

Direct Lending to SMEs - Canada's Business Credit Availability Program

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Original post [here](#).

Canada has reintroduced a program from the Global Financial Crisis of 2007-09 to provide government loans directly to small businesses to help them deal with the economic consequences of the COVID-19 pandemic.

Countries across the world are adopting measures to support small and medium-sized enterprises (SMEs) during the COVID-19 crisis. They often use credit guarantees to facilitate lending to SMEs by guaranteeing their bank loans. This post discusses a less common tool, direct governmental lending to SMEs, illustrated by Canada's programs both during the Global Financial Crisis, and today.

Direct Lending to SMEs

Some countries have implemented programs for direct lending to SMEs in both the Global Financial Crisis and the COVID-19 crisis, though it remains a less common tool, and one often paired with credit guarantees for SMEs. Often these direct loans are made through a bureaucratic agency focusing on small businesses or a government bank focused on development of specific industries. Several countries have created loan programs for SMEs funding innovation or new technology. A partial list of countries adopting these interventions during the Global Financial Crisis can be found on page 20 of the OECD report found [here](#).

Canada's COVID-19 SME Lending Program

On [March 13, 2020](#), the Canadian government re-established the Business Credit Availability Program (BCAP), allowing the Business Development Bank of Canada (BDC) and Export Development Canada (EDC) to provide CAD 10 billion to businesses. As of [March 16, 2020](#), the BDC will now offer small business loans of up to CAD 100,000 that can be obtained in as little as 48 hours from the time of approval. It will also offer flexible working capital loans of up to CAD 2 million, with potential payment postponements for six months, to bridge cash flow gaps and support daily operations. The BDC will also provide purchase order financing to increase flexibility in fulfilling domestic or international orders.

SMEs seeking to access the BCAP will first contact their financial institutions. The financial institutions will then assess SMEs with liquidity needs beyond what the private sector can meet, and refer them to the BDC or EDC. Thus, although Canada will be engaged in direct lending to SMEs, it will do so in consultation with those SMEs' existing financial institutions. The BDC and EDC are [paying particular attention](#) to sectors that are heavily impacted by the crisis, like oil

and gas, and tourism. Farm Credit Canada is also increasing short-term credit available to farmers and the agri-food industry.

Canada's GFC SME Lending Program

Prior to the Global Financial Crisis, the BDC, EDC, and the Canada Small Business Financing Program provided direct loans and guaranteed loans to SMEs.

The BCAP was first established in response to the GFC. It allowed the BDC and EDC to work with private lenders to finance viable businesses. It [disbursed](#) over CAD 10.1 billion in 2009 and 2010, of which CAD 3.44 billion went to SMEs with under CAD 25 million in annual revenue. The BCAP's Economic Recovery Loans Initiative, established in early 2010, made small working capital loans of up to CAD 100,000, and constituted much of BCAP's 2010 activity, despite expiring in October of that year.

[Feedback](#) on the BCAP's countercyclical activity during the GFC was positive. The Conference Board of Canada commended the BDC and EDC on their role in providing credit support during a crisis, and credited them with speeding up the healing of the Canadian financial system.