



Innovation, Science and
Economic Development Canada

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Développement économique Canada

SMALL BUSINESS CREDIT CONDITION TRENDS

Innovation, Science and Economic Development Canada
Small Business Branch
Research and Analysis Directorate

ic.gc.ca/smeresearch

Canada 

2009-2011

This analysis was conducted by the Small Business Branch.

The Research and Analysis directorate brings you the latest research and exclusive statistics on SMEs in Canada. For all questions or comments, contact our team at ic.sbbsmers-rspmedgpe.ic@canada.ca.

The data used for the purpose of this analysis is also available on ic.gc.ca/smeresearch.

ABOUT THE SURVEY

Innovation Science and Economic Development Canada (ISED) maintains close contact with the small business community as part of its monitoring and data collection activities. Since 2009, ISED has managed various surveys on the borrowing activities of small businesses. Two in particular include the *Credit Conditions Survey (CCS)*¹ and the larger *Survey on Financing and Growth of Small and Medium Enterprises (SFGSME)*,² which is conducted every three years and also surveys medium-sized businesses. The CCS is implemented in years when the SFGSME is not conducted. These surveys monitor small and medium-sized enterprises (SMEs) to provide key information on small-business-lending conditions to the business community, lenders, policy makers and academics.

OVERVIEW

- In 2021, about 53 percent of small businesses requested external financing. Around 42 percent requested government financing and 18 percent requested debt financing.
- Among the small businesses that requested government financing, 71 percent requested the Canada Emergency Business Account, 54 percent requested the Canada Emergency Wage Subsidy, 14 percent requested Canada Emergency Commercial Rent Assistance and 4 percent requested the Highly Affected Sector Credit Availability Program.
- In general, credit conditions for small businesses remained favourable in 2021, as 93 percent of the dollar amount of debt financing requested by businesses was authorized.
- Debt financing was more often requested by larger firms.
- The main intended use of debt financing was for working or operating capital (55 percent).

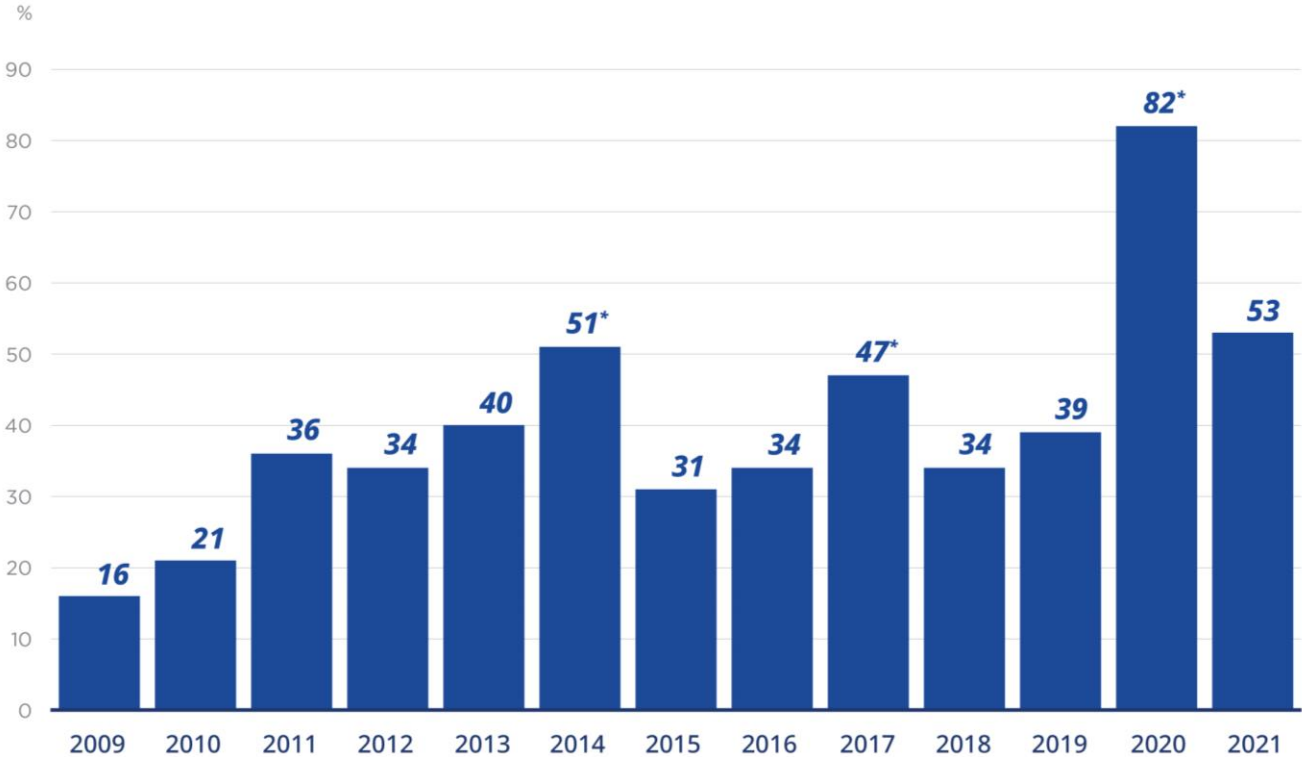
¹ The 2009, 2010, 2012, 2013, 2015, 2016, 2018, 2019 and 2021 CCS each collected data from more than 1,800 small employer businesses across the country. For more information regarding the CCS, consult the [SME Research and Statistics](#) website.

