FOCUS GROUP SESSIONS WITH CURRENT AND POTENTIAL BORROWERS UNDER THE SMALL BUSINESS LOANS ACT (SBLA)
- FINAL REPORT -

Prepared for:
Industry Canada

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INTRODUCTION

BACKGROUND AND PURPOSE

As part of a comprehensive policy review of the Small Business Loans Act (SBLA), Industry Canada wished to conduct research with SBLA stakeholders -- both current borrowers and potential borrowers. The research will be used to provide input to policy changes that are currently under consideration.

Specifically, the objectives and priorities of the research were:

- To get stakeholders' reaction and feedback on various policy options
- To gain insight into the perceptions of the SBLA program from both current and potential borrowers
- To probe the experiences of the borrower community with the SBLA program.

APPROACH

A total of 15 focus groups were conducted between April 24 and May 11, 1998 as follows:

	Total	Profit Sector	Voluntary Sector	Aboriginal
Halifax, Nova Scotia	2	2	--	--
Montreal, Quebec (French)	3	2	1	--
Wendake, Quebec (French)	1	--	--	1
Toronto, Ontario	2	2	--	--
Winnipeg, Manitoba	2	2	--	--
Westakiwin, Alberta.	1	--	--	1
Vancouver, British Columbia	4	2	1	1
Total	**15**	**10**	**2**	**3**

Note: 1 group in the Profit Sector in Halifax and Winnipeg were conducted with rural/small town businesses -- i.e., drawn from within a 50 km. radius of the respective Census Metropolitan Area.

Qualified respondents for these sessions were defined as follows:

Profit Sector

Two broad types of companies were represented in the Profit Sector groups.

Current Borrowers

The source for the sample was the SBLA's database of approximately 58,000 past two year borrowers (1996/97 and 1997/98). In the selected markets, postal codes were matched up with appropriate telephone directories in order to locate current borrowers. Potential participants were then selected from this list on an every Nth basis. Where an individual's name was provided in the database, that person was recruited. If only a company name appeared, the owner/manager or President of the company was asked to participate.

Potential Borrowers

Companies were identified using a combination of sources such as telephone directories and networking. To be included in the study, companies had to fall under $5 million sales volume and to be conducting business primarily in Canada, criteria that reflect the same parameters necessary to qualify for an SBLA loan. The qualified participant from any company was the owner/manager or President of the firm.

- In each group of current and potential borrowers, we established a quota for:

  Gender: 35% women; 65% men
  Type of Borrower: 70% current; 30% potential

- We also targeted for a good cross-section of businesses across:
  - -- Industry sector
  - -- Age of business
  - -- Number of employees
  - -- Business sales volume
- Within current borrowers, we aimed for a broad range based on size of SBLA loan

This "tombstone" type of information from the screening process has been summarized and included in Appendix I, based on total participants.

Voluntary Sector

Organizations were identified using a combination of sources such as telephone directories and networking. To be included in the study, organizations had to fall under $5 million in annual revenue. The qualified participant from any organization was the treasurer, secretary or managing director.

We aimed for a good cross-section of organizations in terms of type of organization and the length of time each had been in operation. A summary of the characteristics of participating organizations has been included in Appendix I.

Aboriginal Businesses

Companies were identified using a combination of sources -- networking and umbrella organizations. To be included in the study, businesses had to be located on a reserve, with sales volume under $5 million and to be conducting business primarily in Canada. The qualified participant from any company was the owner/manager or President of the firm.

As with other groups, we targeted for a good cross-section of companies to be represented in the sessions. The summary of the characteristics of participants are summarized in Appendix I.

In advance of all the groups (regardless of type), materials to be discussed during the sessions were pre-placed with qualified respondents. People were asked to review these materials (a maximum of 4 issue papers) prior to attending the group discussion itself.

A copy of all the study materials, in both languages, is included in Appendix II.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

PROFIT SECTOR

PERCEPTIONS OF AND EXPERIENCES WITH SBLA PROGRAM

- The level of knowledge about SBLA is quite variable among both current and potential borrowers.
- There is a strong sense among businesses that there is "no place to get information about the SBLA program".
- The perception is that financial institutions do not promote the SBLA program because small loans limit the revenue generating capabilities of financial institutions. Thus, SBLA loans are provided to businesses as the "loan of last resort".
- Most people commented that the actual paperwork process for their SBLA loan had been completed in a reasonable period of time.
- With regard to personal guarantees, most companies were asked to pledge the maximum allowable under the Small Business Loans Act (i.e., 25%), with long-established businesses being the exceptions.

POLICY OPTIONS

Maximum Loan Size

- Most people felt that the maximum loan size per borrower should remain at $250,000. This was seen to be a reasonable amount and to cover the financing needs of most small businesses at start-up and for expansion. However, they were almost equally split between those who opted for the 80% guarantee rate on loans above $150,000 and those who believed the status quo should be maintained (i.e., at the 85% guarantee level).
- To meet the cost-recovery objectives of the SBLA program, more people recommended that the guarantee rate be reduced from the current 85%. The second most often chosen option was to reduce the maximum loan size as a mechanism to achieve program cost-recovery. The least preferable option was an increase in interest rates (i.e., prime +3.5%).

Personal Guarantee

- Almost everyone agreed with the principle of personal guarantees, and thought that the status quo should be maintained, that is, financial institutions being permitted, but not required to take personal guarantees of up to 25% of the value of the loan granted under the SBLA program.

- Participants were asked to indicate what they considered to be a reasonable guarantee percentage for an SBLA loan and under what circumstances they believed personal guarantees should be required. Most could not set what they considered to be a reasonable percentage or come up with a general rule for requiring personal guarantees. They felt that all situations needed to be evaluated individually, on their own merit.

Eligibility of Fees

- Most people are in favour of maintaining the status quo -- prohibiting lenders from charging fees related to loan approval and loan administration. This is partly driven by negative feelings towards financial institutions (high reported profit levels, personal experiences with being "nickeled and dimed" on service fees), and particularly by the belief that financial institutions are already being well compensated for an SBLA loan at the current rates. Given the guarantees from both the government and the borrower, there is no perceived need for more fees.

Knowledge-Based Enterprises (KBEs)

- People were split on this issue, with as many arguing against including the financing of intangible assets for KBEs as supporting adjusting the program for KBEs.
- The major arguments for not adjusting the program were:
  - -- Perception that more KBEs fail than succeed, and that therefore, loans to these organizations represent a higher risk in general, particularly with regard to loans for intangible assets.
  - -- Other agencies already offer financing of this type to KBEs, so loans under SBLA would be redundant.
- Reasons given for supporting SBLA program adjustment to include KBEs were:
  - -- Ensuring the growth and development of these companies is seen by some to be synonymous with ensuring the economic viability of Canada and our ability to compete internationally. With the economy in transition and KBEs being perceived to be the wave of the future, it was felt that despite the potentially higher risk associated with the financing of intangible assets, it was a risk worth taking as a pilot project.
  - -- A few argued that some KBEs fell "between the cracks" of the other agencies that offered financing to KBEs, and as such the SBLA would not be a duplication of other government programs.
- Almost everyone felt that if SBLA program costs increased as a result of including KBEs, then these costs should be borne by the KBEs alone.

Exclusions of Types of Financing

- It should be noted that this was one of the three issue papers (working capital and security being the others) that required explanation of terminology and concepts that were beyond the experience of quite a few of the participants. The two most problematic in this issue paper were: The financing of the purchase of existing leasehold improvements and The financing of non-arm's length purchases of going concerns.

- Of the four areas identified for possible exclusion, the one most businesses would want to retain is financing of leasehold improvements (an integral part of operating a business either starting up or expanding, and an area that financial institutions are reluctant to finance under conventional banking terms), whereas, people were split down the middle on retaining or excluding financing of the purchase of existing leasehold improvements.

  -- Those who supported maintaining this type of financing did not see any difference between the financing of leasehold improvements in general and improvement to existing leaseholds.

  -- Those who argued for excluding this type of financing did so either because they felt that these improvements had little resale value and could not be used as security for a loan or because they did not view these types of improvements as an investment in the business.

- Most felt that both the financing of the purchase of existing franchises and non-arm's length purchases of going concerns could be <u>excluded</u>.

- The main reasons given for supporting the exclusion of the purchase of existing franchises were:

  -- Quite a few have the perception that there are too many franchise opportunities available for purchase. As a consequence, they are concerned about the ability of financial institutions to identify those that are legitimate vs. those that are not.

  -- A large part of the purchase of a franchise is the value of the name, which in and of itself has no tangible value and would be worth little in the case of failure of the franchise. In the event of default, it is not the franchiser but the franchisee who is personally responsible for a loan.

- The main arguments for excluding the financing of non-arm’s length purchases of going concerns were:

  -- This could be financed under a regular bank loan since the business being assessed in terms of risk has a track record.

  -- If the personal guarantee of the borrower in this situation is deemed insufficient, then additional guarantees should be put on the line by those who are benefiting from the sale, not the government and the public.

  -- These purchases are seen to be open to abuse -- i.e., inflated prices and thus, to represent a greater opportunity for "creative accounting". In comparison, most argued that this kind of situation is far less likely in an arm’s-length evaluation of the business and its assets.

  -- This type of financing is not seen to contribute to the expansion or growth of business. Rather, it is more of an inheritance financing plan.

Security

- Most people agreed with the following option: Where the borrower disposes, at arm's length, of the secured assets, the lender may release related security provided that the proceeds of the sale are applied in the reduction of the loan. People felt that if the asset for which the loan was granted is sold, then the loan must be repaid.

- As many supported as opposed the following provisions:

  Where assets financed under the SBLA have little liquidation value, lenders should be allowed to take alternate security of equal or greater market value to the assets financed

  Where the loan is for leasehold improvements and the tenant is related to the owner of the building, the real estate would be required as security

- The main reasons for agreeing that alternate security should be allowed were:

  -- If the asset being financed has little liquidation value, then borrowers should back the loan with something else.

  -- *"I think it is only logical and reasonable for someone who is in a position to lend you money to expect that there be some security in the event of default -- but only equal not greater."*

  Beyond that, there was some concern that if financial institutions were not given this kind of flexibility, they would not grant the loan.

  -- A business that borrows must be willing to take risks in the same manner as the lending institution takes a risk.

- The main reasons for disagreeing that alternate security should be allowed were:

  -- This was seen as an impossible requirement for start-up businesses. They have no "other" security to pledge and the concern was that start-up businesses would then be turned down for loans even under the SBLA program.

  -- Some felt that if this provision was allowed, they saw no advantage to the SBLA.

  They further argued that the default rate (i.e., about 5%) did not justify the inclusion of this type of security requirement by financial institutions.

- There were three main reasons for supporting taking real estate as security where the tenant is related to the landlord:

  -- This is an area where some people saw a greater risk for fraudulent behaviour, and it was felt that taking the building as security would reduce the occurrence of this type of situation.

  -- Both the tenant and the landlord benefit from the leasehold improvements and therefore, it is appropriate for the building to be pledged as security.

  -- Given that leasehold improvements are a "soft" asset, with negligible resale value, this was considered to be a reasonable security measure.

- There were also three main reasons given for not supporting taking real estate as security:

  -- For some people, it seemed unfair and inappropriate to ask a family member to risk their assets for another family member's business.

-- A few people questioned the underlying assumption of this security measure -- the suggestion that because the lessee and owner were in some way related, they would be more likely to collude and to defraud the SBLA than those with arm's length relationships was considered unpalatable and unbelievable.

-- The owners of the buildings most likely have no direct link to the organization being financed and therefore should not be asked to risk their building.

Working Capital Financing

- Participants were split, with as many people preferring to continue to exclude working capital financing under the SBLA as would prefer to include it.

- The primary reasons given for recommending that the SBLA program continue to exclude working capital were:

  -- This type of financing represents greater risk than fixed-asset financing, requiring financial institutions to involve themselves in the financial management of the company, on a day-to-day basis. Whereas financial institutions may be well-equipped to assess the cost of equipment, for example, they are neither trained nor have what it takes to be essentially "partners" in the business.

  -- Some expressed concern about how companies who received working capital financing would actually use the funds. Thus, this is another aspect of risk -- the ability of the company to pay back the loan is not mitigated by liquidation of a secured fixed asset, but rather is reliant on the sound management of the company and the ability of the company to run profitably.

  -- Quite a few expected a higher default rate, which would impact negatively on the entire SBLA program, ranging from higher costs for all borrowers to putting the entire program in jeopardy.

  -- Participants commented that small businesses already have access to working capital from other sources, and that these agencies are better structured to deal with the working capital requirements of companies.

- The main reasons for supporting a pilot project are:

  -- One of the major obstacles small businesses identify is the unavailability of working capital financing, particularly from traditional lending institutions. This lack of funding is even more pronounced among KBEs because the lag time between product development and sale can be quite long and there is little financing available to bridge the gap.

