CHAPTER : 2

SMALL BUSINESS FINANCING : A FEDERAL TOOL TO REDUCE REGIONAL DISPARITIES

Small Businesses are playing pioneering role in shaping Canada's regional economic development. It is both influenced by, and takes its shape from, the national economic setting, and it influences and gives shape to Canada's future economic setting. Further in terms of achieving national goals such as increased employment, increased real earnings and diminished regional economic disparities, the potential contribution from small enterprise is immense. It is difficult, in fact, to see how such goals could be achieved without enhanced small business participation. Coley (1990) in his study points out that the Canadian small business sector contributes approximately 25% of the GNP and 40% to employment (1). Similarly, Ministry of State for Small Business and Tourism indicated that 30% of the GNP is credited to small business, and they account for 97% of all companies doing business in Canada and are responsible for 42% of private sector employment. David Birch (1979) in his study in the USA concluded that small firms are the primary source of new jobs created (2). It is obvious that increased levels of manufacturing activity do have more or less exclusive features in creating higher levels of employment.

Growth of output hinges essentially on increases in Manpower, Capital Stock and Productivity. Although increased productivity is a distinct source of growth, it is often difficult to attain in practice without new equipment, innovations, or the discovery or creation of new outlets. Thus the availability of financial resources is a vitally important pre-requisite for the achievement of desired productivity growth in general & development of the industrially lagging provinces in particular. It is widely recognized that a healthy financial structure, with a strong equity base as its cornerstone, is of great benefit to any business.

FINANCIAL SYSTEM AND FEDERAL PARTICIPATION

The Canadian financial system emerged from the Great Depression with a configuration that is still in place, albeit considerably altered. Canada's financial system evolved as part and parcel of the settlement and economic development of each region (3) There are four basic pillars of the Financial System:-

1. Banking.
2. Insurance.
3. Trust and
4. Securities Industries.

All of them were regulated separately. Such a separation of powers was aimed at re-establishing confidence in the Financial System following the severe blows it had received in the 1930s. The separation between commercial lending and trust activities, and between banking and securities dealing, was also intended to minimise conflict-of-interest situations.

Recently Canadian Financial System has undergone a change and eroded some of the distinctions between banks, trust companies and other institutions. There is a generalized movement towards diversification. Banks, trust companies, life insurance companies, credit unions, and Caisses Populaires have diversified by increasing the line of services offered and by entering areas outside their traditional domain. A host of new Financial Instruments have emerged. Today, it is becoming more and more difficult to determine what is a mortgage, what is a commercial loan, what is a deposit, and what is an investment in a security.

More precisely, Small Business loans are available from the two distinct Institutional sources :

1. National Financial Institutions :- The Canadian Financial System is, essentially, a national one, with nationwide branching of most major financial institutions. These include Chartered Banks, FBDB and SBLA.

2. Provincial Agencies such as Caisses Populaires, Development Corporations, Provincial Venture Capital Corporations etc.

The scope of our study restrict us to analyse only Federal participation in the form of FBDB & SBLA in financing small business financial requirements. The efficacy of Federal involvement in the form of FBDB and SBLA for the attaining national goal to diminish regional economic disparities through fostering & facilitating industrialization in those industrially lagging/depressed regions is the basic issue of analysis.

Before we turn towards the analysis of the contribution made by the FBDB & SBLA let us answer a basic question : Why is Federal and Provincial government involvement or interference in Small Business Financing required in a free market economy such as Canada's ?

To reply this eloquently let us consider the following arguments:

Schults and Alexandroff (1986 P.125) point out : If the federal and provincial governments insist on directing further industrial change, then greater attention must be paid to altering the financial system in this country to enable state direction to proceed with some chance of success (4). Federal support of regional goals needs to be translated into active federal involvement in encouraging credit creation in peripheral regions and discouraging capital outflows which have no rationale in production conditions, no matter what the division of regulatory powers. Moreover, more direct means of altering the allocation of credit would involve govt-owned banks. Further, the public sector could promote more competition in the financial sector, as well as more regional segmentation, by promoting local non-bank financial intermediaries, particularly credit unions and Caisses Populaires.

