Innovation, Science and Economic Development Canada
Innovation, Sciences et Développement économique Canada
Canada

SMALL BUSINESS CREDIT CONDITION TRENDS, 2009–2016

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www.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 Canadian small businesses. Two in particular include the *Credit Conditions Survey* (CCS)[1] and the larger *Survey on Financing of 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) access to financing to provide key information on small-business-lending conditions to the business community, lenders, policy makers and academics.

OVERVIEW

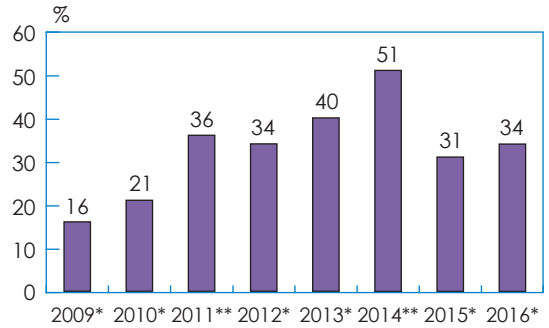
- In general, credit conditions for small businesses remained good in 2016 with the rate of total funds authorized-to-requested at 86 percent.
- Request rates for external financing increased mainly due to rising requests for debt financing.
- The pricing conditions for debt financing were steady, while non-pricing conditions eased compared to those in 2015.
- Alberta continued to experience tightened access to financing due to low energy prices since the end of 2014.

EXTERNAL FINANCING NEEDS

In 2016, 34 percent of small businesses requested external financing (debt, lease, equity, trade credit, or from government), a slightly higher demand than 31 percent in 2015 (Figure 1).

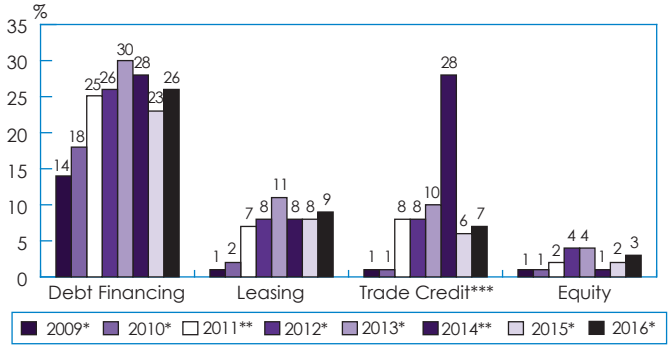
About 26 percent of small businesses requested debt financing (mortgages, term loans, lines of credit, and/or credit cards), representing a 3 percentage point increase from 2015 (Figure 2).

Figure 1: Request rates for external financing remain steady in 2016



Sources: *ISED, *Credit Conditions Survey*, 2009, 2010, 2012, 2013, 2015 and 2016; and **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011 and 2014.

Figure 2: Small businesses' demand for all types of financing increased slightly from 2015



Sources: *ISED, *Credit Conditions Survey*, 2009, 2010, 2012, 2013, 2015 and 2016; and **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011 and 2014.

Note: *** Due to a change to clarify the Trade credit question in the 2014 survey, this data is not entirely comparable with prior years.

REASONS FOR SEEKING/ NOT SEEKING FINANCING

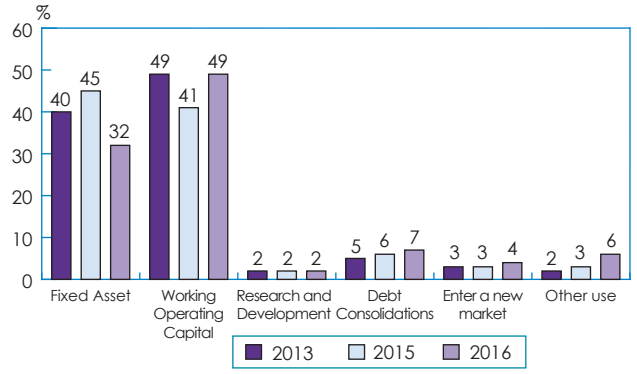
Most small businesses that requested financing in 2016 intended to use it to support day-to-day working and operational capital expenditures (49 percent) and to purchase fixed assets (32 percent) (Figure 3).