² The SFGSME collects information on SMEs' financing needs, growth, international business activities, innovation and intellectual property, and owner or primary decision maker characteristics. The most recent survey was conducted by Statistics Canada in 2020. For more detailed information regarding the SFGSME, consult the [SME Research and Statistics](#) website.

EXTERNAL FINANCING NEEDS

In 2021, 53 percent of small businesses requested external financing (debt, lease, equity, trade credit, and/or government financing) (Figure 1).

FIGURE 1: REQUEST RATES FOR EXTERNAL FINANCING

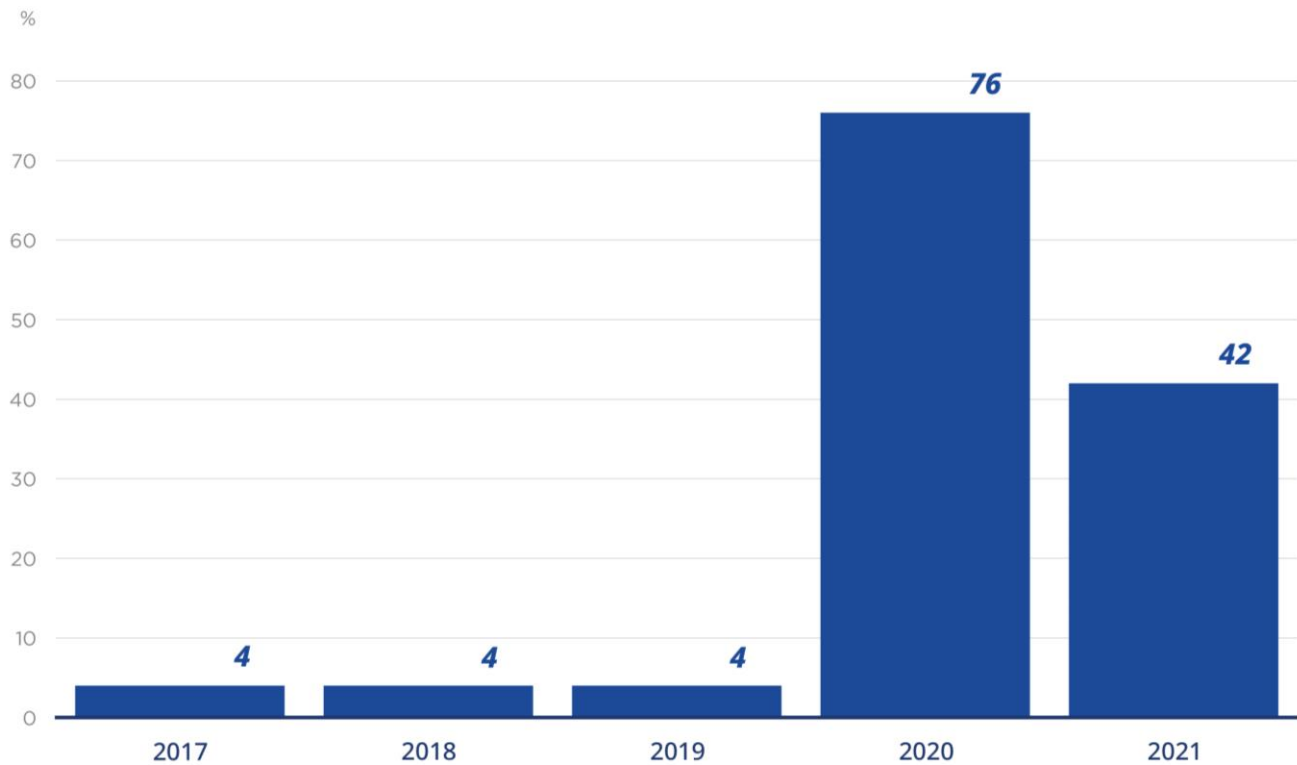


Sources: Innovation, Science and Economic Development Canada, *Credit Conditions Survey*, 2009, 2010, 2012, 2013, 2015, 2016, 2018, 2019 and 2021; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011, 2014, 2017 and 2020.

Note: * Due to a change to clarify the trade credit question in the 2014, 2017 and 2020 surveys, the request rates for external financing in 2014, 2017 and 2020 are not entirely comparable with those in the other years.

For 2021, 42 percent of small businesses requested government financing (government grants, subsidies, government guaranteed loans or non-repayable contributions) making this type of external financing the most requested (Figure 2 and Figure 3). In 2020, we observed a similar phenomenon, with 76 percent of SMEs requesting government financing. The steep increase in 2020 and 2021 is due to the support programs for businesses offered by the Government to counter the economic effects of the COVID-19 pandemic.

