

# FEDERAL GOVERNMENT RELIEF PROGRAMS FOR SMALL AND MEDIUM ENTERPRISES

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COVID-19 has had, and continues to have, a significant economic impact on the vast majority of Canadian businesses. Some of those most severely affected, many of whom are small and medium enterprises (“**SMEs**”), are already struggling to maintain adequate liquidity and working capital as the effects of COVID-19 continue to unfold. In response, the Government of Canada has implemented a number of programs delivered through the Business Development Bank of Canada (“**BDC**”) and Export Development Canada (“**EDC**”) to provide SMEs with access to liquidity and working capital to help ensure their long-term viability during these uncertain times. This bulletin will provide a brief summary on the following BDC and EDC financing support programs available to SMEs:

1. the Business Credit Availability Program;
2. BDC COVID-19 Working Capital Loans; and
3. the BDC Capital Bridge Financing Program.

## **Business Credit Availability Program (“BCAP”)**

Through BCAP, the Government of Canada has committed a combined \$65 billion in direct lending and other types of financial supports to SMEs who require financial assistance as a result of the COVID-19 pandemic. BCAP is comprised of three separate programs: (i) the Canada Emergency Business Account; (ii) the EDC Loan Guarantee Program; and (iii) the BDC Co-Lending Program. Each of the three programs are being offered in partnership with Canadian chartered banks and other qualified financial institutions and are generally available to all SMEs that were operating and financially viable prior to the COVID-19 outbreak (more details below).

## **Canada Emergency Business Account (“CEBA”)**

The \$25 billion CEBA is 100% funded by the Government of Canada, and provides micro, small and medium sized businesses and not-for-profits with direct loans of up to \$40,000 to pay immediate operating costs such as payroll, rent, utilities, insurance, property tax, or to service existing debt. CEBA loans are interest free until December 31, 2022, and twenty-five per cent (25%) (up to \$10,000) of each loan will be forgiven if repaid by December 31, 2022. For loans not repaid by December 31, 2022, the remaining balance will be converted to a

three-year term loan at five per cent (5%) interest.

*Eligibility Criteria / Application Process / Availability*

To qualify, applicants must demonstrate that their total payroll in 2019 was between \$20,000 and \$1.5 million, and that they were operating as of March 1, 2020. CEBA is now available and eligible businesses can apply through their financial institutions.

**EDC Loan Guarantee Program for SMEs**

The EDC Loan Guarantee Program is intended to facilitate operating cash flow term loans between financial institutions and their existing SME clients. To do so, EDC will guarantee eighty per cent (80%) of new operating cash flow term loans of up to \$6.25 million. Loans issued under this program are to be repaid within one year, and can only be used for operational expenses. Money delivered under this program cannot be used for dividend payouts, shareholder loans, bonuses, stock buybacks, issuing options, increases in executive compensation or repayment/refinancing of other debt. EDC will provide up to \$20 billion in guarantees under the program.

*Eligibility Criteria / Application Process / Availability*

To qualify for the EDC Loan Guarantee Program, applicants must demonstrate that they were directly or indirectly affected by COVID-19 and that they were financial viable prior to the COVID-19 outbreak. The EDC Loan Guarantee Program is now available and eligible businesses can apply through their existing financial institutions.

**BDC Co-Lending Program for SMEs**

The BDC Co-Lending Program brings BDC and other financial institutions together to provide SMEs with term loans to meet their operational and cash flow requirements. Loan size and availability is determined based upon each eligible borrower's revenues:

- up to \$312,500 in loans are available to businesses with revenues of less than \$1 million
- up to \$3.125 million in loans are available to businesses with revenues between \$1 million and \$50 million
- up to \$6.25 million in loans are available to businesses with revenues in excess of \$50 million.

Eighty per cent (80%) of each loan is funded by BDC, with the remaining twenty per cent (20%) being funded by the SME's financial institution. Loans are repayable over a ten (10) year period, with the first twelve (12) months being interest only. The BDC Co-Lending Program and the EDC Loan Guarantee Program combined provide eligible businesses the ability to receive up to \$12.5 million in additional liquidity.

### *Eligibility Criteria / Application Process / Availability*

To qualify, applicants must demonstrate that they were directly or indirectly affected by COVID-19 and that they were financial viable prior to the COVID-19 outbreak. The BDC Co-Lending Program will be available shortly. Eligible businesses will apply through their existing financial institutions.

### **BDC Working Capital Loans**

In addition to BCAP, BDC is providing eligible businesses with working capital loans of up to \$2 million with flexible repayment terms, such as principal postponements for up to six (6) months and reduced interest rates on new eligible loans. Under this program, existing BDC clients may also be eligible for principal postponements or other flexible repayment terms on existing BDC credit facilities.

### *Eligibility Criteria / Application Process / Availability*

Eligible businesses must be incorporated in Canada, have been generating revenue for the last twenty four (24) months, and have a senior officer who is a resident Canadian. Businesses can apply for a BDC working capital loan directly with BDC, on their website.

### **BDC Capital Bridge Financing Program**

BDC's investment arm, BDC Capital Inc., has launched the BDC Capital Bridge Financing Program to provide investment financing to Canadian-based start-ups impacted by COVID-19. Through the program, BDC Capital will match, with a convertible note, a current financing round being raised through qualified existing and/or new investors made in eligible Canadian start-ups.

### *Eligibility Criteria / Application Process / Availability*

Eligible businesses must be (i) Canadian, (ii) backed by a qualified venture capital firm, (iii) have raised at least \$500,000 in external capital, and (iv) be able to demonstrate that they have been specifically affected by the COVID-19 pandemic. Eligible businesses will also be subject to BDC's standard due diligence review process. Interested businesses are asked to speak with their lead investors or contact BDC Capital at

[VCReliefProgram@bdc.ca](mailto:VCReliefProgram@bdc.ca).

by Pat Forgione and Brent Thomas

### **A Cautionary Note**

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

The logo for mcmillan, featuring the word "mcmillan" in a lowercase, sans-serif font. The "m" and "c" are in a dark red color, while the "m", "i", "l", "l", "a", and "n" are in a light blue color. The logo is positioned in the upper left corner of a banner image that shows a low-angle view of a modern glass skyscraper against a clear sky.

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