Historically, increasing govt. involvement is an appropriate solution for Canada. As Phillips (1978) concludes from his study of Canada's regional disparities, the public sector has been the primary source of entrepreneurship in the past and can be expected to be so in the future, given the opportunity (5). Therefore govt. involvement either as a financier or as a business partner can be the most accepted solution.

In monetary areas, in the allocation of new credit, the banks unquestionably dominate. But the federal govt. has jurisdiction over the banks, and hence the scope for influencing the way in which money is allocated, as a tool of regional policy. Thus the most direct method of influencing the regional allocation of credit and the loan charges imposed, is to have bring the banking system largely or entirely under the public sector banking system. Although politically such a solution might be regarded as impractical, economically it is more viable. In the absence of such a sweeping solution, the provincial governments themselves could establish banks in their own provinces. Legislation was drafted but never enacted in British Columbia to set up a Savings & Trust Corporation with the powers, if not the same, of a bank (Shaeila Dow - 1990).

Economic Council of Canada (1982 b) advocates, govt. guarantees on bank loans, rather than govt. loans, may be the most effective way of reducing rationing in declining regions.

Though private individuals can provide initial start-up capital but are not in a position to supply second level (i.e. developing stage) financing which may be crucial to grow in early stages of firm's life. Furthermore the right kind of private individual is seldom found. Therefore federal involvement in the form of financial institutions could help financing from the venture capital to financing for diversification.

It was argued that govt. involvement in the economic sphere may lead to a political decision i.e. favouring the few at the expense of the majority.

However, two reasons are advanced for this ·

(1) In the face of financial constraints on economic development then, the state undertook a key role which was to be characteristic of Canadian economic history, raising finance and distributing it according to the govt's development objectives. The state was less constrained in its ability to create credit and distribute it at will, than were private sector financial institutions (6).

(2) The second best example is the Federal government's financial contributions

to social service expenditure (now under a system of block grants) contributes to a more even pattern of regional development across regions, to the extent that there social services provide infrastructure support to local industry and to the extent that provincial revenues are freed up for economic development objectives.

The Porter Commission concluded that the expansion of lending activities to small business by a variety of institutions "suggests that some deficiencies have existed" (7). The Commission concluded on the line of the US Federal Reserve study that an unfilled thin margin is there between the volume of funds available to small concerns in general and to new firms in particular. Mr. Michael Koerner (1980) in a brief to the Porter Commission, contended that the 'gap' was intermediate and long-term credit and equity capital, he recommended Small Business Investment Company - type legislation for Canada. Hence Federal/Provincial govt. intervention is recommended to bridge such persistent credit gaps.

The province of Manitoba's submission said that institutional facilities have not developed sufficiently, in Canada to support adequate equity and loan capital to small business. Firms whose needs exceeded normal working capital requirements, but which were too small for a public issue, were faced with few and inadequate sources of funds precisely at the point where new firms may enter into optimum growth (Sears John T-1972). Thus failure to meet financing needs satisfactorily had some adverse effect on current business operations and expansion plans as well. Such diabolic influence can be prevented with the help of Federal Financial Institutions.

Ryba (1974 a) rejected direct government involvement in financial markets in terms of influencing the flow of funds. He argues rather in favour of government establishment of a financial centre which would promote the growth of Quebec markets in stocks bonds and money by providing research and other service facilities. This is not put forward on a general solution for all Canadian Regions, because he suggests, Quebec has a more developed secondary sector than the Atlantic & Prairie regions and has a history of financial eminence to draw on. Ryba's suggestion implies that the direct involvement of the govt in terms of financing to the small business in the industrially lagging/depressed provinces cannot be a concrete solution because they have depressed secondary sector unlike Ontario and have paucity of the infrastructural and financial facilities.

Further, private sector financial agencies have been following a efficiency criteria and interested only in a larger deals. Profit maximization justifies the banks in channelling the credit and money creation process away from the industrially poor regions Some experts claim that the chartered banks do not provide 'true' venture capital and instead lend money at fixed rates to more mature firms. Their deals do involve an equity provision that require some participation in profits. According to the Vice President of Independent Business of the CIBC "We have no infla tion, nor do any of the Chartered Banks, of providing Venture Capital. I do not see that as our role". This entirely contradicts the concept of small businesses utilizing Chartered Banks for venture capital (8).

