

Recommendations and Management Response

GENERAL COMMENTS

Overall, the findings of the evaluation are positive. The evaluation concludes that the rationale for the program remains valid - that there is an ongoing need to facilitate access to asset-based debt financing. Furthermore, the report concludes that: there are no viable alternatives to a federally managed program, it is consistent with government-wide and departmental priorities and there is no significant overlap and duplication with other government support programs. Specific recommendations and the management response to them are given below.

Recommendation 1:

Industry Canada should carry out an analysis of the employment displacement impacts of CSBF loans and, if possible, also the indirect (supplier-related) and induced (re-spending related) employment impacts.

Management Response:

Agree in principle. Over the past years Industry Canada has carried out a number of studies to determine the program's impact on job creation. The methodology of the 2002 Job Impacts study commissioned to Compas Inc. did include an attempt to obtain a measurement of the indirect employment impacts (via the borrowers themselves) based on the best available methodology but it was unsuccessful in obtaining such measures. The borrowers were simply not in a position to provide this type of information with any degree of certainty and there are confidentiality issues which make it difficult to obtain this type of information from any source other than the borrower. Industry Canada will examine the feasibility of including job displacement effects measures (from sources other than the borrower) within the methodology of future employment impact studies. However, it is also important to note that, even with displacement effects, net economic gain can result if the new firm is more efficient than the firm it displaces. This is especially relevant to the CSBF Program where loans are used to modernize the production process and at times raise labour productivity.

Recommendation 2:

Industry Canada should carry out a study of the economic benefits (i.e., net income benefits) of the CSBF Program for the Canadian economy as a whole.

Management Response:

Agree in part. In 2004, Industry Canada commissioned Statistics Canada to conduct a study of the impact of the CSBF Program at the firm level. The study followed the 1999/2000 cohort of borrowers both before and after they borrowed under the program and compared them and their performance to a group of SMEs which did not use the program. It found a positive impact on CSBF borrowers' sales, revenues, employment, survival and taxes paid.

Industry Canada chose this approach to ensure that benefits could be accurately attributed to the impact of the program. Since the CSBF Program is used by around one percent of Canadian employer businesses in a given year, economy-wide benefits would be difficult to discern and attribute, as indicated by a 1992 study which took that approach. While Industry Canada will continue to assess the impact of the program on CSBF borrowers, given the concerns about attribution and accuracy of measurement of the job displacement effects, noted earlier, we will continue to focus on program impacts at the firm level.

Recommendation 3:

Industry Canada should give explicit recognition to the fact that cost recovery and incrementality are inversely related, and decisions should be made regarding:

- the level of [full financial] incrementality that would be acceptable to the government, and
- the associated level of cost recovery that would be acceptable to the government

Management response:

Agree in part. While Industry Canada has acknowledged the relationship between incrementality and cost recovery, the recommendation implies that program administration could be directed towards achieving specific levels of incrementality and cost recovery acceptable to the government. As Industry Canada does not have the authority under the *Canada Small Business Financing Act* to direct the credit decisions of lenders, it would not be feasible to set such specific levels and manage the program so as to meet them. Furthermore, program performance (in terms of incrementality and cost recovery) is also partly a function of factors beyond the control of the department such as the performance of the Canadian economy and the evolving competitive forces in the financial services sector. However, the objectives of incrementality and cost recovery are of critical importance to the relevance and sustainability of the program and, as such, the department remains committed to providing information on the program's performance in these areas, as it has in the past. In this context, the department will review the feasibility and utility of such levels as a tool for program management.

Recommendation 4:

In order to increase the degree of cost recovery of the program, Industry Canada should seriously study and discuss with its stakeholders a restructuring of the program that would involve some combination of the following:

- removing the cap on interest rates on CSBF loans;
- eliminating the registration fee and increasing the administration fee (probably structured as a percentage of higher interest charges), and
- reducing the percentage of loan losses covered by the government.

Management response

Agree. In the coming months, stakeholders will have the opportunity to discuss the merits of possible program changes, including these suggestions.