  -- Quite a few people disagreed that small businesses already have access to working capital loans through other sources. Others also pointed to experiences with BDC in particular where they have either been turned down or offered loans at rates they could not afford.

  -- Notably, a number of people who voted to include working capital financing under the SBLA as a pilot project only did so on the assumption that there would be strict conditions attached to how the company could spend this money. Therefore, in essence,

they were agreeing with those who felt there was an increased risk associated with this type of financing.

- If program costs increased as a result of including working capital financing, these increased costs should be borne by those benefiting from these types of loans rather than all SBLA borrowers.

Voluntary Sector

- Most businesses recommended that the SBLA program not be adjusted to include the Voluntary sector. The main reasons given were:
  - -- Loans to the voluntary sector, even on fixed assets, were considered to be more risky -- how would these organizations repay the loan; how would personal guarantees work (i.e., who would be on the line to guarantee the repayment.
  - -- Given the nature of voluntary organizations, with high turnover both in staff and at the director level, there is no accountability. Thus, inclusion of this group in the existing SBLA program was considered to be impractical and unrealistic.
  - -- Because of the higher risk of default expected from these organizations, some felt inclusion of the voluntary sector would put the entire SBLA program in jeopardy, and that therefore a different program was called for.
- It was not obvious to most people that the voluntary sector and small business compete in any way. Even in areas where they overlap (e.g., a kennel and breeder vs. the SPCA), people felt there was no real competition between the two -- they were serving different target groups and meeting different needs.

VOLUNTARY SECTOR

PERCEPTIONS OF AND EXPERIENCES WITH SBLA PROGRAM

- The level of knowledge about SBLA, either its existence or how it operates, was almost non-existent among voluntary sector organizations.

THE FINANCING NEEDS OF THE VOLUNTARY SECTOR

- Most not-for-profit organizations depend on government grants to fund their operations and on donations or fundraising activities for their programs. A few non-profits are self-funded -- i.e., they are totally dependent on association membership fees.
- Voluntary sector organizations see themselves as having many of the same problems as small business in meeting overheads (e.g., payroll and rent) and operating expenses (e.g., telephones, computers) but as rather worse off in their ability to forecast revenue, either in the short or long-term:
  - Government grants are provided on a yearly basis, based on a schedule provided by the organization to the government. There is some uncertainty as to the renewal of the grant in the first place, and secondly about the amount that will be granted.

    Also their experience is that it is often easier for organizations to access funding for special projects than for the financing of on-going operations.
  - Some organizations do not qualify for government funding. Thus, they are totally dependent on their ability to raise funds, on public donations, or on membership fees.
  - Although a number of the organizations do have a line of credit at a financial institution, almost all them indicated that financial institutions were uninterested in dealing with their sector on day-to-day banking requirements, let alone taking a risk on loans.
  - There was some recognition of the potential downside for financial institutions in dealing with loan default with voluntary organizations, particularly those organizations that are seen to do "good works" to benefit society (e.g., those dealing with the disadvantaged). As one individual put it: "*If the bank forecloses on a small business that's one thing. Seizing the fixed assets of a charitable organization can have significant ramifications*.

THE VOLUNTARY SECTOR ISSUE PAPER

- Voluntary sector organizations were split on whether or not the program should be adjusted to include them.
- The rationales given for not including voluntary organizations in the SBLA program were:
  - Most were concerned about their ability to repay the loan given the uncertainties of cash flow -- i.e., some organizations depend on one source of financing that could disappear in any given year and therefore, the loan would remain unpaid.

-- Some subscribe to the philosophy that *“If we don’t have the money, we don’t spend it”*.

-- A few operate quite satisfactorily without loans, and would not expose themselves to this type of risk.

-- Some feel that if they were allowed to borrow, the message communicated would be that they need less support from their regular donors and then these sources of financing may vanish. As well, there were two other concerns noted:

* Could result in less creativity and less commitment to fundraising activities on the part of organizations.

* May impact negatively on ownership of responsibility for projects and, importantly, on responsibility for loan repayment itself in self-funded organizations.

-- A few argued that while the ability to borrow for fixed assets should be extended to the voluntary sector, with some of the features of the current SBLA program, it should not be under the existing SBLA program. They feel that they too should be entitled to government backing but under a separate program.

They argued that given their raison d’être, namely “to do good works”, they should not be paying the same rates as the for-profit sector. By definition, they are not in the business of generating “profits.” They are providing much needed services to the community, for the benefit of all. Therefore, since whatever money they are able to save on bank charges would go back into the community and not into their own pockets (as in the case of the for-profit businesses), they wanted lower rates in recognition of their contributions.

They also did not accept the premise that SBLA program costs would increase if they were included. It was felt that there would be a lower default rate by this sector and in fact, that they would be the ones subsidizing for-profit sector bankruptcies. And on that basis, they also argued that they should be paying lower rates.

- Many of the organizations that voted for the inclusion of the voluntary sector in the SBLA program, had difficulty coming up with reasons or situations in which a non-profit organization would need to borrow money on the same scale as a small business. This perspective, coupled with the opinions expressed about the uncertainty of funding and ability to repay loans was shared by most organizations around the table. Nonetheless, a number of people argued that, on balance, loans to their types of organizations were potentially no more risky than loans to some small businesses:

-- Many of the organizations had been around for 20 or more years, and expected to be around for many more years to come. The same could not be said for start-up businesses currently funded under the SBLA.

-- They also pointed out that many not-for-profit organizations are incorporated -- therefore, there would be no problem in providing security on the same basis as small businesses.

- Other reasons given for supporting the inclusion of the voluntary sector are:

-- Provides the organization with more financing options.

-- A few organizations questioned why the voluntary sector had been left out of the SBLA program in the first place. Given that these organizations have put the personal assets of

directors on the table for many years, inclusion in the SBLA would not represent a major change for these organizations.

-- A few felt that if they could borrow money under the SBLA:

  * Their organizations would be able to function more efficiently (e.g., purchase a stamp machine for a major donation drive rather than have volunteers manually affix stamps on envelopes) and,

  * Would remove some day-to-day operational concerns, which in turn would create an environment in which the organization could focus more on serving the needs of the community.

- There was a great deal of discussion in response to the question about how costs for the SBLA program should be allocated if making loans to the voluntary sector resulted in higher program costs to SBLA users.

- Quite a few did not accept either the premise that the voluntary sector's inclusion in the program would drive up the costs or that they represented a higher risk than small businesses. These views had a number of implications:

  -- It was one of the main reasons that a few people changed their original position on whether or not the program should be adjusted. They initially said "yes" to being included in the SBLA program and then opted out for a separate program with similar features (government backing) but lower fees.

  -- It resulted in most, but not all organizations opting for the option that all SBLA borrowers should pay for the increase in program costs. In other words, based on their beliefs and assumptions of no greater risk or default for the program on their part, neither they nor other SBLA borrowers would end up paying any higher costs.

- Other reasons for supporting that <u>all</u> SBLA borrowers should pay more if program costs increased were:

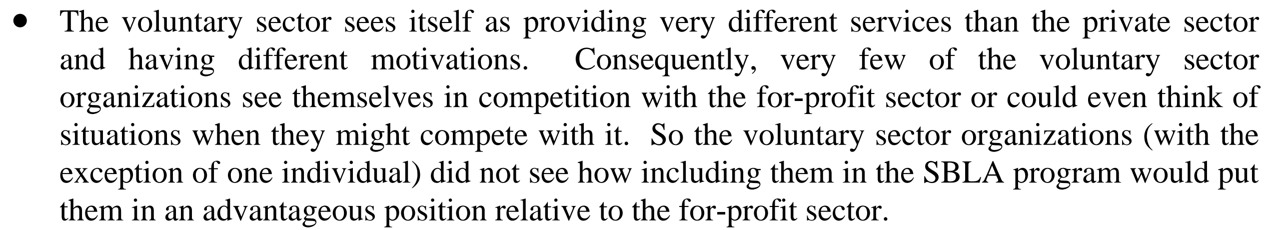
  -- The perspective that the voluntary sector provides valuable services to society yet does not generate a profit as small businesses do. Therefore, any added cost to the program should be borne by all.

  -- Businesses in different sectors are already subsidizing one another under the current SBLA program -- i.e., some sectors of the economy may be more prone to default than others but they are not paying differential rates. Therefore, even if it were the case that the voluntary sector inclusion resulted in increased program costs, it would be unfair to isolate this sector and treat it differently from the others.

- Those who felt the voluntary sector should pay higher program costs offered the following types of reasons:

  -- Some felt that it was unfair for the for-profit businesses to subsidize the non-profit or charitable organizations.

  -- A few believed that they were no different from small businesses and thus the non-profit and profit sectors should be treated equally.



- The voluntary sector sees itself as providing very different services than the private sector and having different motivations. Consequently, very few of the voluntary sector organizations see themselves in competition with the for-profit sector or could even think of situations when they might compete with it. So the voluntary sector organizations (with the exception of one individual) did not see how including them in the SBLA program would put them in an advantageous position relative to the for-profit sector.

ABORIGINAL ON-RESERVE BUSINESSES

PERCEPTIONS OF AND EXPERIENCES WITH SBLA PROGRAM

- The level of knowledge about SBLA was generally low. Only a few participants were aware of the actual existence of the program or knew anything about "business" loans in general.
- Although participants' awareness of the SBLA program was low, they were all aware of the broader issue with respect to on-reserve lending. All of them were aware of the fact that lending institutions could not take security for assets financed through loans made to borrowers living on-reserve.
- Although most participants understood the issue of on-reserve lending, they felt they did not fully understand the options under review or their true implications. Some did not know much about ACCs and felt ill-equipped to give an opinion.
- Only a few participants had had an SBLA loan. One was satisfied with the program, while another complained that the process had been too slow, making him lose 2 months of work. He also resented the 2% fee, which he claimed had not been explained to him by the bank.
- A common complaint was that there was not enough relevant, timely information getting to entrepreneurs about available financial support programs, including the SBLA program.

THE FINANCING NEEDS OF ON-RESERVE BUSINESSES

Sources of Financing and Debt Capital Uses

- Sources of financing included personal savings, financial support from family, traditional lending institutions, financing institutions owned by the Bands, Aboriginal Business Canada and federal programs made available by departments such as Indian and Northern Affairs Canada and Industry Canada.
- Most successful borrowers received term loans, and some obtained lines of credit. A few participants had received what they referred to as "grants" from Aboriginal Business Canada (ABC) or loans from other federal programs like the Canadian Aboriginal Economic Development Society.
- Most often, entrepreneurs started their businesses with their own savings or that of their families, or with grants from the federal government. When they sought loans after start-up, they most often got them from ACCs or traditional lending institutions. Those that had succeeded in getting financing from banks, including SBLA loans, usually had assets off-reserve such as a home or a cottage or had a Band Council Resolution to back them up. A large portion of participants had tried getting loans from traditional lending institutions but had failed due to the fact that their assets were on-reserve. Consistently, women had difficulty securing loans; they usually needed backing from their husbands.

- Most participants had sought financing for fixed assets like equipment and vehicles. Some had sought financing for working capital but only a few were successful in getting it. Many entrepreneurs felt a need for further financing for both fixed assets and working capital usually to expand their businesses. Only ACCs were reported to give out loans for working capital.

Level of Satisfaction with Programs and Services

- Generally, participants expressed some frustration with all lending institutions. Traditional banks were viewed as the least cooperative of lenders. They were accused of being out of touch with the reality of aboriginal entrepreneurs, asking for too much security and being unwilling to take any risk.
- Some participants felt that financial institutions were condescending towards Aboriginals. Only two participants, both lawyers, were satisfied with their dealings with the banks in getting their lines of credit established.
- More than half the entrepreneurs who had sought "contributions" from Aboriginal Business Canada (ABC) were frustrated with their experience. They complained that ABC was extremely slow, patronizing, uninterested in learning about their businesses and generally unresponsive. However, some participants were happy with ABC's service and did comment that approved "contributions" were granted quickly.
- Aboriginal Capital Corporations scored highest in terms of borrower satisfaction. Participants felt that ACCs responded quickly, gave excellent support services like assistance with bookkeeping and were willing to loan money to lenders that had poor credit ratings as long as they felt that the borrower was serious. Another advantage was that ACCs were perceived to be very flexible. The only complaint about ACCs were their interest rates, which are generally higher than traditional banks.
- In one group, participants had sought financing from the financial institution owned by the Band. They were generally dissatisfied with the experience claiming that this institution was very slow in making decisions and felt that nepotism was a factor.

Accessing Funds and its Cost

- In all groups, there was agreement that accessing funds was more of an issue than the cost of the funds. They felt this was true especially for aboriginal businesses on-reserve due to the access restrictions (i.e., under the Indian Act). Most participants agreed that within reason, they were willing to pay higher rates if it was the only way to get access to funds.