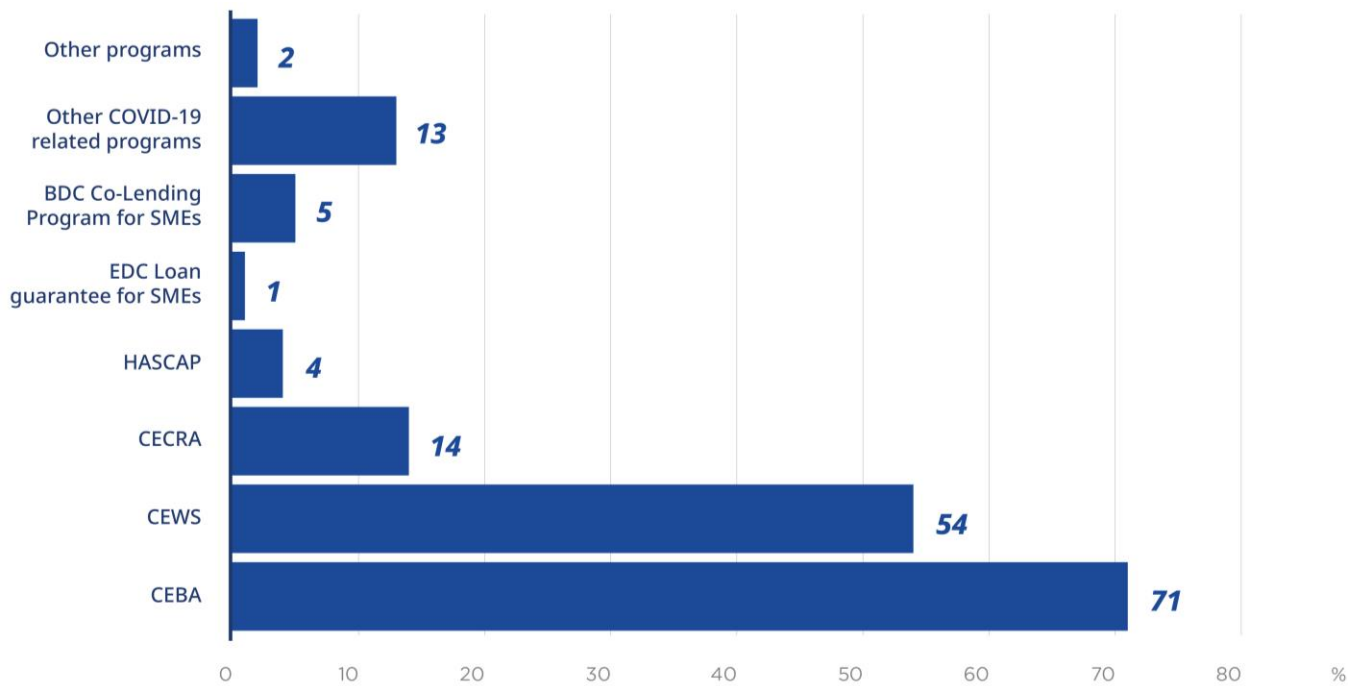
FIGURE 2: REQUEST RATE FOR GOVERNMENT FINANCING



Sources: Innovation, Science and Economic Development Canada, *Credit Conditions Survey*, 2018, 2019 and 2021; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017 and 2020.

Of the small businesses that requested government financing, 71 percent requested the Canada Emergency Business Account (CEBA), 54 percent requested the Canada Emergency Wage Subsidy (CEWS), 14 percent requested the Canada Emergency Commercial Rent Assistance (CECRA) and 4 percent requested the Highly Affected Sectors Credit Availability Program (HASCAP) (Figure 3).