The Canadian Venture - Capital community is mainly investing in larger investments and tend to be oriented more towards high - technology companies and manufacturing firms with most of them preferring to invest above a certain amount and in industrially affluent regions. It is also interesting to note that all of the firms receiving funds from private sector sources were typically above $2 million in sales had more than 10 employees and were more than five years old. This confirms the fact that start-up situations and indeed even firms under five years old usually do not receive funding from private venture capitalist (9).

Kao indicated the same fact that venture capitalists invest mainly in medium-sized businesses and most investments are between $100,000 to 1 million. Therefore small business requiring seed capital or start-up capital will find that venture capitalists do not invest in the lower end of the equity market (10).

The Royal Commission on Corporate Concentration (1978 P. 65-66) and the Economic Council of Canada (1982 b Chapter - 3), noted that given the higher interest charges on loans to small businesses in remote areas the greater reliance on bank loans in these regions is a sign of greater illiquidity. Research of failed businesses indicates that excessive debt was a common cause and high interest rates were more a symptom than an actual problem (11).

A study by Russell M. Knight (1985) indicated that loan applications are rejected if the firms are younger or are located in more rural areas away from the larger metropolitan centres. Further he concluded that the venture capital in Canada is not really being oriented towards start-up investments and, they are rather restrictive in the industries which they prefer and the areas of Canada in which they will invest.

However, T Courchene (1986) comments against increased federal jurisdiction over the Financial Sector because it would increase scope for impediments to international sources of resource mobilization.

Historically, Courchene has rightly doubted the direct involvement of the Government because the financial system at the national level was dependent for its resources in the early stages of development on foreign exchange. Nevertheless, the recent instances of India and China are sufficient to refute the fear of Courchene. In India though Central and State Governments' participation is higher in all economic affairs including industrial and agricultural finance, manufacturing, public utilities, capital building, construction of dams and bridges, etc. substantial amount of foreign investment have been realised. Similar is the case of China.

Except Courchene's acrimony regarding direct government involvement in financing activity, rest of the anecdotes strongly advocate need of the federal involvement in financing small business activity to alleviate the deficiencies from venture capital to awareness of the financial sources. In short, government participation is required not only to cushion the abrasive 'gap' in the small business financing in the industrially lagging regions but to attain socio-economic objectives as the State has throughout Canada's history played a central role in directing the pattern of regional development.

The Federal and Provincial Governments can further influence the structure of the financial intermediaries. Beginning with the provincial savings bank in the 1930s, the public sector has attempted to fill perceived gap in the financial intermediation process. The study of provincial government financial agencies have been excluded from the analysis because the main thesis revolve around the federal effort to correct existing regional disparities in industrialization. Let us now turn to analyse the federal participation in financing small businesses at the different stages. Let us examine how far Federal government vehicles have successfully and effectively filled up the persistant 'gap' left over by the private sector financial agencies in small business in general and small businesses located in the industrially lagging provinces in particular.

FEDERAL EFFORT IN SMALL BUSINESS FINANCING

The implementation by the Canadian government of small business support measures began as far back as 1944, when the Industrial Development Bank was established to provide debt financing to small businesses and to help adjust to post war economic condition. SBLA is another federal program which helps small firms meet their debt financing requirements. There are two vehicles established by the Federal government for debt financing to the small businesses: (1) IDB now reorganised as the FBDB and (2) the enactment of the Small Businesses Loans Act.

In the following para we shall examine the establishment and efficacy of both federal vehicles in greater detail.

: FEDERAL BUSINESS DEVELOPMENT BANK :

FBDB is a Crown Corporation wholly - owned by the Government of Canada, which was established on December 20,1974 by the FBDB Act and commenced operation on Oct 2,1975, as the successor of the Industrial Development Bank.

The objectives of the Bank as stated in the Act, are to promote and assist in the establishment of business enterprises in Canada by providing financial assistance, management counselling, management training, information and advice, giving particular consideration to the needs of small business enterprises. The Bank is exempt from income taxes.

The Bank increased its activity of providing equity financing to small businesses. During 1980 FBDB is one of the major sources of venture capital financing in Canada. In fulfilling its role as a supplementary lender, the Bank provides financial assistance to many small and medium size businesses which have marginal resources. Their ultimate success critically depends on economic conditions.