Needed Elements of a Lending Program

- When asked which elements of a lending program would best respond to the needs of the aboriginal entrepreneurial community, all groups mentioned flexibility. They were referring to flexibility of security requirements, use of funds and types of loans granted.
  - -- They felt that creative solutions have to be found to get past the security restrictions which make on-reserve lending so difficult.
  - -- Some participants felt that loans often came with strings attached and wished for programs that would allow them to decide how best to invest the loan capital. Cash flow management was said to be an ongoing challenge for small business yet few lending programs support businesses in this area. A program that helped entrepreneurs absorb the highs and lows of cash flow would be welcome.
  - -- One group also mentioned that the idea of lending circles should be explored because it is a format that is viewed as being in tune with the aboriginal culture.
- Another desired feature is one that allows entrepreneurs to use the debt capital to pay for expenses incurred shortly before the loan is approved.
- As important as flexibility was the speed with which requests are processed. Participants felt that lending institutions and programs generally could not respond quickly enough considering the speed at which small business must operate to seize opportunities. All agreed that timing was a critical factor to the success of small businesses.
- Another important factor was that lenders or administrators of programs take an interest in the operations of the entrepreneur and the business environment they operate in. It was generally felt that lenders did not understand the aboriginal business community.
- Groups also mentioned the importance of support and follow-up. They would welcome guidance in financial matters like bookkeeping and accounting. They wished for a source of information and advice about their business decisions. Only ACCs were said to provide such support.
- Finally, although not the most important issue, interest rates were of concern. Participants felt that small businesses can not afford very high rates.

POLICY OPTIONS

On-Reserve Lending

- Most people felt that a separate program similar to SBLA should be introduced to stimulate lending to aboriginal entrepreneurs living on and off-reserve. Although participants all recognized the difficulty posed by the security access limitations of the Indian Act, there was no clear agreed upon solution to the problem.
  - -- Although most people voted for this option, they did so in part by process of elimination and did not have clear recommendations to offer in terms of what this separate program should consist of. They generally had in mind a new program that would increase their

access to debt capital and be more responsive to their needs; one that would be "all Indian", sensitive to native issues and understanding of the way of life on-reserve.

- -- Speed in processing loans was also mentioned again as an important feature of a program that would be successful in meeting the needs of the aboriginal business community.
- -- Other suggestions made included that borrowers contribute less than 10% of the value of the loan and that a creative solution be sought to the security access problem for on-reserve businesses.

- Participants were asked what they would consider reasonable security requirements in cases of land and premises loans made on-reserve, given that borrowers do not individually own the land. Responses included:
  - -- Any off-reserve assets
  - -- Any moveable assets
  - -- Sweat equity; if someone has been working hard for years, the lenders should recognize that as a commitment to the business
  - -- Past success of the business
  - -- Use of Band Council Resolutions should be encouraged to provide for security.

- The two other options offered: Continue to exclude on-reserve lending under the SBLA for non-incorporated borrowers except for conditional sales contracts and Make changes to the SBLA legislation to favour on-reserve lending by removing, for SBLA loans only, security and access restrictions found in the Indian Act were both considered to be unacceptable:
  - -- Not one single participant chose the option to maintain the status quo. They felt that continuing to exclude on-reserve lending did nothing to improve their access to debt capital.
  - -- Participants rejected the option to make changes to the SBLA legislation because:
    - * They felt it may be a first step towards erosion of their rights.
    - * They did not believe it was possible to make an exception to the Indian Act by changing the SBLA.
    - * Even if changes were made, they did not feel that the SBLA program would meet all the needs of the aboriginal business community anyway.

- Some did not vote for any of the three proposed options but suggested a fourth -- i.e., improving the ACC programs to increase access to funds for on-reserve aboriginal businesses. They were skeptical that any government program would successfully meet their needs. Further, they felt that the Aboriginal Capital Corporations were best suited to provide the needed service and that creating an additional program would be a duplication of the ACCs. They did add however that even ACCs needed to be changed in order to better address needs of businesses -- i.e., lowering interest rates.

- All participants felt that if the SBLA program costs and default rate increased as a result of providing higher risk loans then the costs should be borne by only the SBLA borrowers in the specific category of loans that are responsible for the higher costs and default rate.

Importantly, participants interpreted this question to be about risk associated with different classes or types of business rather than risk associated with lending to on-reserve Aboriginal businesses vs. non-Aboriginal businesses.

Eligibility of Aboriginal Capital Corporations (ACCs) as Eligible SBLA Lenders

- A majority of respondents chose the option to include ACCs as eligible SBLA lenders.
- Reasons for supporting this option included:
  - -- A desire to support ACCs and a belief that including them would be beneficial to aboriginal businesses through lower interest rates. Even though participants were told that including ACCs as eligible lenders did not necessarily mean that interest rates would decrease and that the 2% fee applied, they still felt that they could only benefit from it.
  - -- A belief that including ACCs would improve businesses' access to loans by creating a more 'approachable' lending channel and one that would give out loans more freely to on-reserve businesses -- i.e., be willing to take more risks.
  - -- As aboriginal owned financing institutions, ACCs should have the right to deliver SBLA loans.
  - -- Given a choice, respondents said they would favour approaching an ACC over a traditional lender because ACCs would be culturally sensitive and familiar with the particular band (assuming of course that the speed of processing loans were adequate). Generally participants said they would be prepared to pay the higher rate charged by ACCs, but within reason.

    One suggestion was that the government provide them with more support allowing them to lower their rates to match the banks' rates.
  - -- Participants expressed a preference in supporting an aboriginal run lending institution over a traditional one.

DETAILED FINDINGS:
PROFIT SECTOR

CONTEXT OF GROUPS

Across the board, there are two important observations about participants in these sessions to bear in mind:

1) The level of knowledge about SBLA is quite variable. Almost none of the potential borrowers (including the voluntary sector) were aware of the existence of the program prior to being asked to participate in the research and the amount of information provided to them about the details of the program was limited. Some compensated for their low level of knowledge by contacting bankers, accountants or friends to obtain basic understanding of the program. However, most did not seek other sources of information, and as such, "worked it out" by themselves or as the sessions progressed.

   The level of knowledge about the details of SBLA was also quite variable among current borrowers. At one extreme, there was a participant who claimed not to have been aware that his loan had been granted under the program. At the other extreme end, there were a few very knowledgeable businesspeople in the sessions who had or currently have multiple SBLA loans for their operations. Most people fell somewhere in between these two ends. (It must also to be remembered that most participants were given a limited amount of time to review the issue papers before attending the group discussions.)

2) Quite a few people had difficulty in understanding the issues and the options. And this was the case among both current and potential borrowers, albeit more pronounced among the potential borrowers. They were either unfamiliar with the concepts themselves or the terminology used in the issue papers. For example:

   "What's a leasehold improvement?"

   "I need a definition of working capital financing before I can answer the question".

   "I found this very difficult to answer. The wording or their expressions of types (of exclusions) was confusing because there was an assumption made that I, reading this thing, would have full knowledge of the terminology they were using. Like non-arm's length."

Therefore, much in-group time was spent in providing not only relevant details about SBLA but on explanations of the options presented. As well, although "votes" were taken about which option(s) individuals recommended for the SBLA program before group discussion, it was not uncommon to have people switch positions as more information was provided either by the moderator or the other participants.

PERCEPTIONS OF AND EXPERIENCES WITH SBLA PROGRAM

The priority in these discussion sessions was to get feedback on the various policy options. As such, no specific in-group time was spent in any group discussing the SBLA program per se. Therefore, the following represents a compilation of comments or observations about the SBLA program made by people in the course of discussion of the various issue papers. Nonetheless, what still comes out clearly from the comments of borrowers, is that many would have had considerably greater difficulty getting their businesses off the ground or expanding their businesses had it not been for the availability of SBLA loans.

- There is a strong sense among businesses that there is "no place to get information about the SBLA program". This perception is reinforced by both the low level of knowledge about the program itself and the experience of current borrowers. Quite a few were not aware of the existence of the SBLA program until they went to seek financing. So, in effect, SBLA loans do not appear to be "consumer driven" but rather happenstance, at the discretion of the financial institutions -- i.e., the financial institutions make businesses aware of the existence of the program in the event they are unwilling to extend them conventional financing.

- Some people wondered why it was that financial institutions did not "promote" SBLA loans:

  "Is it advantageous to a bank not to promote the SBLA loan and then they can charge a greater interest rate? Is it to their advantage?"

  "Ask yourself why wouldn't the bank want to negotiate a small business loan and have 85% of their risk written off rather than negotiating directly with 100% risk."

  Opinions were offered, some based on experience, that despite the government guarantee, financial institutions still did not want to deal with small loans to businesses because small loans limit the revenue generating capabilities of financial institutions:

  -- They "cost" just as much to administer as larger loans

  -- Financial institutions do not have the discretion to charge normal administrative fees

- Some people commented that financial institutions position SBLA as the "loan of last resort":

  "It's like a last resort to even find out about the small business loan"

  "You go for your line of credit and your business is too new so you can't get a line of credit. You try other things and they don't work so the bank says why don't you get a small business loan."

- Most people commented that the actual paperwork process for their SBLA loan had been completed in a reasonable period of time. The few exceptions reported seemed to reflect more on financial institutions' "quality" of personnel and their "work habits" rather than on the SBLA program itself.

- With regard to personal guarantees, most companies were asked to pledge the maximum allowable under the Small Business Loans Act (i.e., 25%), with long-established businesses being the exceptions.

MAXIMUM LOAN SIZE

Description of Issue

Should the current maximum loan size of $250,000 per borrower be maintained or changed?

Possible Options

1. *Maintain the status quo with maximum loan size per borrower remaining at $250,000*
2. *Decrease the maximum loan size*
3. *Maintain the maximum loan size at $250,000 but require an 80% guarantee rate on loans above $150,000*

OVERVIEW

Four out of the ten for-profit groups reviewed and discussed this particular issue paper.

By far, most participants felt that the maximum loan size per borrower should remain at $250,000, albeit they were almost equally split between those who opted for the 80% guarantee rate on loans above $150,000 and those who believed the status quo should be maintained.

Of the balance, almost as many said the maximum loan size should be decreased as said the ceiling should be increased, an option which came up spontaneously in the groups.

THE MAXIMUM LOAN SIZE OF $250,000

This maximum loan size available under the SBLA program was seen by most to be "a reasonable amount" and to cover most of the financing needs of small business, certainly at start-up and even for those businesses that were expanding. The small group who wanted to see the limit increased felt that their needs would exceed the maximum loan size (e.g., purchase of high tech equipment or buses and airplanes etc.). As one respondent put it:

> *"Somewhere it told us how many jobs have been created because of this program.. Surely that outweighs the risk involved versus an 85% guarantee. So now why are were limiting it?"*

Maintain the Status Quo

In addition to the point we discussed above -- i.e., this level of financing was judged to meet the needs of most small businesses, those who opted for this option did so through process of elimination of the other two options presented:

- If maximum loan size were to be decreased, then the financing needs of small businesses may not be met and there would be a negative impact on those businesses ability to grow.
- If the loan size was maintained but the 80% guarantee imposed on loans above $150,000, there was concern that these types of loans would be even less attractive to financial institutions since they had more exposure and in turn would make it more difficult for small business to access financing at this level.

Maintain the Maximum Loan Size/80% Guarantee for Loans Above $150,000

There were several different rationales given for choosing this option.

- People recognized that this option could potentially make it harder for companies to access financing. Nonetheless, this option represented a good balance between allowing maximum amount to be available and potentially reducing risk of default. In other words, it was felt that this option would deter companies from taking the full amount "just because it was offered", and therefore could be less likely to result in companies being overburdened by debt and defaulting.
- Financial institutions will be forced to look more closely and more stringently at who they are lending money to given their greater exposure with a lower government guarantee. The feeling was that this, in and of itself would reduce the default rate.

  There were also some additional comments on this worth noting:

  a) A few felt that in fact the 80% guarantee rate should apply on the entire loan if a company is borrowing in excess of $150,000, and not just the portion above that amount. Again the issue was that the financial institution itself would have more at stake and would have to do more due diligence before granting the loan, probably resulting in lower bad debt write-offs.

  b) It was argued by a few that the portion of a loan being made for leasehold improvements should have an even lower government guarantee in consideration of the following:

  -- *"It's hard to recover because even though it's a fixed asset, it's not tangible, and once you've spent the loan on leasehold improvements, it's gone."*

  -- It doesn't really generate money per se (although others in the sessions had a different point of view).

  -- The perception that it is an area where first-time businesses overextend themselves and get into trouble.

In view of these points and most particularly given that leasehold improvements were considered to be a "soft asset", it was felt that the government should be protected and businesses should take on more of the risk themselves.

- Some people assumed (based on their experiences with and perceptions of financial institutions) that if the federal government's guarantee level dropped, then financial institutions would ask for a larger personal guarantee. And it was felt that under this scenario, businesses would be forced to look more critically and realistically at their business plans and financial needs given they were taking on a greater portion of the risk. This too was seen as another mechanism that would reduce default rates.