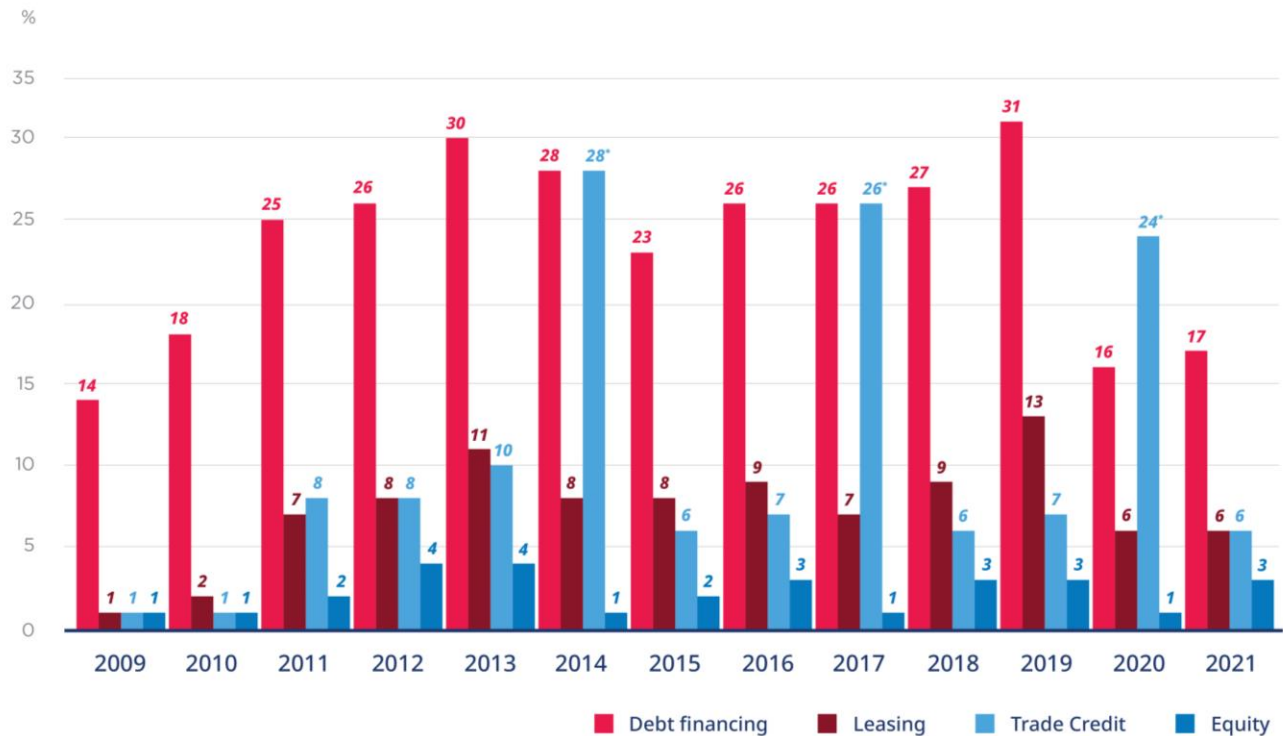
FIGURE 3: GOVERNMENT PROGRAMS REQUESTED



Source: Innovation, Science and Economic Development Canada, *Credit Conditions Survey*, 2021.

About 17 percent of small businesses requested debt financing (mortgages, term loans, lines of credit, and/or credit cards) in 2021, an increase of one percentage point from 2020 (Figure 4). Requests for debt financing reached its lowest level since 2010 in 2020 (16 percent) and 2021 (17 percent).