In 1983, in the field of term lending the Bank started emphasising activity in non-metropolitan areas and will be broadening the range of options it will make available to small businesses. In August 1983 the Bank formed an Investment Banking Division as significant element in the implementation of its new mandate. This Division took over the Bank's former portfolio of venture capital investments and is funded by equity. Its role is to act as a catalyst in stimulating the formation of risk capital for threshold companies with high growth potential. The services offered by the FBDB under this Division include direct purchase of a majority ownership investment, underwritting of private placements, joint ventures, syndication of proposals to other venture capitalists and financial institutions, as well as assistance in mergers and acquisitions. By syndicating its investment activity and by participating with the private sector, the Division is able to exert on influence significantly beyond its own capital base This catalytic role of leverage has a multiplier effect on the amount of risk capital available to Canadian businesses.

The 5700 new loans and guarantee customers of the Bank in Fiscal year 1987 alone, except to create about 10,000 new jobs across the country. Relatively greater proportion of these new jobs are expected to be created in a province with a higher unemployment rate.

Its services are relatively more prevalent in communities outside Canada's major metropolitan areas. The FBDB's activities in Atlantic region coupled with those of other

Federal agencies, will lead to significant augmentation of this regions' economic output and employment.

FBDB also offers a special services to meet the needs of small and medium sized businesses involved in exporting. The export receivable financing programe operates as a pilot project. The guarantee is applicable for lines of credit extended by private sector financial institutions and is based on an exporter's foreign receivables.

To encourage entreprenurship among Canadian Youth, FBDB also delivers the Student Business Loans Program on behalf of Employment and Immigration - Canada.

Near close of fiscal year 1988 FBDB also agreed to administer a special $2 million loan assistance program for mollusc growers in Atlantic Canada and Quebec on behalf of the Federal Government.

The FBDB is the most likely alternate source of financing for those applicant rejected by a Chartered Bank, it becomes obvious that the identified financing gap is a most serious one, with seemingly few available alternative to overcome it.

In totality, FBDB offers the following service :

I Loan and Loan Guarantees.

(A) Term Loans and Loan Guarantees : To finance a variety of project on flexible terms and conditions.

(B) Venture capital Division : In 1983 the Venture Capital Division of bank has started with the objective to provide equity financing to a thriving small and medium - sized firms that show a high potential for growth but have limited access to equity capital from the private sector. The Division is the only national source of venture capital in Canada.

(C) Export Receivable Financing : The FBDB can provide a full guarantee to financial institutions for lines of credit that they extend to exporters on their foreign receivables.

II Management Services :

For Management counselling CASE is a unique counselling service offered exclusively to small & medium - sized businesses by the FBDB. It'was established in 1972.

The purpose of the study is to analyse the efficacy of the FBDB 'term lending operation' to show how far it is capable to generate finance to the declining or industrially lagging regions in order to spur industrialization and in turn generate employment & income. Let us consider the Table : III.1 (A).

In terms of number of loan approvals Ontario, Quebec, British Columbia and Alberta have been controlling around 80% to 85% of the share and rest of the six provinces & two teritories hardly retain 15% to 20% share throughout the period taken for the analysis (i.e. from 1961 to 1989). Out of four Atlantic province, only New Foundland has shown an improving trend from bottom level in 1961 to fifth rank in 1984 and has maintained it till 1989.

Where as position of Manitoba and Saskatchewan becoming worst as they both were ranked fifth and sixth respectively till 1975 and started declining since then consistently & ranked eighth & nineth in 1989. Neither substantial nor minor changes have been recorded in case of Prince Edward Island from 1961 to 1989, Nova Scotia and New Brunswick have shown mixed trend in terms of their percentage share of number of loan approvals. It follows from this analysis that the FBDB's activities in Atlantic region coupled with those of other federal agencies hardly played any role to augment region's economic output and employment.