Decrease Maximum Loan Size

The reasons for choosing this particular option were quite mixed:

- A few chose it because they could not conceive of their business requiring anywhere close to the maximum amount allowed or could not see themselves in a situation in which they would take on that level of debt: *"I wouldn't be able to sleep at night thinking about having a loan that big."*
- Reducing maximum loan size available and assuming the “pot” available is still the same size, would free up funds in the SBLA program for other small businesses to access.
- Based on information provided in the issue (i.e., default rates were higher on larger loans), it was felt that the default rate would be reduced. It was further argued that if the overall default rate declined, then financial institutions could reduce the rates and the fees charged to borrowers for SBLA loans.

Increase Maximum Loan Size

There were a number of counterarguments tabled by participants who disagreed with the few that suggested that the maximum loan size should be increased:

- The federal government had to intervene with the financial institutions to ensure that the financing needs of start-up and small businesses were met *"because the banks are too big in this country to have to worry about us small businesses"*. But it should not be the responsibility of the federal government or the taxpayers of Canada to guarantee loans once businesses get to a certain level (i.e., established, with a track record, etc.) and certainly not excessive amounts (i.e., $500,000 as was suggested by one individual should be the maximum loan size).
- If the maximum loan size is increased, the funds available to other businesses will be reduced:

  > *"Any pie is only so big and the larger the pieces that are taken out, the less that is left for other people."*

COST-RECOVERY

In the context of the discussion on maximum loan size, participants were asked to consider the following 3 options and to choose the one they would recommend to meet the cost-recovery objectives of the SBLA program:

1. Reduce the maximum loan size
2. Reduce the loan guarantee rate from the current 85%
3. Increase fees to borrowers resulting in interest rates in the range of prime +3.5%

More people recommended that the guarantee rate be reduced from the current 85% than any other single option. The second most often chosen option was to reduce the maximum loan size as a mechanism to achieve program cost-recovery.

Reduce the Loan Guarantee Rate

Reasons for recommending a lower guarantee rate are:

- This option is not seen to affect the viability of the program:

  a) It does not affect the ability of business to repay the loan because fees are not increased (as in Option #3) and,

  b) The loan size is not reduced (option #1), so it does not affect the opportunities available to businesses to access needed funds.

  So the perception was that reducing the loan guarantee rate, would give financial institutions even more of an incentive to look at their criteria for loans more stringently and potentially the program would have less default. But, what became obvious in the discussions was that people were uncomfortable in having this lower level of guarantee applied to small loans. And so, when they chose this option, most (if not all) were recommending this for the larger loans only (the $150,000 plus as had been originally proposed in the issue paper).

- Others chose this option because it seemed to them that both the financial institution and the borrower had more at stake -- i.e., the borrower would have to be more certain of their direction and business plan (the assumption also being that a higher level of personal guarantee would be required to make up for the 5% government guarantee level being eliminated) and the lender would have to pay a little more attention during the application process.

Reduce the Maximum Loan Size

The reasons given for choosing reducing the maximum loan size as a way to meet the cost-recovery objective of the SBLA program are identical to those discussed in the previous section.

Increase Fees to Borrowers

The few that chose this option did so because this was viewed as the lesser of two evils -- the cost of borrowing money is secondary to the availability of funds. Thus, they would be willing to pay a higher fee if it means the money will be available, and in absolute terms, an increase of .5% was not deemed to be unduly onerous. (And most expected, that under Option #2, the personal guarantee requested by the financial institution would increase as the federal government's portion dropped, and this was a less desirable option.)

However, this was the least "preferred" option for most businesses:

- The financial institutions are already making a premium on SBLA loans and that is sufficient.
- Increasing the interest rate and thus increasing the burden on small businesses could in and of itself contribute to increased loan default.
- Financial institutions are making "obscene" profits and combined with their limited exposure on these types of loans (i.e. 85% guarantee by government) it would be unfair to allow them to charge anymore.

OTHER ISSUES

There was some skepticism expressed about the program's need for cost-recovery. People understood that about 5% of companies in the SBLA program defaulted and that this was approximately 5 times higher than the default rate for conventional loans. When they started thinking about this though, some reached the following conclusions:

1) 95% of companies have paid their loans.
2) The other 5% paid something before they defaulted and even if all the defaults are on the higher loan levels, the outstanding balance is a low amount in dollars.
3) *"If you consider the tax revenues generated and the employment created by these companies that have taken out SBLA loans (including those that did eventually default), I'm not sure I accept the government version that there are costs to be recovered."*

This view was held most strongly in Vancouver but did surface in sessions in other cities.

(Note: We hypothesize that if people in the sessions had more clearly understood that the 2% administration fee charged to all companies was in fact a pooling of funds to cover default, this particular view would have been more predominant.)

PERSONAL GUARANTEES

Description of Issue

Should the current provision for allowing personal guarantees up to 25% of the value of the loan be eliminated?

Possible Options

1. *Maintain the current provision which permits, but does not require, taking of personal guarantees of up to 25% of the value of the loan*

2. *Require that lenders take personal guarantees of up to 25% of the value of the loan. Give lenders the option to seize and dispose of the personal assets of proprietors and partners to cover the outstanding loan balance (up to 25% of the original value of the loan) in the event of default*

3. *Prohibit the taking of personal guarantees*

OVERVIEW

Five out of the ten for-profit groups reviewed and discussed this issue paper.

In all sessions across the country, almost everyone agreed with the principle of personal guarantees, albeit that most felt the current provision "which permits, but does not require, taking personal guarantees of up to 25% of the value of the loan" was the most appropriate policy option for the SBLA.

The general views expressed on personal guarantees are summed up by the following verbatims.

> *"You feel you are more involved in the decision to borrow. You consider your business decisions more carefully."*
>
> *"It is reasonable for financial institutions to ask for personal guarantees and I would do the same in reverse. It is not a good idea when they are giving you money if you demonstrate you aren't willing to put your own butt on the line."*

Maintain the Current Provision

There were a number of key reasons why businesses chose this option primarily, and they are summarized below according to the weight of opinion of participants:

- This provision as stated is reasonably balanced for both the lender and the borrower -- it commits the borrower but also lets the lender have some judgment on how much of a personal guarantee is required. The financial institution can even waive the personal guarantee if they have a very good relationship with the borrower and so it is an extension of the negotiated position that the lender and the borrower have already.

  "It gives both the lender and borrower flexibility in the level of personal guarantee being requested and being agreed to."

- *"Small businesses are infinitely variable in their financial situation and hence a greater risk to the lender -- i.e., cash flow, assets and future business prospects."* Therefore, this has to be taken into consideration along with the purpose of the loan in assessing risk and thus the level of personal guarantee that is required.

As such, it was considered to be prudent business practice to allow for this as a provision. However, it was felt to be unnecessary and undesirable to have a specific guarantee amount or to have a "requirement" as in option #2.

A key difference interpreted by some people between Options #1 and #2, related to what people perceived to be the generality of the items that would be "pledged" under Option #1 and the "specificity" of the items that would be required under Option #2. In other words, the same assets may need to be liquidated in the event of default, but option #1 appeared to give more discretion to the borrower as to what would be used to guarantee the loan.

In addition to these considerations, people reacted to another aspect of option #2, tipping the scale for them in favour of maintaining the current provision.

> *"Option #2 is more bureaucratic and throws more legal aspects into it, which in the case of default, would still not be all that much different. But, it hardens the position of the negotiation because it is an unnecessarily confrontational approach."*

A few made the following types of additional comments to support their choice of maintaining the current provision:

- The SBLA has worked very well in giving people the opportunity to get into business. However, if it was made tighter (per option #2) then perhaps it would not continue to serve the needs of small business as well.

- *"In view of the banks' reported profit margins, this whole plan (option #2) seems to be protecting banks more than anybody else and they certainly don't need that much protection."*

Require that Lenders take Personal Guarantees

The reasons given by the small group who opted for this policy option are best summed up by the following:

> *"Option #2 sounds "offensive" and scary but that's good. It would scare away those who have no intention of paying it back."*
>
> *"Makes people more responsible when they have something up against them and they will feel greater responsibility to meet their loan obligations."*
>
> *"In this situation, the lender is better protected and maybe more willing to lend to small businesses, if they can get this type of guarantee."*

Notably, a few people also objected to the clause "up to 25% of the original value of the loan". The point made was that if a company defaults, it's not the day after the loan was taken out, and as such, part of the loan had been repaid. Therefore the 25% should be on the *outstanding balance* and not on the *original value* of the loan.

Prohibit Personal Guarantees

The very few who held this position did so because it was seen as undue pressure on small business - i.e., an owner of a small business should not be required to risk all assets in the business and further, there is very little left to pledge as security since many have already invested most, if not all, their personal funds into the business.

WHAT IS A REASONABLE GUARANTEE PERCENTAGE

Most participants could not set a "reasonable personal guarantee percentage", and felt that all situations needed to be evaluated individually, on their own merit. This meant taking into account among other things, the risk of default involved, the liquidity of the asset being financed, the "track record" or "success" record of the company, it's longevity, etc.

There was some feeling however, that companies should not be required to "guarantee" more than the difference between what the federal government guaranteed and the shortfall for the banks -- namely, 15%. It was argued that they did have the fixed asset as chattel in addition to the personal guarantee in the event of default.

A few argued that for companies with previous loan histories (SBLA or conventional loans), the personal guarantee rate should be 0% in view of the government's 85% guarantee rate.

WHEN SHOULD PERSONAL GUARANTEES BE REQUIRED

Again most people felt that it was hard to come up with a general rule-of-thumb and so there was no consensus. For example:

-- Some felt that all start up businesses should be required to give personal guarantees.

-- Some thought that established businesses should not be asked for any personal guarantees or a very low personal guarantee based on their track record.

-- Some felt that all companies should be required to give some level of personal guarantee regardless of their business status as evidence of commitment to repay the loan.

-- A few borrowers said they were willing to give a higher than 25% personal guarantee to obtain the needed financing.

ELIGIBILITY OF FEES

Description of Issue

There are two fees charged under the SBLA: a 2% registration fee charged to borrowers and a 1.25% annual administration fee charged to lenders. Lenders are permitted to pass this 1.25% annual fee on to the borrower through the interest rate charged on the loan. However, the Act prohibits lenders from charging other fees to process SBLA applications.

Many claims under the SBLA program are rejected on the basis that unauthorized fees (e.g. application fee, term renewal) have been charged to potential borrowers by lenders. Lenders want to charge fees commonly charged under normal banking practices.

Possible Options

1. *Continue to prohibit lenders from charging fees related to loan approval and loan administration*

2. *Allow lenders to charge fees related to loan administration and loan approval*

OVERVIEW

Five out of the ten for-profit groups responded to this issue paper.

Most are in favour of maintaining the status quo and prohibiting lenders from charging fees related to loan approval and loan administration.

Continue to Prohibit Lenders from Charging Fees

The types of reasons given for this position are listed below, shown in order of relative weight:

- Partly, the choice of this option was chosen driven by business' negative feelings about financial institutions:
  - -- extremely high profit levels being reported by the banks;
  - -- personal experiences with being "nickeled and dimed to death" by financial institutions on service fees in general.
- Some believe that the financial institutions are already being well compensated for an SBLA loan at prime +3.0%. This rate is perceived to be higher than those levied on more conventional loans.
- There should be no more fees associated with SBLA loans because: *"The risk to the financial institution has pretty well been eliminated. It is secured by the government and then by the borrower."*

- Some people had an innate distrust of financial institutions. Accordingly, the concern was that once the door is opened to allow them to charge other fees, these institutions will get into "creative" areas where other fees can be charged and increased on a regular basis, as they do with other services and loans.

- There were several different types of comments made about how financial institutions should view loans issued under the SBLA program:

  -- As additional revenue or "gravy" with minimal risk -- if the SBLA program did not exist, financial institutions would not be making this money, since they wouldn't be lending to the types of companies that they do under this program.

  > *"When there is an associated risk, it could be justified. But in this case, they are making revenue off an interest that wouldn't have been there had SBLA loans not been around."*

  -- Financial institutions should not get loan approval fees. It is each institution's investment in this revenue producing loan and they are compensated through interest rates on the loan for a number of years.

  -- Financial institutions need to view supporting these types of businesses as an investment in the future of their own respective business. In other words, as businesses grow so will their needs for financial products and services and financial institutions who supported small business in their formative years will reap the financial rewards. They can also reap immediate rewards:

  > *"If you are going to take an SBLA loan out and you get proper service there, your mortgage is going to be there, your personal loans, etc. Maybe you'll expand and you can go the conventional bank loan route."*

  > *"Our bank has already benefited a great deal just from our business. We bring a lot of other money into town."*

- Some were also concerned, keeping in mind the rationale behind the SBLA program (i.e., to help small businesses access financing), that additional fees could be a major impediment to businesses particularly those in a start-up mode.

