.		
Total	54514	203274	13,265	271053

Source: The Conference Board of Canada

Notes on the Use of Data

- All data for 1996 and 1997 are for year-end.
- Data for total business debt financing in Canada are taken from Statistics Canada tables with the exception of data for Crown corporations and credit cards.
- Statistics Canada data used for total debt financing to businesses in Canada are taken from the loans sections of detailed balance sheets for the categories of non-residential mortgages, commercial loans (loans to corporations in Canada) and lease contracts.
- Data on business debt financing provided by crown corporations refer to commercial loans outstanding held by the Business Development Bank of Canada and Farm Credit Corporation, as reported in annual reports.
- Credit card data for VISA and MasterCard are provided by the Canadian Bankers Association and include data from all VISA and MasterCard issuers, while data on American Express credit card usage is from AMEX annual reports.
- With the exception of data for Atlantic Canada on debt financing provided by crown corporations (which was directly available), SME debt financing in the region of Atlantic Canada has been estimated by applying the appropriate percentages to the numbers for total business debt financing.

Notes on Types of Financing

The commercial loan, or corporate loan, is typically the most common form of business debt financing and includes the following: (i) term loans (loans backed by fixed assets to acquire capital or land and held for longer periods); (ii) operating loans or lines of credit (loans backed by receivables or inventory which are used to finance day-to-day activities and are held for shorter periods); (iii) sales financing and conditional sales contracts; and (iv) letters of credit (loans used for international trade financing).

Lease contracts commonly encompass two types: (i) the operating lease and ii) the finance or capital lease. All other contracts are considered to be hybrids of these two varieties. Operating leases run for a shorter term, often less than the duration of the acquired asset's life, and are typically used for transportation products, computers and other office equipment. The finance or capital lease is a long-term instrument which is used for larger ticket items and whose duration generally matches the life of the acquired asset.

Non-residential mortgages are a type of loan, used to finance the purchase of land or buildings intended for business purposes. Unlike long-term loans, which consider management and cash flows, a non-residential mortgage considers only the underlying value of the asset acquired.

Methodology for Estimating SME Business Debt Financing in Atlantic Canada

Domestic banks: Data for chartered banks from Statistics Canada are provided on an aggregated basis with no breakdown for Canadian and foreign financial institutions. The proportion of total business debt financing provided by foreign banks was determined by using data from the Office of the Superintendent of Financial Institutions (OSFI) to calculate the relative shares of business lending by foreign and domestic banks for each loan category. These percentages were then applied to total chartered bank figures from Statistics Canada to derive domestic and foreign bank business lending in the areas of commercial loans, non-residential mortgages and lease contracts.

The proportion of business debt financing provided to SMEs by domestic chartered banks was determined using Bank of Canada data on loans by value. For the purposes of this study, SME commercial loans by chartered banks are defined as those under $1 million. The total value of such loans as a percentage of the total value of loans outstanding was determined to be 34.5 per cent at year-end 1997.

Because no data are available on the value of lease contracts or non-residential mortgages attributed to SMEs, it is assumed that the domestic banks follow the same pattern or percentage allocations with these types of debt financing as they do for commercial loans. The commercial loan percentage of 34.5 per cent has therefore been used to determine the value of non-residential mortgages and lease contracts provided by the domestic banks to SMEs.

The percentage of SME business debt financing in Atlantic Canada was determined using CBA figures on commercial loans by province, which indicated that 7.2 per cent of commercial loans outstanding was allocated to the region. Since no data exist on the provincial breakdown of non-residential mortgages or lease contracts held by domestic banks, the commercial loans percentage (7.2%) has been used to determine the amount of SME lending for these two categories in Atlantic Canada.

The estimates for 1996 employed the same methodology as that described above, and the respective percentages for total SME debt financing in Canada and for total SME debt financing to Atlantic Canada were 35.0 per cent and 7.3 per cent, respectively.

Foreign banks: No actual data currently exist on SME lending by this sector. Consequently, the study estimated the amount of SME financing provided to businesses by foreign banks for both 1996 and 1997 based on the business lending activities of the Hongkong Bank of Canada.

Data provided by the OSFI on assets held by the Hongkong Bank of Canada indicate that approximately 16.1 per cent of commercial loans made by this bank were valued at less than $1 million at year-end 1997. Hongkong Bank of Canada accounts for almost a quarter of total foreign banks' assets and is considered to be an appropriate proxy for this sector as a whole. Consequently, 16 per cent was the figure used to determine the amount of commercial loans provided to small business by the foreign banking sector. This percentage was then applied to determine the amount of lending provided to SMEs in the form of non-residential mortgages and lease contracts.

The amount of SME lending in Atlantic Canada was determined using provincial data, provided by the CBA, on commercial loans under $1 million held by Hongkong Bank. According to the data, approximately 2.4 per cent of the value of the loans are loans under $1 million. This proportion was then allocated to the region. This percentage was then used to determine the proportion of SME lending to Atlantic Canada in the form of lease contracts and non-residential mortgages.

Credit co-operatives: Because no data were available on the lending activities of this sector to SMEs, the percentage of SME loans was determined based on discussions with industry. Overall, the reported ratio of estimated SME debt financing to total debt financing by credit co-operatives averaged 90 per cent. In this instance, SME lending refers to loans outstanding valued at less than $1 million. This percentage was applied to all categories of lending to determine the respective SME figures for both 1996 and 1997. The amount of financing provided to SMEs in Atlantic Canada for 1996 and 1997 was determined using Statistics Canada data on credit union loan portfolios by province.