FIGURE 4: REQUEST RATES BY TYPE OF EXTERNAL FINANCING



Sources: Innovation, Science and Economic Development Canada, *Credit Conditions Survey*, 2009, 2010, 2012, 2013, 2015, 2016, 2018, 2019 and 2021; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011, 2014, 2017 and 2020.

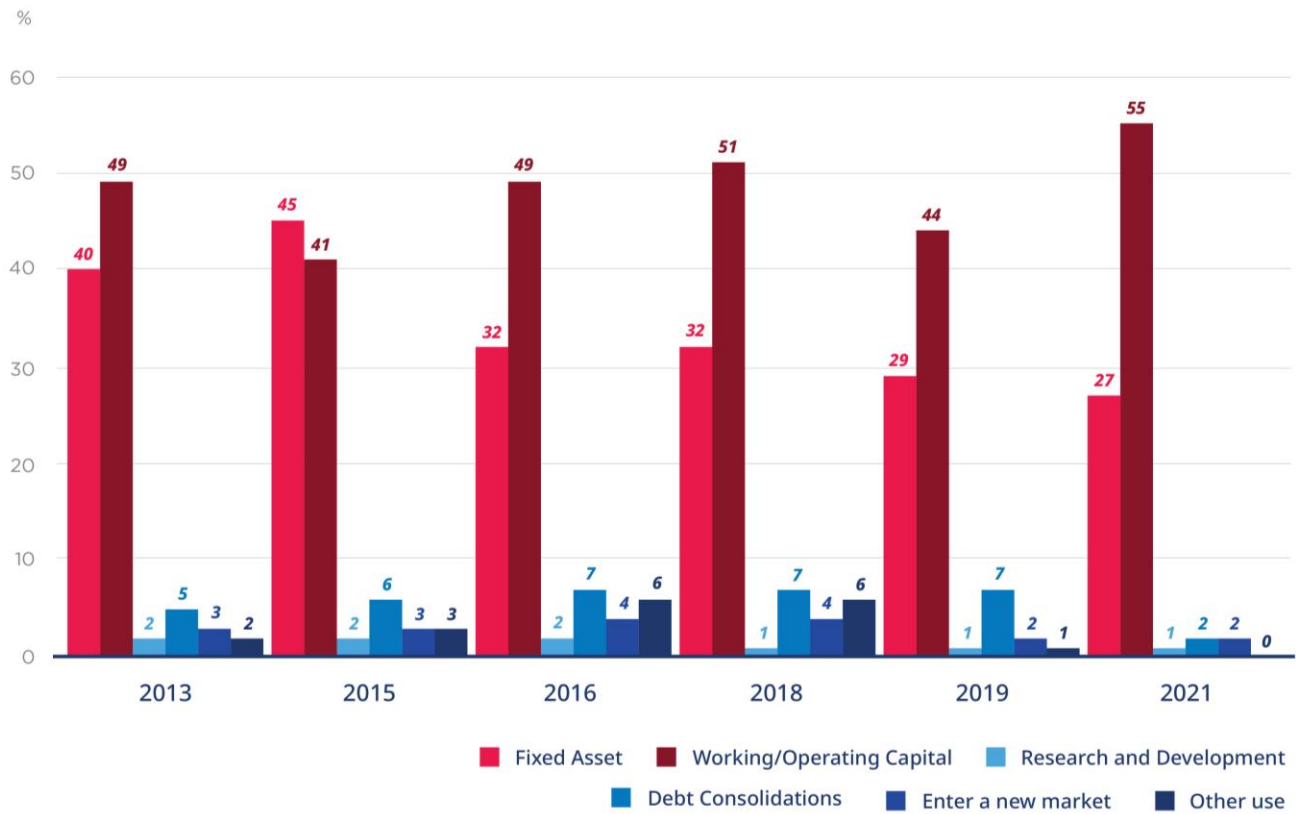
Note: * Due to a change to clarify the trade credit question in the 2014, 2017 and 2020 surveys, the request rates for trade credits are not entirely comparable with those in other years.