Allow Lenders to Charge Fees

The major reasons for choosing this policy option related to the concern that not allowing lenders to charge fees as they would under normal banking practices might make certain financial institutions reluctant to offer SBLA loans. As such, some felt it would be detrimental to the program and potentially put it into jeopardy. And, as some borrowers pointed out, their first concern is to gain access to the funds. However, in all cases, people agreed that the government must be the one to establish the fee structure and not leave it up to the financial institutions to do so.

A couple of people also expressed the following view:

> *"It is a free market and they should be able to charge whatever they want to. It's their money."*

KNOWLEDGE-BASED ENTERPRISES (KBEs)

Description of Issue

Should the SBLA be expanded to target knowledge-based enterprises (KBEs)?

The SBLA currently offers loan guarantees to small businesses, including KBEs for the acquisition of land, buildings, equipment and leasehold improvements. However, the SBLA does not recognize the "intellectual" property and intangible assets of KBEs for financing.

In a knowledge-based firm, the creation and management of knowledge takes place continuously. KBEs are innovative, introduce new products and processes and place great emphasis on technology, research and development. KBEs are found in all sectors of the economy, for example, aerospace, pharmaceuticals, high technology, etc.

Possible Options

1. *Do not adjust the SBLA program to target KBEs*
2. *Adjust the SBLA program to target KBEs but only as a pilot project*

OVERVIEW

Four out of the 10 for-profit groups were asked to respond to this issue paper. Note: In this particular issue paper, there are some people that had difficulty understanding what intangible assets and intellectual property referred to, despite the examples given in the body of the issue paper and in the discussions.

People were split on this issue, with as many arguing against including the financing of intangible assets for KBEs as supporting adjusting the program for KBEs.

Do Not Adjust SBLA Program

The major reasons given for recommending that the program not be adjusted are:

- Quite a few recognize the importance of KBEs to Canada's economic well-being now, and in the future, and how all Canadians stand to benefit from the wealth that will be generated by these types of companies. However, because of the nature of KBEs, many of whom are perceived to be involved in "pioneering" fields, the perception is that more fail than succeed. As such, loans to these type of companies in general but particularly loans for intangible assets are considered to be higher risk. As two people put it:

  "I don't want the SBLA to be changed into something that will incur a disproportionate amount of risk and loss, and then I will have to worry about it."

"If the business defaults, how do you sell off intangible assets? That's the main thing that I would be concerned with."

- Some people felt that the basic nature of the businesses of KBEs are not easily understood -- i.e., they are too nebulous for most people. There are a number of implications of this view:
  - -- Analysis of the risk level for loans on intangible assets to KBEs requires specialized knowledge. And some are concerned that financial institutions will be out of their depth in pursuing the type and depth of due diligence required to properly assess the risk.

    "It is not a Ma and Pa operation but high tech for example and it can artificially look good on paper. It's very easy to scam it; it's uncharted territory."
  - -- The specialized knowledge and in-depth understanding required to analyze the nature of the development that the loan is being given in support of is out of proportion to the face value of the loan being granted under SBLA (i.e., maximum of $250,000).

  And both of these perspectives ended up with the same bottom line -- the inclusion of KBEs in the program will inevitably contribute to higher program costs.

- Some argued that if there are other agencies already offering financing of this type to KBEs, then extending the SBLA would be redundant and there was no benefit seen to duplicating the efforts of the others.
- Some people felt that it was not the role of financial institutions to provide financial assistance to KBEs but rather the direct role of the government to do so in view of the perceived benefits that would be derived by all Canadians from the success of KBEs.
- A few were concerned that the redefinition of assets to include the intangible assets of KBEs would reduce the amount of funding for fixed assets which was the major need of non-KBEs.

Adjust SBLA Program

Those who supported the adjustment of the program to target KBEs on a pilot project basis did so because:

- Insuring the growth and development of these companies is seen by some to be synonymous with ensuring the economic viability of Canada and our ability to compete internationally. With the economy in transition and KBEs being perceived to be the wave of the future, it was felt that despite the potentially higher risk associated with the financing of intangible assets, it was a risk worth taking as a pilot project.
- A few argued that some KBEs fell "between the cracks" of the other agencies that offered financing to KBEs, and as such the SBLA would not be a duplication of other government programs.

One further important point to bear in mind on these results. Some of the people who opted for this policy option assumed that adjusting the program to target KBEs did not mean that KBEs would be allowed to access financing for intangible assets on the same terms as for fixed assets, even on a pilot project basis. Rather, they assumed that the "price of entry" would automatically

be higher personal guarantees and possibly higher interest rates to KBEs for loans against their intangible assets.

COST-RECOVERY

Almost everyone felt that if costs increased as a result of the inclusion of KBEs, then those costs should be borne by the KBEs alone. It would be unfair to increase the burden of all SBLA borrowers because some higher risk organizations are included in the program. Even if the country as a whole benefited from KBEs as a result of the financial support they would be provided under SBLA, there is no upside for SBLA borrowers -- i.e., non-KBEs would not get a cost break on their SBLA loan or obtain better terms if KBEs were successful.

EXCLUSIONS OF TYPES OF FINANCING

Description of Issue

Certain uses of SBLA financing generally result in higher default rates than the overall average default rate of SBLA lending. Given the SBLA's key objective of cost-recovery and to avoid increasing user fees, should any of the current uses of SBLA financing be excluded from the program?

Possible Options

1a. Retain financing of the purchase of existing franchises

1b. Exclude financing of the purchase of existing franchises

2a. Retain financing of leasehold improvements

2b. Exclude financing of leasehold improvements

3a. Retain financing of the purchase of existing leasehold improvements

3b. Exclude financing of the purchase of existing leasehold improvements

4a. Retain financing of non-arm's length purchases of going concerns

4b. Exclude financing of non-arm's length purchases of going concerns

OVERVIEW

Four out of the ten profit groups reviewed these particular issues. Notably, this was one of the three issue papers (working capital and security being the others) that required explanation of terminology and concepts that were not readily understood and beyond the experience of quite a few of the participants. The two most problematic in this issue paper were:

The financing of the purchase of existing leasehold improvements

The financing of non-arm's length purchases of going concerns.

Of the four areas identified for possible exclusion, the one most businesses would want to retain is financing of leasehold improvements, whereas, people are split down the middle on retaining or excluding financing of the purchase of existing leasehold improvements. Most felt that both the financing of the purchase of existing franchises and non-arm's length purchases of going concerns could be excluded.

Financing for Leasehold Improvements

Retain

Many people saw this type of financing as an integral part of the SBLA for two reasons.

- Most people saw leasehold improvements as an integral part of operating a business and some companies felt that they would not be able to do business without leasehold improvements. This is particularly an issue at start-up ("strapped for cash") but also when companies are in an expansion mode. The following comments illustrate the views of most people:

  "You are starting up a business and you are employing people. You are going to upgrade your place. Your productivity will go up; your sales will go up; you will enhance it more. It keeps the business looking new."

  "We got it to create more office space and so we could hire more employees. The place looked better, more customers would come and it really boosted business and created more jobs."

- Financial institutions have shown little willingness to lend money for this purpose under conventional banking terms and most would not have been able to finance leasehold improvements without the SBLA loan.

One further point -- most people do recognize that leasehold improvements are "soft" assets compared to other fixed assets such as equipment on land financed under SBLA.

Exclude

The few who suggested exclusion of financing of leasehold improvements did so because they recognized that it was difficult to recover on default of these types of loans and accepted that these are real losses under SBLA that affect all borrowers (i.e., limits the available funds in the program and drives up program costs resulting from limited ability to recover on default).

Notably, all those who voted for excluding this type of financing had not borrowed under the SBLA program.

Financing for the Purchase of Existing Leasehold Improvements

As stated, support for retaining this type of financing was not as strong as the support for retaining leasehold improvements in general.

Retain

Those who felt it should be kept in as part of SBLA, gave the same types of reasons as they did for the financing of leasehold improvements in general:

- It is often necessary to improve the premises in order to do business.

- This is an area that most financial institutions would not finance separately so that leaves SBLA as one of the few avenues open to small business.

Exclude

There were a number of different reasons people gave for excluding the financing of the purchase of existing leasehold improvements:

- Existing leasehold improvements are viewed as having little resale value and therefore cannot be used as security for a loan.
- Whereas people saw the financing of leasehold improvements as an investment in the business, they did not view the purchase of existing leasehold improvements in the same way:

  "Existing leasehold improvements contribute nothing to the economy."

  "They don't increase jobs. I just don't see any element of growth or expansion in this."

- Some viewed these types of purchases as "pretty intangible", almost like goodwill and therefore far more risky.
- A few raised the question of ownership of the leasehold improvements in rented premises:

  "Who the leaseholds belong to is very arbitrary at the end of the day. Is it the landlord's or the bank's? Technically, they belong to both because the landlord says they are fixed and the bank says we paid for them."

- A few expressed the view that businesses had other options available to them other than taking out a loan to finance purchase of existing leaseholds:
  - When purchasing a building, existing leasehold improvements are usually included in the purchase price and the mortgage or loan on the building includes the financing of these items.
  - In the case of rented premises, the rental fee would include existing leasehold improvements.

Purchase of Existing Franchises

Retain

The few people who argued to retain financing for this purpose pointed to the following:

- Existing franchises have a "history" and are based on very solid systems, proven methods that have already benefited from the trial and error that most businesses go through. Therefore, this is seen as an area with relatively low risk of failure and defaulting.
- It allows individuals with less knowledge about business to start a company.

Exclude

The reasons given in support of excluding the purchase of existing franchises are:

- Quite a few have the perception that there are too many franchise opportunities available for purchase. As a consequence, they are concerned about the ability of financial institutions to identify those that are legitimate vs. those that are not.

- A large part of the purchase of a franchise is the value of the name, which in and of itself has no tangible value and would be worth little in the case of failure of the franchise. There are two further issues:

  -- The loan would be extended on the basis of the success of the franchise; however, that does not guarantee that the franchisee to whom the money is being lent (i.e., individual(s) operating the business) will be successful:

  > *"Concerned about the type of person that is attracted to franchises. They are people who may have little business acumen and lack entrepreneurship; they're in a canned business. So there is a higher risk of failure because they are more dependent on the system rather than their own knowledge."*

  -- In the event of default, it is not the franchiser but the franchisee who is personally responsible for a loan, regardless of the fact that the initial decision to extend the loan was far more weighted to the track record of the franchiser rather than that of the individual buying the franchise. This evoked some sympathy for the franchisee, the "little guy" that was left holding the bag.

- The use of SBLA funds is considered by quite a few to be inappropriate for this type of financing:

  -- *"The SBLA should be fundamentally for starting new businesses or expanding existing businesses".* Funding the purchase of existing franchises is seen by some people as in fact, funding large companies (i.e., the franchiser) rather than small business.

  -- In addition to the perception that the SBLA is funding "big business", the view of some is that there is no financial penalty to the franchiser in the event of default:

  "If somebody defaults, the franchise company isn't affected by it except perhaps by bad publicity. The SBLA is being used by a big franchise company that has no risk in it except that they don't like their businesses going out of business."

- A few others raised the following points:

  -- If it is an established franchise with a history, it should be able to get a conventional loan from a financial institution rather than relying on the SBLA program.

  -- *"I feel that if you are going into a franchise then that franchise company should be putting up the money instead of the SBLA."*

  -- The franchiser takes in a good part of the profits generated by the franchisee. Therefore, the franchiser should assume the risks associated with the financing, not the government.

- This type of SBLA financing is seen to be open to abuse by franchisers, in that, as part of the "selling feature" of the business, they can also be selling the SBLA as the financing

mechanism. And, in fact, this was the case for a particular franchisee for whom the purchase included the actual set up of an SBLA loan by the franchiser.

Financing of Non-Arm's Length Purchases of Going Concerns

As mentioned earlier, quite a few participants had difficulty initially understanding the type of financing being discussed.

Retain

The few people who argued to retain this type of financing did so for the following reasons:

- Going concerns have a financial history and predictability. As such, they are seen to be lower risk than start-up businesses, albeit *"it's just somebody else wanting to start a business, and it is an established business that they are familiar with"*.
- This struck an emotional chord among a few people:

  > *"We have had a business for 23 years and eventually we are going to retire, and if our son or daughter wants to take it over then why should we just give it to them? This should be our retirement fund, and if they need the money to buy it then it should be available to them."*

Exclude

Most people felt that financing of non-arm's length purchases of going concerns should be excluded. They put forward the following types of arguments:

- Why would this not be financed under a regular bank loan -- i.e., after all, the business being assessed in terms of risk has a track record.
- If the personal guarantee of the borrower in this situation is deemed insufficient, then additional guarantees should be put on the line by those who are benefiting from the sale, not the government and the public.
- These purchases are seen to be open to abuse -- i.e., inflated prices and thus, to represent a greater opportunity for "creative accounting". In comparison, most argued that this kind of situation is far less likely in an arm-length evaluation of the business and its assets.