Trust and mortgage loan companies: The SME portion of total business debt financing is estimated using actual lending data provided in confidence by the sector's largest firm, Canada Trust, and by applying an SME percentage of 50 per cent to remaining firms.
Using this methodology, the study takes a weighted average of the SME portion of financing for Canada Trust (which accounts for almost a third of all business debt financing) and the SME portion for the remainder to derive SME percentages for each category.
Based on the above calculations, it is estimated that for 1997, 63.2 per cent of non-residential loans, 55.6 per cent of commercial loans and 32 per cent of lease receivables held by trust and mortgage loan companies qualified as loans to SMEs. The same methodology was then used to arrive at estimates for 1996. The respective percentages calculated for 1996 were 67 per cent for non-residential loans, 34 per cent for commercial loans and 32 per cent for lease receivables.
The percentage of SME lending in Atlantic Canada was based on data provided confidentially by Canada Trust, which indicates that 2.7 per cent of the total value of non-residential mortgages are based in Atlantic Canada and that 4.2 per cent of total commercial loans outstanding were allocated to the region at year-end 1997. No data exists on lease receivables by province, but the study assumes that the leasing activities of this sector follow the same pattern as that for commercial loans. The percentage of 4.2 per cent was therefore applied to the total value of lease contracts with SMEs for both years to determine the Atlantic Canada share. Because no similar data were available for the previous year, the 1997 percentages were applied to the SME debt-financing figures for the sector to estimate the amount of financing based in Atlantic Canada for 1996.

Life insurers: Because no current data are available on the amount of debt financing provided to SMEs by the life insurance industry, this study uses 10.7 per cent - the percentage used for both the 1995 study Alternative Sources of Debt Financing and the 1997 study *What's new in Debt Financing for Small and Medium-Sized Enterprises ?*[9] This figure was obtained from data provided by OSFI in 1994 on the percentage of non-residential mortgages provided by life insurance companies and valued at less than $1 million. This data is no longer made available to the public.

Because no data on lease contracts with SMEs have ever been available, it is assumed for the purposes of this paper that SMEs also account for 10.7 per cent of the total value of lease contracts held by life insurance companies.

The amount of debt financing allocated to Atlantic Canada was determined using CLHIA data on total life insurance company holdings of non-residential mortgages by province. Using this data, it was determined that 4.4 per cent of all non-residential mortgages were based in Atlantic Canada. The percentages of 10.7 per cent and 4.4 per cent were then also used to estimate the total value of debt financing provided to SMEs in the region for 1996.

Specialized financial institutions: The portion of debt financing provided to SMEs was determined through interviews with several industry participants and with the Canadian Finance and Leasing Association. The interviewers asked members to provide information on their SME financing activities where an SME was defined as a company that had loans worth less than $1 million. Based on the responses given, the figure of 55 per cent was used to determine the portion of debt financing allocated to SMEs.

The percentage share of total business debt financing in Atlantic Canada (4.0%) was determined on the basis of interviews with participants in the industry and from data provided in confidence by GE Capital. These percentages were also used to estimate respective SME numbers for 1996.

[9] See *What's New in Debt Financing for Small and Medium-Sized Enterprises* by Catherine Moser and Pierre Vanasse, Ottawa: The Conference Board of Canada, October 1997.

Crown corporations: Data for loans outstanding for the nation overall and for Atlantic Canada are provided by BDC and FCC in their 1996 and 1997 annual reports. Based on interviews with BDC officials, approximately 80 per cent of the total value of BDC's loan portfolio in 1997 consisted of loans under $1 million. This percentage was then applied to calculate the total value of loans outstanding with SMEs at year-end 1997. For 1996, data provided by the BDC indicated that approximately 78 per cent of the total value of loans outstanding were valued at less than $1 million.

The percentage of FCC loans outstanding provided to SMEs (loans under $1 million) is reported to be close to 100 per cent so the numbers provided in the 1996 and 1997 reports are used directly.

Credit cards: Estimates of SME use of credit cards for both 1996 and 1997 were developed using data provided by credit card companies on the number of credit cards in circulation and average purchases per card. These data were combined with data provided by Statistics Canada on the number of businesses with fewer than 200 employees and with data provided by the 1997 Thompson, Lightstone & Company study on SMEs use of credit cards.[10]

According to this study, approximately 54 per cent of Canadian SMEs use either business or personal credit cards to finance their operations. With respect to Atlantic Canada, the study reports that 50 per cent of all SMEs in the region use credit cards to finance business operations.

The 1996 study by Thompson, Lightstone & Company reported that 44 per cent of Canadian SMEs and that 53 per cent of all SMEs in Atlantic Canada use credit cards to obtain financing in 1996.[11] Using this number and data provided by Statistics Canada on outstanding credit card balances for the major banks by province, credit card usage by SMEs in Atlantic Canada was calculated.

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[10] Thompson Lightstone & Company Limited, *Small and Medium Sized Businesses In Canada: An Ongoing Perspective of their Needs, Expectations and Satisfaction with Financial Institutions*, (Toronto: Canadian Bankers Association, 1997.

[11] Thompson Lightstone & Company Limited, *Small and Medium Sized Businesses In Canada: Their Perspective of Financial Institutions and Access to Financing,* Toronto, April 24, 1996.