REASONS FOR SEEKING/NOT SEEKING FINANCING

Most small businesses that requested debt financing in 2021 intended to use it to support day-to-day working and operational capital expenditures (55 percent) or to purchase or maintain fixed assets (27 percent) (Figure 5).

In 2021, 2 percent of small businesses that requested debt financing intended to use it to consolidate debt, 2 percent to enter a new market, and 1 percent to support research and development (R&D).

FIGURE 5: THE MAIN REASONS SMALL BUSINESSES REQUESTED DEBT FINANCING



Source: Innovation, Science and Economic Development Canada, *Credit Conditions Survey*, 2013, 2015, 2016, 2018, 2019 and 2021.

In 2021, 85 percent of small businesses that did not seek external financing did not need financing (Table 1). Around 4 percent of non-seeking small businesses did not request financing because they thought that their request would be turned down.

TABLE 1: THE MAIN REASON SMALL BUSINESSES DID NOT REQUEST FINANCING

Reason	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)
Financing not needed	89	88	86	86	88	89	85	91	85	88	87	85
Thought request would be turned down	3	3	4	3	2	3	4	1	4	2	3	4
Applying for financing is too difficult	3	2	5	2	2	2	4	2	4	2	1	2
Cost of financing too high	2	1	2	2	1	2	2	1	5	2	1	2

Sources: Innovation, Science and Economic Development Canada, *Credit Conditions Survey*, 2010, 2012, 2013, 2015, 2016, 2018, 2019 and 2021; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011, 2014, 2017 and 2020.

ACCESS TO DEBT FINANCING

In general, credit conditions for small businesses remained favourable in 2021 (Table 2).

TABLE 2: REQUEST RATES, APPROVAL RATES AND AUTHORIZED-TO-REQUESTED RATIO

Year	Request rate (%)	Approval rate (%)	Authorized-to-requested ratio (%)
2009	14	79	72
2010	18	88	88
2011	25	88	90
2012	26	89	90
2013	30	85	89
2014	28	81	83
2015	23	88	90
2016	26	82	86
2017	26	87	93
2018	27	83	88
2019	31	89	89
2020	16	89	92
2021	17	94	93

Sources: Innovation, Science and Economic Development Canada, *Credit Conditions Survey*, 2009, 2010, 2012, 2013, 2015, 2016, 2018, 2019 and 2021; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011, 2014, 2017 and 2020.

The approval rate was 94 percent in 2021, the highest rate obtained over past years. The ratio of total funds authorized-to-requested was 93 percent in 2021, consistent with recent years and well above the 2009 recessionary levels (72 percent).

INTEREST RATES

Price conditions for debt financing eased in 2021. The average interest rate on debt financing decreased by 0.7 percentage point to reach 4.1 percent in 2021 (Table 3). Over the same period, the prime rate decreased by 0.3 percentage point to reach 2.5 percent. The risk premium, a measure of the lenders' risk perception, decreased by 0.3 percentage point to reach 1.7 percent, the lowest level since 2019.