Table : III.1 (B) supports the same notion that industrially affluent provinces were getting more flow of funds for business where as industrially lagging provinces were not capable to grab enough loan amounts for investment purpose. Ontario, Quebec, British Columbia and Alberta all of them together were commanding around 80% to 85% of loan amounts with an improving trend for selected years taken for the analysis (i.e. 1961 to 1989). Where as rest of the provinces (i.e. four Atlantic provinces, Saskatchewan, Manitoba and two territories) hardly secured 15% to 20% of the amount of loan offered by FBDB. Since Ontario, Quebec, Alberta, and British Columbia received a disproportionately high amount of the larger FBDB loans compared with the Atlantic region, Saskatchewan and Manitoba, the distribution of the total FBDB loan was skewed in favour of the more affluent regions. This clearly identifies the lack of loan activity by FBDB is more visible in the manufacturing and, to a degree, transportation areas where the region's economy is weakest (eg. Atlantic region). This follows that like private financial agencies including Chartered Banks, FBDB also followed the criteria of efficiency. From this one can conclude that there was absence of regional development base in the FBDB lending policy.

The principal conclusion that can be made about the FBDB is that it has the potential of being a significant source of funds for industrially lagging provinces' small businesses, in practice, it has not achieved this potential for either small or new businesses. Therefore in industrially depressed provinces the need of the genuinely small businessman would still remain to be met. The data of table III.1 (A) and (B) clearly indicates that it is only in the latter stages of its operation FBDB become a source of any significance for firms & individuals in the New Foundland only. Throughout the period taken for analysis (i e. 1961 to 1989) FBDB has been of virtually no significance to small new businesses in the industrially lagging regions. It also reflects that FBDB lending programs seem to become more predominant as the firm matures, as do most of the other private sources of finance. However, according to recent federal govt. study by Navarre and Janoff (1986) there is no shortage of financing capital in Canada; rather, the pool of capital may not be tapped by entrepreneurs "because of their lack of awareness" (12). Investors surveyed by Kao's study (1987) reveals that none of the investors was aware of the matchmaking facility offered by the FBDB (13). It is imperative for the FBDB to realise the importance of the "CASE" as a source of information to the small businesses located in the country & more precisely in the industrially lagging areas. It is also because of the fact that FBDB has its head office in Central Canada therefore neither the FBDB nor the potential clients of Atlantic region aware of each other's program. Further, manufacturing remained the weakest sector of Atlantic provinces and FBDB mainly finance manufacturing and processing firms therefore the share of FBDB loans amounts hardly 10%

Since the FBDB is the most likely alternate source of financing for those applicants rejected by a Chartered Bank, it becomes obvious that the identified financing gap is a most serious one with seemingly few available alternative to overcome it. Instead it has followed strict criteria for the evaluation of loan application. It is easy to understand that the risk factor for each loan would be high but if the social benefits are included on the plus side, the risk should be acceptable without requiring a high interest rate.

The various sectors in the Atlantic regions and in Prairie regions have perceived themselves to be at a disadvantage in obtaining finance. National bankers' own expectations and thus unwillingness to lend in the region, causes capital outflows to more prosperous regions, via the financial centre. Young and Helliwell's (1964) study for the Porter Commission suggest that there is a higher incidence of postponements of investment among smaller firms outside of Ontario and Quebec during periods of tight monetary policy (14).

Shaeila Dow (1990) has rightly concluded that the federal govt program is not effectively catering to the needs of small business. The issue of the competitiveness of the existing banking system and the net flow of funds out of Western Canada into Central Canada had already been thrashed out at the Western Economic Opportunities Conference (1973) called by the federal Government with the four Western provinces. The policies of federal Government, it was argued, had promoted a concentration of financial and industrial resources which worked against the allocation of financial and production resources to bring balance to the economies of all regions of Canada. According to Kao (1984), the attempt was made by the FBDB to act as a merchant bank and the modification of listing requirements by Toronto Stock Exchange later in 1982 to accomodate junior firms are moves in the right direction but they are far from meeting the country's needs (15).