  > *"If you say this asset is worth too much, who says it is worth that much?"*
- This type of financing is not seen to contribute to the expansion or growth of business. Rather, it is more of an inheritance financing plan.

SECURITY

Description of Issue

How should the SBLA provisions be revised in order to avoid or reduce administrative problems and facilitate lender's ability to administer SBLA loans within their normal lending practices?

Possible Options

1. *Where assets financed under the SBLA have little liquidation value, lenders should be allowed to take alternate security of equal or greater market value to the assets financed*

2. *In addition to the assets financed, all other business assets of the borrower would be required to be taken as security*

3. *Where the loan is for leasehold improvements and the tenant is related to the owner of the building, the real estate would be required as security*

4. *Where the assets financed are part of a larger project financed by the same lender, the security for the SBLA portion will have equal priority to all of the assets financed*

5. *Where the borrower disposes, at arm's length, the secured assets, the lender may release related security provided that the proceeds of the sale are applied in reduction of the loan*

OVERVIEW

This particular issue paper caused significant problems for participants -- quite a few did not understand the concepts that they were being asked to respond to or the situations in which they would apply. As a consequence, in most groups, a great deal of time was spent explaining each of the four security options to participants (Industry Canada dropped Option #2 after the first session). Therefore, although the security issue paper was to be discussed in four of the profit groups, it was only covered in any detail in three of the sessions. Moreover, of the four issues presented in the discussion paper, there are insufficient results to provide any information on the following (because the situation described in the issue paper appeared to be outside the experience and understanding of quite a few people):

> Where the assets financed are part of a larger project financed by the same lender, the security for the SBLA portion will have equal priority to all of the asset financed

The results for the other three policy options are that people were split on the alternate security provisions and the taking of real estate as security. Most did however agree with the following policy option:

> Where the borrower disposes, at arm's length, the secured assets, the lender may release related security provided that the proceeds of the sale are applied in the reduction of the loan

Alternate Security Provisions

Agree

Those who agreed did so for the following types of reasons:

- If the asset being financed has little liquidation value, then borrowers should back the loan with something else. Importantly though, it was not immediately obvious to participants what assets financed under SBLA would have little liquidation value. And in fact, it was only after examples like leasehold improvements were offered, that people agreed (i.e., they changed their position from either disagreeing with this policy option or sitting on the fence).

  "If I wanted to borrow to buy some equipment and the equipment would depreciate rapidly like computers, then yes I think I should be putting up property or something against that as security."

  Everyone, though, said it should be security of "equal" market value to the assets financed, not greater market value.

- *"I think it is only logical and reasonable for someone who is in a position to lend you money to expect that there be some security in the event of default - but only equal not greater."*

  Beyond that, there was some concern that if financial institutions were not given this kind of flexibility, they would not grant the loan.

- A business that borrows must be willing to take risks in the same manner as the lending institution takes a risk.

Disagree

Counter arguments to this security provision were as follows:

- This was seen as an impossible requirement for start-up businesses. They have no "other" security to pledge and the concern was that by allowing this, start-up businesses would then be turned down for loans even under the SBLA program.

- Some felt that if this provision was allowed, they saw no advantage to the SBLA:

  "Why is the bank going to want more or equal from the individual when the government is guaranteeing 85%?"

  They further argued that the default rate did not justify the inclusion of this type of security requirement by financial institutions:

  "The whole program is supposed to encourage small business and the government is guaranteeing 85% of it. How big a decision is it? The bank is getting 85% of their money back if the company defaults. The mortality rate is 5% not 70%, so why should anyone have to provide equal amounts of security?"

Taking Real Estate As Security

Agree

There were three main reasons for supporting this provision:

- This is an area where some people saw a greater risk for fraudulent behaviour, and it was felt that taking the building as security would reduce the occurrence of these type of situations.
- Both the tenant and the landlord benefit from the leasehold improvements and therefore, it is appropriate for the building to be pledged as security.
- Given that leasehold improvements are a "soft" asset, with negligible resale value, this was considered to be a reasonable security measure.

Disagree

There were also three main reasons given for not supporting this policy option:

- For some people, it seemed unfair and inappropriate to ask a family member to risk their assets for another family member's business.
- A few people questioned the underlying assumption of this security measure (and this was vehemently done so by one particular participant). The suggestion that because the lessee and owner were in some way related and would be more likely to collude and to defraud the SBLA than those with arm's length relationships was considered unpalatable and unbelievable.
- The owner of the building most likely has no direct link to the organization being financed and therefore should not be asked to risk their building.

Sale of Security

While most agreed with this option, it was discussed in detail in only one group session and so the results must be treated with a great deal of caution.

Agree

There was one overriding basic principle applied here -- if the asset for which the loan was granted is sold, then the loan must be repaid.

Disagree

If the borrower is capable of meeting the loan payments, the borrower should have the choice of paying the loan or reinvesting the funds in the business from the sale of the asset.

WORKING CAPITAL FINANCING

Description of Issue

Should the SBLA be expanded to include working capital financing, in addition to current loan guarantees for the acquisition of land, buildings, equipment and leasehold improvements?

Possible Options

1. *Continue to exclude working capital financing in the SBLA*

2. *Include working capital financing in the SBLA but only as a pilot project*

OVERVIEW

Five out of the ten for-profit groups reviewed this particular issue paper.

The results indicate that businesses are split, with as many people preferring to continue to exclude working capital financing under the SBLA as would prefer to include it. (Note: This was one of the issue papers where time needed to be spent ensuring that all participants understood working capital.)

Exclude Working Capital

The primary reasons people gave for recommending that the SBLA program continue to exclude working capital are summarized below:

- The major concern is that this type of financing represents greater risk than fixed-asset financing. And effectively, some people felt that the inclusion of this type of financing would mean a complete reorientation for the program. In other words, financial institutions would need to involve themselves in the financial management of the company, on a day-to-day basis. And whereas financial institutions may be well-equipped to assess the cost of equipment, for example, they are neither trained nor have what it takes to be essentially "partners" in the business.

- Some expressed concern about how companies who received working capital financing would actually use the funds. Thus, this is another aspect of risk -- the ability of the company to pay back the loan is not mitigated by liquidation of a secured fixed asset, but rather is reliant on the sound management of the company and the ability of the company to run profitably.

  And specifically to this point, some people expressed the view that small businesses are poor managers of lines of credit, and they would be equally poor managers of working capital.

  "Some people go wild with that (line of credit). They feel they are very rich."

- Quite a few expected a higher default rate, which would impact negatively on the entire SBLA program, ranging from higher costs for all borrowers to putting the entire program in jeopardy.
- Participants commented that small businesses already have access to working capital from other sources, and that these agencies are better structured to deal with the working capital requirements of companies. These agencies also have more experience in safeguarding their investment than the average financial institution.
- A few were concerned that businesses may get too leveraged.

  "If you have to borrow for your fixed costs and your operating costs, then you have an imaginary business going on. You have to be able to pay for some of your costs from the beginning. You don't want to create such a debt for yourself."

Include Working Capital

The main reasons for supporting a pilot project are listed below, in order of priority:

- One of the major drawbacks small businesses identify is the availability of working capital financing in general and in particular from traditional lending institutions. This lack of funding is even more pronounced among KBEs because the lag time between product development and its sale can be quite long and there is little financing to bridge the gap.

  Therefore, quite a few welcomed the possibility that the SBLA program may be broadened to include this type of financing.
- Quite a few people contradicted the statement made in the issue paper that small businesses already have access to working capital loans through other sources. As one person summed it up:

  "If the Canadian Commercial Corporation exists, you can't find it. You have to be selling to countries outside Canada to access funding from the Export Development Corporation so we don't qualify there. That leaves the Business Development Bank of Canada, whose requirements are onerous both in the paper work involved to get the funds, the process they have set up in administering the funds, and the monitoring and continual involvement in your business. As well their interest rate works out to 11¾12½% vs. the SBLA program."

  Others also pointed to experiences with BDC in particular where they have either been turned down or offered loans at rates they could not afford. Thus, they felt that the other sources listed were not viable alternatives.

Notably, a number of people who voted to include working capital financing under the SBLA as a pilot project only did so on the assumption that there would be strict conditions attached to how the company could spend this money. Therefore, in essence, they were agreeing with those who felt there was an increased risk associated with this type of financing: For example:

"Working capital financing should be limited to 10 to 15% of total amount borrowed from SBLA, with the rest allocated to capital expenditures. There

would also have to be restrictions on what it would be spent on -- i.e., marketing or advertising."

COST-RECOVERY

It was clear that most businesses felt that it should be a "user pay" system.

"We shouldn't be responsible for other people's loans."

"If they are going to benefit, they pay."

VOLUNTARY SECTOR ISSUE PAPER

In two of the for-profit group sessions, participants were handed the Voluntary Sector issue paper to read in-group, after which they were asked to respond to two basic questions:

1) Whether or not the SBLA program should be adjusted to include the Voluntary Sector
2) To what extent do they perceive competition between small business and not-for-profit organizations in their respective sectors?

Description of Issue

Should the SBLA be extended to fixed asset financing for the Voluntary sector recognizing that these organizations are an integral part of the economy and labour force?

Possible Options

1. *Do not adjust the SBLA program to include the Voluntary sector*
2. *Adjust the SBLA program to include the Voluntary sector but only as a pilot project*

OVERVIEW

Most businesses recommended that the SBLA program not be adjusted for the Voluntary sector.

Do not Adjust SBLA Program

Reasons given in support of this position were:

- Loans to the voluntary sector, even on fixed assets, were considered to be more risky:

  "Where are they getting the money to pay the loan?"

  "They can't take it out of the money they are collecting; they are basically raising money to give it away."

- Some expressed the opinion that this sector would be unable to meet the basic loan criteria for lenders (the ability to repay the loan). Therefore, since the fundamental criteria would need to be different, this sector should not be "mixed with straightforward business interests."

- Some raised questions about how personal guarantees for SBLA loans would work with this sector -- who is personally on the line for the money or does it mean that the government will guarantee the full amount? If so, this also pointed to a separate program.

- Some felt inclusion of this group would be impractical and unrealistic:

  "It would require changes in the statutes of voluntary organizations. However, no director of a voluntary organization would want to take on the liability."

  "The people will change and the person who did this loan will no longer be involved in the organization."

  The perception is that there is no accountability in a voluntary organization -- volunteers come and go, including directors. As well:

  "People who volunteer and work for these organizations are wonderful at heart and social-minded. They are, however, not businesspeople and that can result in problems."

- Because of the higher risk of default expected from these organizations, some felt inclusion of the voluntary sector would put the entire SBLA program into jeopardy.

COMPETITION BETWEEN THE VOLUNTARY SECTOR AND SMALL BUSINESS

It was not obvious to most people that the voluntary sector and small business compete in any way. Even in areas where they overlap (e.g., a kennel and breeder vs. the SPCA), people felt there was no real competition between the two -- they were serving different target groups and meeting different needs.

DETAILED FINDINGS:
VOLUNTARY SECTOR

THE VOLUNTARY SECTOR

INTRODUCTION

In the two Voluntary sector group discussions conducted, there were two major information objectives:

1) To gain some insight into the financing needs of these organizations
2) To get feedback as to whether or not the SBLA program should be adjusted to include the organizations in their sector.

THE FINANCING NEEDS OF THE VOLUNTARY SECTOR

Most not-for-profit organizations depend on government grants to fund their operations and on donations or fundraising activities for their programs. The latter can range from bake sales and car washes to generating funds by providing educational materials, to selling advertising space in their publications, to organizing a telethon. A few non-profits are self-funded -- i.e., they are totally dependent on association membership fees.

Voluntary sector organizations see themselves as having many of the same problems as small business in meeting overheads (e.g., payroll and rent) and operating expenses (e.g., telephones, computers) but as rather worse off in their ability to forecast revenue, either in the short or long-term:

- Government grants are provided on a yearly basis, based on a schedule provided by the organization to the government. There is some uncertainty as to the renewal of the grant in the first place, and secondly about the amount that will be granted.

  Also their experience is that it is often easier for organizations to access funding for special projects than for the financing of on-going operations.

- Some organizations do not qualify for government funding. Thus, they are totally dependent on their ability to raise funds, on public donations, or on membership fees.

- Although a number of the organizations do have a line of credit at a financial institution, almost all them indicated that financial institutions were uninterested in dealing with their sector on day-to-day banking requirements, let alone taking a risk on loans.

  > *"Banks look very carefully at organizations in the not-for-profit or charitable sector. Very often we are organizations with very little in the way of the kinds of assets that make banks comfortable. It can be very difficult, and very often, even organizations that have real substance, depend on directors or founding organizers of the organization taking personal risks."*

- There was some recognition of the potential downside for financial institutions in dealing with loan default with voluntary organizations, particularly those organizations that are seen to do "good works" to benefit society (e.g., those dealing with the disadvantaged). As one

individual put it, if the bank forecloses on a small business that's one thing. Seizing the fixed assets of a charitable organization, can have significant ramifications:

> *"You can imagine the BCTV News showing a bailiff seizing the assets of the XX Foundation because they defaulted on a $10,000 loan."*

THE VOLUNTARY SECTOR ISSUE PAPER

Description of Issue

Should the SBLA be extended to fixed asset financing for the Voluntary sector recognizing that these organizations are an integral part of the economy and labour force?