TABLE 3: AVERAGE INTEREST RATE ON DEBT FINANCING

Interest rate	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)
Interest rate, average	6.2	5.8	5.3	5.4	5.6	5.2	5.1	5.3	5.4	5.7	5.3	4.8	4.1
Interest rate, prime rate	2.4	2.6	3.0	3.0	3.0	3.0	2.8	2.7	2.9	3.6	4.0	2.8	2.5
Risk premium	3.8	3.2	2.3	2.4	2.6	2.2	2.3	2.6	2.5	2.1	1.4	2.0	1.7

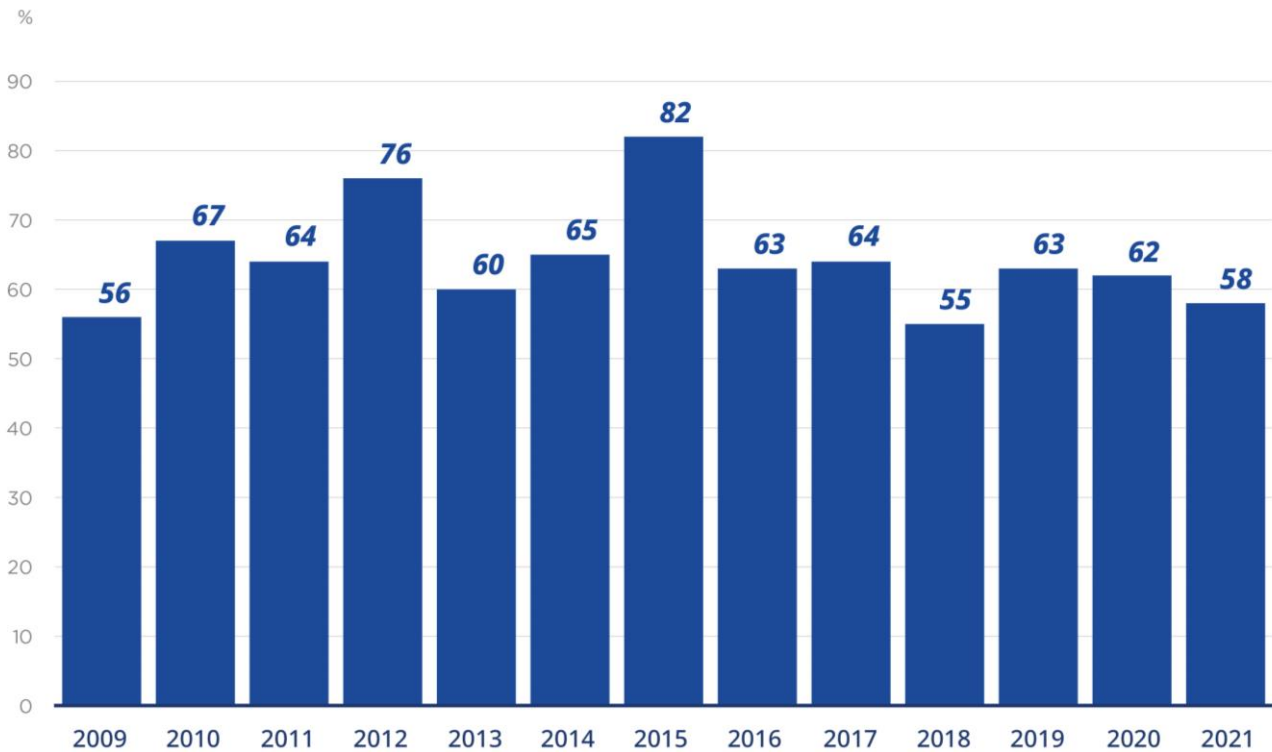
Sources: Innovation, Science and Economic Development Canada, *Credit Conditions Survey*, 2009, 2010, 2012, 2013, 2015, 2016, 2018, 2019 and 2021; Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011, 2014, 2017 and 2020; and Bank of Canada.

Note: Interest rates charged on credit cards are excluded.

COLLATERAL RATES

About 58 percent of small businesses were required to pledge collateral in 2021, a decrease from 62 percent in 2020 (Figure 6).