By and large the literature on Financial Institutions' lending criteria is replete with hyperbole. The availability of credit is more restricted that the evidence of specific contradiction between statements in the literature and the 'real world', and the criteria are so vaguely stated as to be meaningless for the small businessmen. The federal system in Canada results in certain inefficiencies, as there is often duplication of effort. The direct lending program of FBDB duplicates, to some extent, the purpose of the Small Businesses Loans Act. There are also potential overlaps between these federal programs and direct lending programs of the Provincial Development Corporations. This duplication often leads to confusion on the part of the small entrepreneur. Overlap and duplication also characterise various Small Business counselling services (for eg. CASE by FBDB & by Provincial Government). There is a Federal Provincial regulatory overlap. Many Financial institutions fall under both federal and provincial jurisdictions, and there is no uniformity in the standards applied by the various regulatory authorities. For instance only Quebec, Ontario, Alberta & British Columbia have reasonably comprehensive regulatory system covering trust companies and Life Insurance Companies. In some cases, the capacity of the provinces to regulate is also diminishing because they cannot control the movements of funds outside their borders or internationally.

II. SMALL BUSINESSES LOANS ACT (SBLA)

This SBLA is another federal weapon which helps small firms meet their debt financing requirements. The Small Businesses Loans Act was brought into force on January 19, 1961. The purpose of this legislation is to increase the availability of term credit to propritors of small businesses to assist them in financing a wide range of capital improvements. To this end the Act authorizes the Government to guarantee each bank against the loss up to 10% of the loans made by it. The objective of the Act is to encourage lenders in the private sector to increase the availability of loans for the purpose of the establishment, expansion, modernization and improvement of small business enterprises.

Business improvement loans may be made to enterprises engaged in manufacturing, retail trade, wholesale trade as well as to service businesses, provided annual gross revenues are not in excess of $2,50,000. The proceeds from such loans can be used for a wide variety of purposes including the purchase and improvement of equipment as well as the extension and renovation of business premises.

In general, the terms and conditions of lending including the security provisions and the terms of repayment, are flexible and conform as far as possible to the size and nature of the loan and the individual circumstances of the borrower. The maximum loan for which proprietors of eligible businesses can qualify has been set at $25,000 and repayment made be spread over a period as long as ten years. All loans are repayable at a rate of interest not exceeding 5 1/2 % per annum.

MAJOR AMENDMENTS :-

1. Amendments to the maximum loan amount which may be outstanding per borrower at any time :

1961	-	$ 25,000
1971	-	$ 50,000
1977	-	$ 75,000
1980	-	$ 100,000

2. Amendments to the estimated annual gross revenue which contributes to the definition of a small business enterprises:

1961	-	$ 500,000
1971	-	$ 1,000,000
1977	-	$ 1,500,000
1980	-	$ 2,000,000

3. In Feb. 1978, the formula establishing the maximum interest rate permitted to a lender was changed from a fixed rate establishing semi-annually to the prime rate of the Chartered Banks Plus 1% floating with the prime rate for the term of the loan.

4. In April 1985, a requirement was introduced for the payment by lenders, to the govt, of a one percent up-front fee at the time of a loan is made. Also introduced was a loss-sharing arrangement whereby, instead of effectively paying a lender's total

loss, the govt. shares losses on individual loans with the lender in a ratio of 85% : 15%.

5. Effective November 2,1987, the definition of "business enterprise" was expanded to include the business of fishing. As well, every approved Credit Union, Caisses Populaire and other cooperative credit society became authorised to set and revise the interest rate on a loan made under this Act using a method similar to the method followed by Chartered Banks & Alberta Treasury Branches.

ELIGIBLE BORROWERS :-

Any enterprise in Canada operating for gain or profit within the following categories is eligible to borrow under the Act, provided its estimated revenue does not exceed $ 2 million in the year of application :

1. Communications	2. Constructions	3. Manufacturing
4. Retail Trade	5. Wholesale Trade	6. Service Businesses
7. Transportation	8. Fishing	

LOAN PURPOSES :

a) Land Loans.

b) The renovation, improvement, modernization, construction and/or purchase of premises.

c) The purchases, installation, renovation improvement and/or modernization of equipment of a kind usually affixed to real or immovable property (Fixed Equipment Loans).

d) Movable Equipment Loans : The purchase, renovation, improvement and/ or modernization of equipment of a kind not usually affixed to real or immovable property.

Loans are not available for inventory financing, working capital requirements or the refinancing of existing debts. Business improvement loan can be made to finance upto 90% of land and premises cost and up to 80% of equipment costs.