Possible Options

1. *Do not adjust the SBLA program to include the Voluntary sector*

2. *Adjust the SBLA program to include the Voluntary sector but only as a pilot project*

OVERVIEW

Voluntary sector organizations were split on whether or not the program should be adjusted to include them.

Do not Adjust the SBLA Program

The rationales for not including voluntary organizations in the SBLA program are:

- Most were concerned about their ability to repay the loan given the uncertainties of cash flow -- i.e., some organizations depend on one source of financing that could disappear in any given year and therefore, the loan would remain unpaid.
- Some subscribe to the philosophy that *"If we don't have the money, we don't spend it"* rather than being on the hook for a loan.
- A few operate quite satisfactorily without loans, and would not expose themselves to this type of risk.
- Some feel that if they were allowed to borrow, the message communicated would be that they need less support from their regular donors and then these sources of financing may vanish. As well, there were two other concerns noted:
  - -- Could result in less creativity and less commitment to fundraising activities on the part of organizations.
  - -- May impact negatively on ownership of responsibility for projects and, importantly, on responsibility for loan repayment itself in self-funded organizations.

- A few argued that while the ability to borrow for fixed assets should be extended to the voluntary sector, with some of the features of the current SBLA program, it should not be under the existing SBLA program. They feel that they too should be entitled to government backing but under a separate program.

  They argued that given their raison d'être, namely "to do good works", they should not be paying the same rates as the for-profit sector. By definition, they are not in the business of generating "profits." They are providing much needed services to the community, for the benefit of all. Therefore, since whatever money they are able to save on bank charges would go back into the community and not into their own pockets (as in the case of the for-profit businesses), they wanted lower rates in recognition of their contributions.

  They also did not accept the premise that SBLA program costs would increase if they were included. It was felt that there would be a lower default rate by this sector and in fact, that they would be the ones subsidizing for-profit sector bankruptcies. And on that basis, they also argued that they should be paying lower rates.

Adjust the SBLA Program

In the initial discussion about the financing needs of the voluntary sector, a number of people who voted for inclusion of the voluntary sector in the SBLA program, made the following types of comments:

> *"I have trouble thinking of a reason why a non-profit would need to borrow money on the scale of a small business loan."*

This perspective, coupled with the opinions expressed about the uncertainty of funding and ability to repay loans was shared by most organizations around the table. Nonetheless, a number of people argued that, on balance, loans to their types of organizations were potentially no more risky than loans to some small businesses. Many of the organizations had been around for 20 or more years, and expected to be around for many more years to come. The same could not be said for start-up businesses currently funded under the SBLA. They also pointed out that many not-for-profit organizations are incorporated -- therefore, there would be no problem in providing security on the same basis as small businesses.

Other reasons given for supporting the inclusion of the voluntary sector are:

- Provides the organization with more financing options:

  > *"Instead of paying 16%-24% interest on a leasing contract for a photocopier, I could lock it up for 5 years at prime +3%. I can save the difference between the two and use it towards the community. It means a lot to us."*

- A few organizations questioned why the voluntary sector had been left out of the SBLA program in the first place. Given that these organizations have put the personal assets of directors on the table for many years, inclusion in the SBLA would not represent a major change in the operating style of the organizations.

- A few felt that if they could borrow money under the SBLA:
  - -- Their organizations would be able to function more efficiently (e.g., purchase a stamp machine for a major donation drive rather than have volunteers manually affix stamps on envelopes) and,
  - -- Would remove some day-to-day operational concerns, which in turn would create an environment in which the organization could focus more on serving the needs of the community. For example, they could:
    - ⇒ Establish themselves in a more permanent fashion (*"Move out of a shoebox into an office"*)
    - ⇒ Accelerate the implementation of programs
    - ⇒ Increase the scope of their activities

SHARING PROGRAM COSTS

People were asked to respond to the following question:

> Making loans to the voluntary sector may be higher risk resulting in higher program costs to SBLA users in order to achieve program cost-recovery. Should the higher program costs be shared among all SBLA users or just among the voluntary sector?

There was a great deal of discussion about the underlying assumptions built into the question. Quite a few did not accept either the premise that the Voluntary sector's inclusion in the program would drive up the costs or that they represented a higher risk than small businesses. These views had a number of implications:

- It was one of the main reasons that a few people changed their original position on whether or not the program should be adjusted. They initially said "yes" to being included in the SBLA program and then opted out for a separate program with similar features (government backing) but lower fees.
- It resulted in most, but not all organizations opting for Option #2 -- i.e., all SBLA borrowers should pay for the increase in program costs. In other words, based on their beliefs and assumptions of no greater risk or default for the program on their part, neither they nor other SBLA borrowers would end up paying any higher costs.

Other reasons for supporting that all SBLA borrowers should pay more were:

- The perspective that the voluntary sector provides valuable services to society yet does not generate a profit as small businesses do. Therefore, any added cost to the program should be borne by all.
- Businesses in different sectors are already subsidizing one another under the current SBLA program -- i.e., some sectors of the economy may be more prone to default than others but they are not paying differential rates. Therefore, even if it were the case that the voluntary sector inclusion resulted in increased program costs, it would be unfair to isolate this sector and treat it differently from the others.

Those who felt the voluntary sector should pay higher program costs offered the following types of reasons:

- Some felt that it was unfair for the for-profit businesses to subsidize the non-profit or charitable organizations.
- A few believed that they were no different from small businesses and thus the non-profit and profit sectors should be treated equally:

> *"I think there are a lot of organizations that are small and/or having cash difficulties. There are thousands of businesses out there in the same boat. They don't have the cash and they have to access monies. It is no different for them they may be in just as bad shape. Just to say we are social organizations and we have a social conscience doesn't mean that we should be given an easier hand at anything."*

IMPACT ON SMALL BUSINESS

The voluntary sector sees itself as providing very different services than the private sector and having different motivations. Consequently, very few of the voluntary sector organizations see themselves in competition with the for-profit sector or could even think of situations when they might compete with it. So the voluntary sector organizations (with the exception of one individual) did not see how including them in the SBLA program would put them in an advantageous position relative to the for-profit sector.

DETAILED FINDINGS:
ABORIGINAL ON-RESERVE BUSINESSES

ABORIGINAL ON-RESERVE BUSINESSES

INTRODUCTION

As part of the comprehensive policy review of the SBLA, Industry Canada wished to conduct research with aboriginal businesses. Specifically, the objectives and priorities of the research with this group were:

1) To get aboriginal stakeholders' reaction and feedback on two specific policy options: *On-Reserve Lending* and the *Eligibility of Aboriginal Capital Corporations (ACCs) as Lenders*
2) To probe the experiences of the on-reserve small business community in accessing debt capital through the SBLA and other lending programs
3) To gain insight into the perceptions aboriginal businesses have about the SBLA program.

Note: In advance of the groups, materials to be discussed were sent to qualified respondents. Three issue papers were sent however, there was only enough time in each group to review the two priority issues, namely, *On-Reserve Lending* and the *Eligibility of ACCs*.

CONTEXT OF GROUPS

There are a couple of important observations to make about the participants in these sessions:

1) Their level of knowledge about SBLA was generally low. Only a few of the participants were aware of the actual existence of the program. There was one lawyer who knew the program and its relevance to on-reserve businesses quite well. There were others who had never heard of the program and knew little about business loans at all. Some had approached colleagues or Band Council Members to obtain basic information about the program before coming to the focus group. However, most had not and relied only on the information sent to them prior to the groups as well as what they learned at the session itself.

   Although participants' awareness of the SBLA program was low, they were all aware of the broader issue with respect to on-reserve lending. All of them were aware of the fact that lending institutions could not take security for assets financed through loans made to borrowers living on-reserve.
2) Although most participants understood the issue of on-reserve lending, they felt they did not fully understand the options under review or their true implications. Some did not know much about ACCs and felt ill-equipped to give an opinion. One group in particular felt that generally, they were not given enough information about the issues and the options under review. They also felt that the issue papers were unclear and therefore difficult to understand.

As a result, a substantial amount of time was spent providing relevant details about SBLA, ACCs and explanations of the options under review. As well, although "votes" were taken about which option(s) individuals recommended for the SBLA program before the group discussion, it was

not uncommon to have people switch positions as more information was provided either by the moderator or the other participants.

THE FINANCING NEEDS OF ON-RESERVE BUSINESSES

Before starting the discussion on the issue papers, participants were asked:

-- which sources of financing they had used for their business

-- for which needs they had sought the financing

-- how they felt about the service/program/terms of the financing they had obtained

-- what financing needs of their business were not currently being met

-- which other federal programs they had used and how satisfied they had been with them.

They were also asked which had been more of a significant issue for them in obtaining financing for their business -- getting access to funds in the first place or the cost associated with accessing funds -- i.e., interest rates and fees. And finally, they were also asked what elements of a lending program would meet their needs.

Sources of Financing and Debt Capital Uses

Sources of financing included personal savings, financial support from family, traditional lending institutions, financing institutions owned by the Bands, Aboriginal Business Canada and federal programs made available by departments such as Indian and Northern Affairs Canada and Industry Canada.

Most successful borrowers received term loans, and some obtained lines of credit. A few participants had received what they referred to as "grants" from Aboriginal Business Canada (ABC) or loans from other federal programs like the Canadian Aboriginal Economic Development Society.

Most often, entrepreneurs started their businesses with their own savings or that of their families, or with grants from the federal government. When they sought loans after start-up, they most often got them from ACCs or traditional lending institutions. Those that had succeeded in getting financing from banks, including SBLA loans, usually had assets off-reserve such as a home or a cottage or had a Band Council Resolution to back them up. A large portion of participants had tried getting loans from traditional lending institutions but had failed due to the fact that their assets were on-reserve. Consistently, women had difficulty securing loans; they usually needed backing from their husbands.

> *"My husband got a line of credit for me... it had to be in his name..."*

Most participants had sought financing for fixed assets like equipment and vehicles. Some had sought financing for working capital but only a few were successful in getting it. Many entrepreneurs felt a need for further financing for both fixed assets and working capital usually to

expand their businesses (purchase more equipment, build larger building, branch out in a new field, set up a new distribution system, etc.). Only ACCs were reported to give out loans for working capital.

Level of Satisfaction with Programs and Services

Generally, participants expressed some frustration with all lending institutions. Traditional banks were viewed as the least cooperative of lenders. They were accused of being out of touch with the reality of aboriginal entrepreneurs, asking for too much security and being unwilling to take any risk.

> *"They wanted everything -- they wanted my children's funding and the RRSPs. They wanted everything they could get their hands on."*
>
> *"They don't welcome entrepreneurs. They aren't interested in talking to you unless you are already successful after 10 or 15 years."*

Some participants felt that financial institutions were condescending towards Aboriginals. Only two participants, both lawyers, were satisfied with their dealings with the banks in getting their lines of credit established.

More than half the entrepreneurs who had sought "contributions" from Aboriginal Business Canada (ABC) were frustrated with their experience. They complained that ABC was extremely slow, patronizing, uninterested in learning about their businesses and generally unresponsive. One participant was angry because ABC had at first approved a "contribution" and then turned him down. However, some participants were happy with ABC's service and did comment that approved "contributions" were granted quickly.

Aboriginal Capital Corporations scored highest in terms of borrower satisfaction. Participants felt that ACCs responded quickly, gave excellent support services like assistance with bookkeeping and were willing to loan money to lenders that had poor credit ratings as long as they felt that the borrower was serious. Another advantage was that ACCs were perceived to be very flexible. One participant mentioned being able to stop payments on his loan for 8 months until his business was profitable again. Another said she was able to make larger payments on her loan without penalty. The only complaint about ACCs were their interest rates, which are generally higher than traditional banks.

In one group, participants had sought financing from the financial institution owned by the Band. They were generally dissatisfied with the experience claiming that this institution was very slow in making decisions and felt that nepotism was a factor.

Only a few participants had had an SBLA loan. One was satisfied with the program, while another complained that the process had been too slow, making him lose 2 months of work. He also resented the 2% fee, which he claimed had not been explained to him by the bank.

Accessing Funds and its Cost

In all groups, there was agreement that accessing funds was more of an issue than the cost of the funds. They felt this was true especially for aboriginal businesses on-reserve due to the access restrictions. Most participants agreed that within reason, they were willing to pay higher rates if it was the only way to get access to funds.

