

Lending to Business

Nova Scotia Business Development Corporation (NSBDC) was established on April 1, 1988 pursuant to the Business Development Corporation Act, to encourage business and economic development in Nova Scotia, thereby promoting business growth and employment opportunities by rendering to business financial assistance and other assistance as may be determined by the Governor in Council.

NSBDC currently administers 700 business accounts under the NSBDC Fund with total assistance of \$250 million at March 31, 1999. These companies employ more than 10,000 Nova Scotians and have annual payrolls of \$220 million. Their operations generate more than \$1.3 billion in sales, of which 70% are destined for export. The province earns approximately \$34 million net annually in direct and indirect income taxes as a result of the operations of the companies NSBDC has helped to establish and grow.

NSBDC administers on behalf of the Province, the Industrial Expansion Fund (IEF) - 50 business accounts providing \$303 million in assistance at March 31, 1999. Our statistics indicate that these companies employ more than 7700 Nova Scotians and provide more than \$65 million in annual incremental tax revenues.

NSBDC is responsible for the Community Business Loan Program which has been largely administered in the local communities and is designed to ensure timely, focused, responsive assistance to both new and established very small businesses. The program is currently under review to determine if it is the most effective way to serve the respective clientel.

NSBDC Financing Activities:

Who: Assistance is primarily provided to a wide variety of manufacturers, processors and tourism operators throughout Nova Scotia. A significant amount of financing activity relates to further processing of natural resources resulting in value added products. These businesses have the highest impact on the provincial economy. The focus is on businesses which create incremental economic activity. On this basis, most retail and service type companies are not eligible for funding through NSBDC.

Where: Over 90% of all lending by NSBDC is outside Metropolitan Halifax where it is most difficult to obtain conventional financing from chartered banks.

Why: NSBDC fills a role that is difficult for the chartered banks because of increased risks and lesser liquidity of capital assets when lending to manufacturing, processing and tourism industries especially outside metropolitan areas. As well, banks primarily focus on the financing of current assets including accounts receivable and inventory.

How: Financing through loans, guarantees of lines of credit from chartered banks, equity involvement, and other flexible debt instruments. Assistance is assessed by a staff of experienced lending professionals for presentation to a business oriented private sector board of directors appointed by the Governor in Council. Requests for assistance must meet the requirements and eligibility rules of the Business Development Corporation Act.

Why the need for a lending function in government?

Most NSBDC clients are not able to obtain fixed asset financing through other commercial lenders for the following reasons:

- ! business start up or restructuring
- ! lack of liquidity
- ! lack of security
- ! less than adequate financial ratios that do not meet the criteria of commercial lenders
- ! business is in an industry identified as troubled by financial institutions (ie: fishing industry)

Possible explanations:

- ! high risk relating to startup or reorganization
- ! location of the business
- ! specialized equipment with limited resale potential
- ! limited working capital
- ! economic climate

See attached summary of the 50 largest NSBDC clients relating to the issue above (**Schedule A**). Without NSBDC involvement it is likely that only one of these businesses would have been successful in obtaining funding at the time that NSBDC originally became involved. Since establishment, NSBDC has continued to work with clients such as these to assist in structuring their business in a manner that has permitted them to grow.

Yearly activity:

- ! on average 49 transactions per year representing \$30 million in funds advanced annually
- ! principal repayments of \$21 million annually
- ! interest revenue of in excess of \$9 million annually
- ! annually NSBDC has an average \$4.6 million in write offs relating to bad debts

Impact of NSBDC activities:

The annual return to the Province of the NSBDC portfolio in supporting 10,000 direct jobs with wages of \$220 million has been calculated as \$33.8 million. **(See Schedule B)**

In addition, IEF helps support 7700 direct jobs with wages in excess of \$319 million. IEF clients have yearly sales in excess of \$2.2 billion and contribute incremental provincial tax revenues of \$65 million.

Through lending activities carried out by the province, all eligible businesses throughout the province have equal access to capital regardless of location. 90 % of NSBDC accounts outstanding relate to assistance provided to businesses located outside the Halifax metropolitan area where they have traditionally had difficulty obtaining financing for capital assets.

The primary focus of lending activities is with manufacturing and processors and with the tourism industry. Manufacturing and processing generally locate in rural Nova Scotia and generally pay above average wages and generate spinoff employment. Tourism generates significant employment especially in rural areas.

Issues

Currently financial statements of the NSBDC do not fairly represent the true results of the corporation as all revenues received are credited to Department of Finance and all operating expenses are credited to Nova Scotia Economic Development. Allowing NSBDC to operate as a true crown corporation with responsibility to account for and report all revenues and expenditures would allow the corporation to fully report its results to government and the people of Nova Scotia.

Does the province belong in the lending business? Are there alternative opportunities for Nova Scotia business to obtain appropriate financing regardless of location, startup and other issues referred to above? In times of downturn in the economy, are there other alternatives to find assistance for business (ie: fishery, food processing etc) when conventional lending sources no longer wish to provide financing to companies in some industry sectors? Should lending be part of the business development strategy of the province?

There tends to be confusion both within government and outside with respect to loans approved by the private board of directors of NSBDC for loans provided through the Business Development Corporation Act and those loans approved by cabinet through the Industrial Development Act. Should a way be found to clarify the difference between the two funds?

Industrial Parks have not been discussed in this paper as it relates to lending practices only. Parks owned by the province are the responsibility of NSBDC. Does this function belong with this agency now that the parks facilities are mature and revenue and expenses relating to the operation of the industrial parks are accounted for by the Department of Transportation and Public Works?

SUMMARY OF THE 50 LARGEST NSBDC CLIENTS

< Do these clients meet the requirements of commercial banks?

	<u>At Approval</u>		<u>Now</u>	
Yes	1	2%	6	12%
Maybe	1	2%	8	16%
No	48	96%	36	72%

< Where are these clients located?

Metro Halifax	6
Other areas of NS	44

< What type of business are these clients involved in?

< Manufacturing	34
Food Processing	9
Tourism/Accommodations	4
Business Services	3
Call Centre	1

SCHEDULE "B"

NSBDC - IMPACT OF OPERATIONS

REVENUE:

\$(MILLIONS)

Direct tax revenue	\$20.5
Spin-off Tax revenue	24.5
Interest and other income	<u>9.0</u>
	<u>\$54.0</u>

EXPENSES:

Imputed interest cost on portfolio	\$ 14.0
Operating costs (salaries, etc.)	1.6
Write-offs	<u>4.6</u>
	<u>\$ 20.2</u>

ANNUAL RETURN TO THE PROVINCE \$33.8