Intelligence MEMOS

From: Lori Sterling

To: Canadian Businesses and Governments

Date: June 4, 2020

Re: **The Next Phase of Economic Recovery, Part Two: Reforming Pandemic-Related Programs for Business**

This memo examines certain pandemic-related business programs, and is a companion to a review of individual support programs. The overarching goal of the recommendations is to tailor these programs to the needs of business and eventually, to end these emergency measures. In particular, it is recommended that wage and commercial rent subsidy programs be modified and the interest-free small business loan program be brought to a close.

The Canada Emergency Wage Subsidy (CEWS) program is a generous wage subsidy program for business. The Canadian government pays 75 percent of lost wages up to a maximum of $847 per employee per week. This is approximately $167 less than the January 2019 average Canadian weekly wage.

CEWS has a requirement of 30 percent lost revenue except for the month of March which has only a 15 percent threshold. The first recommended modification to this program is to adopt the approach used in the Netherlands, which is a sliding scale for eligibility based on the extent of lost revenue. The sliding scale wage subsidy ranges from 20 to 90 percent, depending on business loss. Canada need not go as high as 90 percent replacement, but it should institute a more nuanced approach.

At present, an employer contribution is voluntary. As the economy recovers, the government should consider making at least some portion of the employer contribution mandatory. The U.K., for example, recently announced an extension of their furlough support system, and will require employers to contribute to the cost.

The current end date of CEWS is August 29. The uptake up of this program has been limited. If the program is modified and participation remains low, then the deadline could be extended to match the end date of the individual unemployment benefit, the Canada Emergency Response Benefit (CERB). The rationale for this extension is to encourage employers to keep employees at work rather than lay them off.

The **Canada Emergency Commercial Rent Assistance (CECRA**) program assists commercial landlords and tenants, but only opened for applications last week. Under this program, tenants pay 25 percent of the rent, landlords forego 25 percent and the government subsidizes the remainder. Although it is difficult to assess this program without data on usage, three modifications should be considered.

First, rather than requiring the tenant lose 70 percent of more of their business revenue before becoming eligible, the government should allow a broader sliding scale approach. The tenant contribution should increase, and replace the government subsidy, as business resumes. For example, with a 60 percent loss of business, the tenant could pay 40 percent whereas with a 90 percent loss of business, the tenant could pay 20 percent of rent.

Second, the end date of June 30 for this program should be extended, especially for businesses that still cannot open. In Ontario, for example, this date penalizes businesses such as those that provide personal care or restaurants that have yet to fully open.

Last, CECRA is dependent on voluntary participation by the landlord. Some provinces have prohibited evictions even without landlord participation. In the event there are few applications from landlords coupled with high eviction rates, the government could incent greater participation by lowering the landlord contribution.

The **Canada Emergency Business Account (CEBA**) is both popular and expensive for the government. Since April 9, small business can apply online for funds. The maximum loan is only $40,000 but it is interest-free and $10,000 will be forgiven if the remainder is paid by the end of 2022. CEBA should conclude by the end of the summer given that it is a one-time loan that has existed for some time and businesses can continue to apply for loans under programs discussed below.

Another program that should be re-assessed is the $962 million in the **Regional Relief and Recovery Fund (RRRF)**, administered by regional development agencies. The program is for rural business, culture, heritage, tourism and anyone who cannot access other funds. Given the size of this fund, the absence of detail about eligibility and the catchall nature of its purposes, the government ought to provide more transparency about this program.

In order to enhance access to short-term credit, the government co-funds and provides guarantees through the **Business Credit Availability Program (BCAP)**. The $40 billion set aside for small and medium enterprises has the benefit of partnering with private financial institutions who will perform due diligence and assess risk. For large businesses hardest hit by the pandemic, the **Emergency Employer Financing Facility (LEEFF) program** will provide bespoke loans with no cap but significant restrictions and oversight.

There is no publicly announced end date for BCAP and LEEFF programs, and negotiation of these loans is ongoing. These programs should be extended into fall for several reasons: financial due diligence is being carried out before a loan is made; there are no outright government grants; interest is charged; and business needs will change as the economy recovers. However, if default rates spike, the government should re-assess eligibility for these co-funded programs.

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