Needed Elements of a Lending Program

When asked which elements of a lending program would best respond to the needs of the aboriginal entrepreneurial community, all groups mentioned flexibility. They were referring to flexibility of security requirements, use of funds and types of loans granted. They felt that creative solutions have to be found to get past the security restrictions which make on-reserve lending so difficult. Some participants felt that loans often came with strings attached and wished for programs that would allow them to decide how best to invest the loan capital. Cash flow management was said to be an ongoing challenge for small business yet few lending programs support businesses in this area. A program that helped entrepreneurs absorb the highs and lows of cash flow would be welcome. One group also mentioned that the idea of lending circles should be explored because it is a format that is viewed as being in tune with the aboriginal culture.

> *"(Lenders) should be able to say your investment has been 10 years in this industry. You have all these people supporting you and they all have an investment and a stake in making sure this is paid off. They should have creative solutions which don't rely on traditional methods of securing a loan which are completely, traditionally, unrelated to the native way of thinking in the first place."*

Another desired feature is one that allows entrepreneurs to use the debt capital to pay for expenses incurred shortly before the loan is approved.

As important as flexibility was the speed with which requests are processed. Participants felt that lending institutions and programs generally could not respond quickly enough considering the speed at which small business must operate to seize opportunities. All agreed that timing was a critical factor to the success of small businesses.

Another important factor was that lenders or administrators of programs take an interest in the operations of the entrepreneur and the business environment they operate in. It was generally felt that lenders did not understand the aboriginal business community.

Groups also mentioned the importance of support and follow-up. They would welcome guidance in financial matters like bookkeeping and accounting. They wished for a source of information and advice about their business decisions. Only ACCs were said to provide such support.

Finally, although not the most important issue, interest rates were of concern. Participants felt that small businesses can not afford very high rates.

ON-RESERVE LENDING ISSUE PAPER

Description of Issue

What is the best way to increase access to debt capital for Aboriginal entrepreneurs operating businesses on-reserve?

Possible Options

1. *Continue to exclude on-reserve lending under the SBLA for non-incorporated borrowers except for conditional sales contracts*
2. *Make changes to the SBLA legislation to favour on-reserve lending by removing, for SBLA loans only, security and access restrictions found in the* Indian Act
3. *Introduce a separate program similar to SBLA to stimulate lending to aboriginal entrepreneurs living on and off-reserve*

Overview

Most businesses opted for Option #3. They felt that there was a need for a program that would respond to the particular needs of on-reserve businesses. Although participants all recognized the difficulty posed by the security access limitations of the Indian Act, there was no clear agreed upon solution to the problem. Options #1 and #2 were considered unacceptable. Some did not vote for any of the proposed options but suggested a fourth -- i.e., improving the ACC programs to increase access to funds for on-reserve aboriginal businesses.

Continue to Exclude On-Reserve Lending

Not a single participant chose this option. They felt the status quo did nothing to improve their access to debt capital, which remains an important issue to them as small businesses.

Make Changes to the SBLA Legislation

At first, a few participants had chosen this option because they felt it would give aboriginal businesses the same access to capital as non-aboriginal businesses (these were entrepreneurs that had significant assets on-reserve). Most often however, after hearing arguments against this option, they changed their votes to Option 3.

Participants rejected this option for three reasons:

- They felt it may be a first step towards erosion of their rights:

  "They wouldn't use (this change) as a stepping stone would they?"

“...being a treaty Indian in Canada has its points (therefore Option #3 is the only one that can be considered)."

- They did not believe it was possible to make an exception to the Indian Act by changing the SBLA:

  "When I looked at number 2 -- it is impossible... you would be making changes to the Indian Act... General does not override a specific. The specific provisions within the Indian Act would override that."

- Even if changes were made, they did not feel that the SBLA program would meet all the needs of the aboriginal business community anyway:

  "(The SBLA program) would probably be non responsive to the changes in our businesses and communities."

Respondents were asked to comment on the following option:

> One of the ways that the program could work is that banks would not be required to take security. The government would assume the entire loss in the event of default. However, the borrower would pay both a higher interest rate and fee for the loan.

This option generated mixed responses mostly because it wasn't stated how much higher rates and fees would be. The conclusion was that businesses would be willing to pay a little more, within reason, if it meant securing funds that could not be accessed otherwise. Although one participant raised the possibility that taxpayers would not approve of this option, it was not of concern to other respondents.

Introduce a Separate Program Similar to SBLA

Although most people voted for this option, they did so in part by process of elimination and did not have clear recommendations to offer in terms of what this separate program should consist of. They generally had in mind a new program that would increase their access to debt capital and be more responsive to their needs; one that would be "all Indian", sensitive to native issues and understanding of the way of life on-reserve.

"Not something that belongs to SBLA, but something unique to the Indian people."

Speed in processing loans was also mentioned again as an important feature of a program that would be successful in meeting the needs of the aboriginal business community. Other suggestions made included that borrowers contribute less than 10% of the value of the loan and that a creative solution be sought to the security access problem for on-reserve businesses. In order to get a loan, one respondent had to sign a document allowing the bank “to come and get” his assets should he default. The Band Chief and a Counselor also had to sign the document. There was no apparent solution to this problem, and it was suggested that further consultation with the business community was needed to come up with a good alternative solution to address this difficult issue.

A few participants did not approve of any of the proposed options, being skeptical that any government program would successfully meet their needs. Nonetheless, they felt that the Aboriginal Capital Corporations were best suited to provide the needed service and that creating an additional program would be a duplication of the ACCs. They did add however that even ACCs needed to be changed in order to better address needs of businesses -- i.e., lowering interest rates.

Participants were asked what they would consider reasonable security requirements in cases of land and premises loans made on-reserve, given that borrowers do not individually own the land. Responses included:

-- Any off-reserve assets

-- Any moveable assets

-- Sweat equity; if someone has been working hard for years, the lenders should recognize that as a commitment to the business

-- Past success of the business

The last two reflect the belief that such non-tangibles should be considered as a form of security.

Some participants felt the use of Band Council Resolutions should be encouraged to provide for security.

Cost-Recovery

In the context of this discussion, participants were asked the following question:

> The financial objective of the SBLA program is cost recovery. If lending rates are higher for certain SBLA category of loans resulting from higher risk and default rates associated with those loans, which policy option do you recommend to the SBLA to achieve the program's cost recovery objective?
>
> 1. Costs for these types of loans should be borne by SBLA borrowers in that specific category of loans
>
> 2. Costs for these types of loans should be borne by all SBLA borrowers

Importantly, participants interpreted this question to be about risk associated with different classes or types of business rather than risk associated with lending to on-reserve Aboriginal businesses vs. non-Aboriginal businesses.

All respondents chose Option #1 saying that entrepreneurs venturing in riskier types of businesses should be prepared to pay a higher price for doing so, adding that typically the expected returns are proportionately higher. It would be unfair for all lenders to share the cost:

> *"If everyone in one category -- to use an example -- if all caterers were defaulting on their loans then they should have the higher standards to have to qualify for them and the higher rates to have to pay for them rather than the other people*

who are doing very well with their loans and paying them off on time and not having any problem."

One respondent did comment that risk assessments should be made for each individual request allowing for the fact that entrepreneurs' success rates are more a function of their skills and talents than the type of business they are operating in.

ELIGIBILITY OF ACCs AS LENDERS ISSUE PAPER

Description of Issue

Should Aboriginal Capital Corporations (ACCs) qualify as eligible lenders under the SBLA?

Possible Options

1. *Continue to exclude ACCs as eligible SBLA lenders*
2. *Include ACCs as eligible SBLA lenders*

Overview

A majority of respondents chose the option to include ACCs as eligible SBLA lenders. They felt this option would be beneficial to ACCs, which they supported, and that including ACCs would increase their access to needed debt capital.

Continue to Exclude ACCs as Eligible SBLA Lenders

Respondents did not see any advantage to the status quo.

Include ACCs as Eligible SBLA Lenders

Reasons for supporting this option included:

- A desire to support ACCs and a belief that including them would be beneficial to aboriginal businesses through lower interest rates. Even though participants were told that including ACCs as eligible lenders did not necessarily mean that interest rates would decrease and that the 2% fee applied, they still felt that they could only benefit from it.

  "I know that small native business, we all support each other. We help each other any way we can. I would probably support a native loan company."

  "I think (including them would) increase their market, increase their funding. ... they are very community involved. They could lower their rates possibly and

widen the scope and reduce the percentage. I think a lot of positive things could happen."

- A belief that including ACCs would improve businesses' access to loans by creating a more 'approachable' lending channel and one that would give out loans more freely to on-reserve businesses -- i.e., be willing to take more risks.

  "Aboriginal people get involved in their community. I think when you have an organization outside that is not accessible like SBLA, Aboriginal people won't access the funding because it is something they don't know. ACCs are familiar."

  "...if ACCs had more ability to administer loans through SBLA, then I think their accessibility would be much greater..."

- As aboriginal owned financing institutions, ACCs should have the right to deliver SBLA loans.

- Given a choice, respondents said they would favour approaching an ACC over a traditional lender because ACCs would be culturally sensitive and familiar with the particular band (assuming of course that the speed of processing loans were adequate). Generally participants said they would be prepared to pay the higher rate charged by ACCs, but within reason.

  "I think most of us don't mind paying a little extra for service. Obviously, if ACCs charge 10% more that the traditional system, then you wouldn't go to ACCs."

  One suggestion was that the government provide them with more support allowing them to lower their rates to match the banks' rates.

- Participants expressed a preference in supporting an aboriginally run lending institution over a traditional one.

Other Issues

- Participants felt that ACCs do not provide enough information about their programs.

- The point was made once again about small businesses' need for support after a loan is made, especially if a business starts to have difficulties in repaying the loan.

- A common complaint was that there was not enough relevant, timely information getting to entrepreneurs about available financial support programs, including the SBLA program.

APPENDIX I:
SAMPLE CHARACTERISTICS

SUMMARY OF CHARACTERISTICS OF SAMPLE
- Current SBLA Borrowers -

	Recruited	Participated
	80	52
	%	%
Gender		
Men	78	73
Women	23	27
Type of Business (self-description)		
Accommodation/food/beverage services	10	14
Retail trade	20	19
Transportation/storage	9	8
Manufacturing	16	14
KBEs	13	14
Other types	33	33
Age of Business		
Under 1 year	29	33
1 - 3 years	21	21
4 - 5 years	20	19
More than 5 years	30	27
Number of employees		
1 - 5	61	65
6 - 15	29	23
Over 15	10	12
Sales Volume		
Under $250,000	35	33
$250,000 - $499,999	14	17
$500,000 - $999,999	28	31
$1M - $2M	15	8
$2M - $5M	9	12
SBLA Loan Size		
Under $50,000	65	67
$50,000 - $99,999	19	17
$100,000 - $149,999	10	8
$150,000 - $199,999	1	2
$200,000 plus	5	6

SUMMARY OF CHARACTERISTICS OF SAMPLE
- Potential SBLA Borrowers -

	Recruited	Participated
	40	34
	%	%
Gender		
Men	55	50
Women	45	50
Type of Business		
Accommodation/food/beverage services	23	24
Retail trade	18	21
Transportation/storage	--	--
Manufacturing	3	3
KBEs	23	18
Other types	35	35
Age of Business		
Under 1 year	15	15
1 - 3 years	18	21
4 - 5 years	13	12
More than 5 years	55	53
Number of employees		
1 - 5	33	32
6 - 15	55	58
Over 15	13	9
Sales Volume		
Under $250,000	35	35
$250,000 - $499,999	20	21
$500,000 - $999,999	15	18
$1M - $2M	18	15
$2M - $5M	13	12

SUMMARY OF CHARACTERISTICS OF SAMPLE
- Voluntary Sector -

	Recruited	Participated
	24	16
	%	%
Gender		
Men	58	63
Women	42	38
Type of Voluntary Organization		
Not-for-profit	67	69
Charitable	29	25
Religious	4	6
Number of Years in Existence		
1 - 3 years	8	6
4 - 5 years	--	--
More than 5 years	92	94
Annual Revenue		
Under $250,000	42	50
$250,000 - $499,999	21	13
$500,000 - $999,999	13	6
$1M - $2M	17	19
$2M - $5M	8	13

SUMMARY OF CHARACTERISTICS OF SAMPLE
- Aboriginal Businesses -

	Recruited	Participated
	24	20
	%	%
Gender		
Men	63	60
Women	38	40
Type Of Business		
Retail trade	38	30
Business services	17	20
Manufacturing	13	10
Accommodation/food/ beverage services	8	10
Construction	8	10
Other service industries	17	20
Incorporated	8	10
Non-incorproated	92	90
Age of Business		
Under 1 year	4	5
1 - 3 years	8	10
4 - 5 years	17	20
More than 5 years	71	65
Number of employees		
1 - 5	71	80
6 - 15	25	20
Over 15	4	--
Sales Volume		
Under $250,000	67	70
$250,000 - $499,999	8	10
$500,000 - $999,999	17	15
$1M - $2M	4	5
$2M - $5M	4	--