Similar to 2013 and 2015, 2 percent of small businesses that requested financing in 2016 intended to use it to support research and development (R&D), 4 percent to enter a new market, and 7 percent to consolidate debt.

[1] In 2009, 2010, 2012, 2013, 2015 and 2016 CCS collected data from more than 2,500 small employer businesses across the country. For more information concerning the CCS, consult the SME Research and Statistics website (www.ic.gc.ca/eic/site/061.nsf/eng/h_02192.html).

[2] The SFGSME collects information on SMEs' financing needs, growth, international business activities, innovation and intellectual property, and owner characteristics. The most recent survey was conducted by Statistics Canada in 2014. For more detailed information concerning the SFGSME, consult the SME Research and Statistics website (www.ic.gc.ca/eic/site/061.nsf/eng/h_02774.html).

Figure 3: The main reasons small businesses requested financing in 2016 were for working capital and fixed assets



Source: ISED, *Credit Conditions Survey*, 2013, 2015 and 2016.

In 2016, 85 percent of small businesses did not seek financing because it was not needed (Table 1).

Table 1: The main reason small businesses did not request financing was that it was not needed

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

Sources: *ISED, *Credit Conditions Survey*, 2010, 2012, 2013, 2015 and 2016; and **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011 and 2014.

ACCESS TO DEBT FINANCING

In general, small businesses had steady access to debt financing in 2016 (Table 2).

The ratio of total funds authorized-to-requested was 86 percent in 2016, consistent with recent years and well above the 2009 recessionary levels of 72 percent.

Table 2: Access to debt financing remained stable for small businesses in 2016 as measured by the amount 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

Sources: *ISED, *Credit Conditions Survey*, 2009, 2010, 2012, 2013, 2015 and 2016; and **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011 and 2014.

INTEREST RATES

Average interest rates on loans and non-residential mortgages increased slightly to 5.3 percent, representing a minor tightening in pricing conditions for borrowing in 2016 (Table3). Overall, lenders' risk perception has remained stable in 2016. The business risk premiums[3] have varied between 2.2 percent and 2.6 percent since 2011.

Table 3: Average interest rate on debt financing slightly increased in 2016

Collateral Rate	2009* (%)	2010* (%)	2011** (%)	2012* (%)	2013* (%)	2014** (%)	2015* (%)	2016* (%)
Interest Rate, Average	6.2	5.8	5.3	5.4	5.6	5.2	5.1	5.3
Interest Rate, Business Prime***	3.1	2.6	3.0	3.0	3.0	3.0	2.8	2.7
Risk Premium	3.1	3.2	2.3	2.4	2.6	2.2	2.3	2.6

Sources: *ISED, *Credit Conditions Survey*, 2009, 2010, 2012, 2013, 2015 and 2016; **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011 and 2014; and ***Bank of Canada.

COLLATERAL RATES

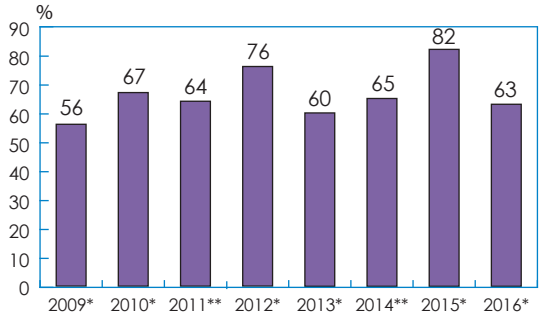
Lenders required less collateral to secure their loans. About 63 percent of small businesses were required to pledge collateral in 2016, a drop from 82 percent in 2015 (Figure 4).