In the light of all this, it is worth assessing the provincial share in the number and amounts of manufacturing loans disbursed under the SBLA. Table : III.2 (A) and (B) indicate that industrially developed provinces include Quebec, Ontario, British Columbia and Alberta which are the main provinces receiving 80% to 90% of the loans, both by a number of loans and amount of loans, under the SBLA since 1961 to 1989.

On the other hand four Atlantic provinces hardly receive 10% of the mfg. loans, both by number and amount throughout the period taken for analysis. It clearly reveals that more loans in number & in amounts have been flowing towards the industrially developed provinces rather than industrially lagging ones. The basic difficulty lies in the fact that the provision of the SBLA was completely lacking the national objective of development of the industrially poor regions. It is palpable from the analysis that at the time of enactment of SBLA the govt. of Canada had not keep in centre the national objective of correcting regional disparity in terms of Industrial developments, rather they aimed for a market goal of maximization of return & to avoid high risk Instead the Canadian Government would have initiated certain attractive concessions and priorities to foster industrial development and thereby employment generations in the industrially lagging provinces such as New Foundland, Prince Edward Island, New Brunswick etc.

It is pertinent to consider the fact that manufacturing is the weakest sector of Atlantic provinces therefore their share might be lowest. However, it is reasonable to presume that the share of Atlantic region in total loans disbursed under SBLA could be substantial. How far it is plausible to presume that the region poor in manufacturing could be powerful in other sectors of the economy and therefore need more loans other than manufacturing sector ? To reply this consider the table : III.2 (C) & (D).

Deeper probing into the Table : III.2 (C) and (D) makes it precisely clear that even in terms of Total Loans, which included Manufacturing, Wholesale Trade, Retail Trade, Service Businesses, Construction, Transportation & Communication and at latter stage i.e. at the end of 1987 fishing, greater share would be commanded by industrially rich provinces such as Quebec, Ontario, British Columbia & Alberta and industrially poor provinces of Atlantic region and Manitoba remained on the bottom and all of them together control merely 10% of the total loans in terms of number & amount of loans under SBLA.

It also indicates that industrially advanced provinces demand and receive more money not only to maintain their existing economic status but for the future growth and development of the lagging pockets. The Government of Canada by enacting SBLA acted on the line of FBDB where main intention to loan more viable units located around the nearest area and thereby to avoid undue higher risk. We tested that the loaning behaviour & pattern of both, the Federal instruments, FBDB & SBLA remained complimentary to each other.

SBLA operated mainly through Chartered Banks. Most of the Chartered Banks are having their Head Offices in Central Canada. They are unaware of business conditions in the Atlantic Provinces and are unwilling to gave loans to the region's small businesses. However, Economic Council of Canada (1982 b) has identified that the regional differences in Financial Structure are more influenced by differences in firm-size and industry than by location of the Corporation's Head Office. According to Albert Gadbois : pertaining to Atlantic Canada, specifically, all indications point to it being the region within Canada where the level of venture capital activity is the lowest (16). Once again, taking it from the perspective of supply, it is also where most, if not all, segments are the weakest. Atlantic Canada businesses have not historically accounted for a significant portion of Initial Public Offerings form of activity on Stock Exchanges across Canada. Nor have the region's businesses been very successful at attracting funds from institutional venture capital investors. In this regard, the Association of Canadian Venture Capital Companies (ACVCC, 1985) reported that transactions in Atlantic Canada for the years 1983 & 1984 accounted for less than 1% of its members' volume of activity, which incidentally includes the FBDB. Moreover, according to Venture Economics (1990), virtually no investment would have been made in the region between 1986 and the end of first nine months of 1989 by institutional investors, whether from the private or public sectors.

Following is the Federal Government's short-lived scheme which further clarifies the matter in a sound fashion.

SMALL BUSINESS INVESTMENT GRANT (SBIG) :-

This program was announced on June 28, 1982, in the budget to provide temporary interest assistance for small business including farmers and fisherman, whether incorporated or not, as an inducement to undertake investment to :

1. Finance purchases after June 28, 1982, and before March 31, 1983

The form of assistance is a monthly grant of upto 4% per year on the outstanding loan for two years from the date of issue of the loan which an eligible small business borrower negotiated with a financial insitution subject to normal commercial lending practices.