FIGURE 6: COLLATERAL RATES FOR DEBT FINANCING



Sources: Innovation, Science and Economic Development Canada, *Credit Conditions Survey*, 2009, 2010, 2012, 2013, 2015, 2016, 2018, 2019 and 2021; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011, 2014, 2017 and 2020.

ACCESS TO DEBT FINANCING BY TYPE OF BUSINESS

Debt financing request rates positively correlate to size of business (Table 4). In 2021, 11 percent of businesses with 1 to 4 employees requested debt financing compared to 19 percent of businesses with 5 to 19 employees and 31 percent of businesses with 20 to 99 employees.

Approval rates were highest among businesses with 1 to 4 employees in 2021. About 96 percent of business debt-financing requests with 1 to 4 employees were approved.

TABLE 4: ACCESS TO DEBT FINANCING BY BUSINESS CHARACTERISTICS, 2021

	Request rate (%)	Approval rate (%)
All small businesses (1 to 99 employees)	17	94
Employment size		
1 to 4 employees	11	96
5 to 19 employees	19	95
20 to 99 employees	31	87
Export		
Exporter	18	92
Non-exporter	17	94
Age of business		
2 years old or younger	31	96
3 to 10 years old	20	95
11 to 20 years old	15	94
More than 20 years old	16	94
Innovation activities developed or introduced		
Innovator	20	90
Non-innovator	14	99

Source: Innovation, Science and Economic Development Canada, *Credit Conditions Survey*, 2021.

The debt financing request rate is highest for start-ups (2 years old or less). Thirty-one percent of them requested debt financing in 2021, compared to 16 percent for businesses that are more than 20 years old. The average approval rate for start-ups (96 percent) is 2 percentage points higher than for older businesses (94 percent).

Small business exporters and innovators were more likely to request financing than non-exporters (18 percent versus 17 percent) and non-innovators (20 percent versus 14 percent) in 2021. The approval rate for exporters was 92 percent, compared to 94 percent for non-exporters. However, there is no evidence that innovators were better able to access financing. Approval rates for innovators (90 percent) were lower than for non-innovators (99 percent).

FINANCIAL GLOSSARY OF CREDIT CONDITIONS SURVEY

Approval Rate

The ratio between the number of firms approved (fully or partially) for financing and the number of firms that requested financing.

Authorized-to-Requested Rate

The ratio between the total amount of loans authorized by lenders and the total amount of loans requested by borrowers.

Business Risk Premium

The business risk premium is the difference between the average small business interest rate and the business prime rate (the rate charged to the most creditworthy borrowers).

Collateral

An asset pledged by a borrower to a lender, usually in return for a loan. The lender has the right to seize the collateral if the borrower defaults on the obligation.

Collateral Rate

The percentage of firms required to provide collateral to secure their loans.

Debt Financing

A type of financing used to collect funds through the form of borrowing debt such as non-residential mortgages, term loans, lines of credit, and/or credit cards.

Equity Financing

A type of financing used to collect funds by selling equity such as shares/ownership of the business entities.

External Financing

The phase of financing used to describe funds that business entities obtain from outside their business; the funds can be obtained through various forms/sources such as debt, lease, equity, trade credit and government financing.

Financing

The act of providing or raising funds for business activities, making purchases or investing.

Lease Financing

A type of financing used to collect funds through the form of a lease.

Line of Credit

An arrangement that a financial institution extends an amount of credit to a business entity.

Mortgage

A debt instrument secured by the collateral of a specified real estate property that the borrower is obliged to pay back with a predetermined set of payments.

Price and Non-Price Conditions

A financing condition measured by the pricing factors such as loan rates, mortgage rates, and credit card rates; and, a financing condition measured by the non-pricing factors such as collateral rates, leasing terms, and trade credit payment and discount days.

Term Loan

A monetary loan that is repaid following a specific repayment schedule and a fixed or floating interest rate.

Trade Credit

An agreement where a business entity can obtain and/or consume goods and services in advance, and pay the suppliers at a later date.

Request Rate

The ratio between the number of firms that requested financing and the total number of firms.