The decrease of collateral requirements signaled an easing of non-pricing conditions for borrowing from the economic downturn in 2015, and was consistent with the findings from the Bank of Canada.[4]

[3] 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 credit worthy borrowers).

[4] Bank of Canada, *Senior Loan Officer Survey*, 2016.

Figure 4: Collateral rates for debt financing decreased in 2016



Sources: *ISED, *Credit Conditions Survey*, 2009, 2010, 2012, 2013, 2015 and 2016; and **Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011 and 2014.

ACCESS TO DEBT FINANCING BY TYPE OF BUSINESS

Debt financing request rates were positively related to the size of the business (Table 4). In 2016, 23 percent of businesses with 1–4 employees requested debt financing compared to 26 percent of businesses with 5–19 employees and 39 percent of businesses with 20–99 employees. A similar pattern was recorded in previous years.

The access to debt financing has slightly improved for micro-businesses (with 1-4 employees) in 2016. Average approval rate for micro-businesses was 82 percent, surpassing 79 percent for the businesses with 5-19 employees for the first time since 2012. However, the businesses with 1-19 employees have continued to experience significant lower approval rates than businesses with 20-99 employees. The lack of credit history, managerial experience and assets to pledge for collateral were the main reasons for why smaller businesses experienced greater difficulties accessing financing.

The access to debt financing seemed to improve for Canadian start-ups (2 years old or younger) in 2016. Different from past years, approval rates for start-ups (86 percent) were the highest among all small businesses.

Small business exporters and innovators were more likely to request financing than non-exporters (28 percent versus 26 percent) and non-innovators (34 percent versus 19 percent) in 2016. However, no evidence showed that exporters and innovators had advantage in accessing financing. Exporters had the approval rates at 78 percent for their financing requests compared to non-exporters at 83 percent. Approval rates for innovators (82 percent) were similar to non-innovators (83 percent).

Financing request rate was the highest at 31 percent in Alberta, while the approval rate was the lowest at 78 percent. Alberta continued to experience tightened access to financing due to a slump of global energy prices since the end of 2014.

In addition, financing request rates were the highest at 35 percent in construction sector, followed by 30 percent in transportation/warehousing sector and 29 percent in primary and retail and wholesale sectors. The highest approval rate was observed in the transportation/warehousing sector (89 percent), followed by 87 percent in the construction sector.

Table 4: Access to Debt Financing by Business Characteristics

	Request Rate (%)	Approval Rate (%)
All Small Businesses (1–99 employees)	26	82
Employment Size		
1–4 employees	23	82
5–19 employees	26	79
20–99 employees	39	92
Export		
Exporter	28	78
Non-exporter	26	83
Age of Business		
2 years old or younger	39	86
3 to 10 years old	31	76
11 to 20 years old	29	77
more than 20 years old	21	85
Innovation Activities Developed or Introduced		
Innovator	34	82
Non-Innovator (none of the above)	19	83
Region		
Atlantic	26	80
Quebec	28	80
Ontario	23	85
Manitoba-Saskatchewan	25	81
Alberta	31	78
British Columbia and Territories	25	86
Industry		
Accommodation and Food	26	80
Construction	35	87
Manufacturing	26	85
Primary	29	81
Professional Services	24	84
Transportation/Warehousing	30	89
Retail and Wholesale	29	81

Source: ISED, *Credit Conditions Survey*, 2016.

FINANCIAL GLOSSARY OF CREDIT CONDITION SURVEY

Approval Rate

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

Authorized-to-Requested Rate

The ratio between total amount of loans authorized by lenders and 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 credit worthy 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 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.

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 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 specified real estate property that the borrower is obliged to pay back with a predetermined set of payments.

Pricing Condition and Non-Pricing Condition

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.

This analysis was prepared by the Small Business Branch.

If you have questions or comments about the content of this analysis, please email ic.sbbsmers-rspmedgpe.ic@canada.ca.

All data used for the purpose of this analysis can be accessed from the SME Research and Statistics Website (www.ic.gc.ca/SMEresearch).