This Table III.3 shows that the largest number of grants and amounts paid were located firstly in Ontario and secondly in Quebec. And the Atlantic provinces remained on the bottom of the list in both, in number of grants and amount of grants. So even such short lived and temporary program favoured industrially strong provinces like Ontario and Quebec.

In short, from the table : III.1 (A), III.1 (B), III.2 (A), III.2 (B), III.2 (C), III.2 (D) and III.3 it becomes visibly clear that either it was a case of Institutional loans from Federal vehicles like FBDB and SBLA or financial grants to small businesses they preferred and therefore favoured Central Canada for investment instead of Atlantic Canada. It infers from the whole discussions that loans from federal vehicles like FBDB and SBLA have been either available in scarce amount or if available to the fullest possible extent in Atlantic Canada but entrepreneurs of Atlantic Canada are not making effective and optimum use of it for the industrial development of the region. This is either because of the existing structural problem or due to the adverse effect of the physical distance on the growth prospects of the Atlantic region. Moreover, the national or provincial

TABLE - III.3

PERCENTAGE DISTRIBUTION OF GRANTS PAID UNDER THE SBIG PROGRAM BY PROVINCE/TERRITORY - 1983-84

SR.NO.	PROVINCE/ TERRITORY	NO.OF GRANTS	AMOUNT
1.	NFL	1.76	2.23
2.	NS	2.32	2.41
3.	PEI	0.97	0.93
4.	NB	2.21	2.04
5.	QUEBEC	21.82	20.35
6.	ONTARIO	29.36	42.74
7.	MANITOBA	6.48	3.76
8.	SASKATCHEWAN	18.83	6.31
9.	ALBERTA	9.14	9.74
10.	BC	6.86	9.00
11.	NWT/YUKON	0.24	0.49
	TOTAL	100.00	100.00

* SOURCE : Department of Regional Industrial Expansion :
ANNUAL REPORT 1983-84

programs are simple emulations of those available in Central Canada which restrict the development of the industrially lagging regions.

Therefore, it appears to be much more realistic to use a proper measure of Government intervention in an effort to specifically overcome or circumvent those identified adverse conditions. Further with the well-determined government effort the situation of Institutional Finance underutilization has to be rectified in order to enable Atlantic Canada to generate the type of self-sustaining manufacturing sector required to reduce the prosperity gap. The development of the industrial sector is necessary even to sustain the expansion and development of the agricultural sector in view of the complementarity between agriculture and industry and between industry and transportation and communications. In a free market economy such as Canada's socio-economic objectives could only be achieved through Government intervention in economic affairs.

FOOT NOTES

1. Coley R. Christine, Communique : " Venture Capital financing and entrepreneur", Journal of Small Business and Entrepreneurship Jan - March 1990.
2. Birch, David L (1979) The Job Generation Process, MIT Program on Neighbourhood and Regional Change, Cambridge, MA.
3. Dow, Sheila C (1990) Financial Markets and Regional Economic Development The Canadian Experience, Gower Publishing Company Limited.
4. Schults, and Alexandroff (1986), See Dow Sheila C.
5. Phillips, (1978), See Dow Sheila C.
6. Dow, Sheila C (1990) Financial Markets and Regional Economic Development : The Canadian Experience, Gower Publishing Company Limited.
7. Sears, John T (1972) Institutional Financing of small Businesses in Nova Scotia, University of Toronto Press.
8. Knight Russell M, "Criteria used by Venture Capitalists," Journal of Small Business and Entrepreneurship, Spring, 1986.

9. See Coley R. Christine (1990)

10. Kao, Raymond W Y and Russell M. Knight (1987) Entrepreneurship and New Venture Management, Prentice Hall.

11. David A. Whyte, "Financing Small Business : When Interest costs become a burden," Journal of Small Business Canada, Fall, 1983.

12. Navarre, A., and D Janoff (1986) Role of Matchmaking Networks in the Financing of Small Business, Department of Finance and Regional and Economic Expansion, Ottawa.

13. See Kao, Raymond W Y and Russell M Knight (1987)

14. See Dow, Sheila (1990)

15. Kao, Raymond W Y (1984) Small Business Management, Holt, Rinchart and Winston.

16. Gadbois, Albert (1982) Government and Venture Capital, Proceedings of the Atlantic Schools of Business Conference, University of Mount Allison.