

## Chapter 1

# Assessment and recommendations

*This chapter summarises the findings and recommendations of the OECD SME and entrepreneurship policy review in Canada. It presents key evidence and analysis on the structure and performance of SME and entrepreneurship activity, the business environment and framework conditions affecting SMEs and entrepreneurship, the strategic framework and delivery system for SME and entrepreneurship policy, federal SME and entrepreneurship programmes, approaches to tailoring SME and entrepreneurship policy to local conditions and ensuring coherence between national and local interventions, and policy to promote women entrepreneurship. It presents recommendations for government action in each of these areas.*

## The structure and performance of SME and entrepreneurship activity

### ***SMEs account for a substantial share of business activity***

Small and medium-sized enterprises (SMEs) make a substantial contribution to the Canadian economy. SMEs with 1-499 employees accounted for 57.7% of business sector employment in 2015 according to data from Canada's Survey of Employment, Payrolls and Hours (SEPH), which covers all businesses that have at least one employee. On a narrower measure, SMEs with 1-249 employees accounted for an average 60% of business employment in Canada in the period 2001-11 according to the Organisation for Economic Co-operation and Development (OECD) DynEmp dataset. This is a substantial level of employment, although the SME share is somewhat below the average (64.8%) of the 17 OECD countries participating in the project (Criscuolo, Gal and Menon, 2014). The same data source indicates that micro-enterprises (1-9 employees) contributed 16% of total business employment in Canada, which is relatively low compared with other OECD countries, whereas medium-sized firms (50-249 employees) accounted for 22%, which is relatively high. The overall picture is of a country with a substantial SME sector, in which SMEs are relatively large.

### ***Small business productivity should be strengthened***

Baldwin et al. (2014) report that gross domestic product (GDP) per hour worked in small businesses was only 47% that of large firms in Canada in 2008, compared with 67% in the United States. They estimate that reducing the size of the productivity gap between small businesses and large firms to that of the United States would increase aggregate Canadian labour productivity by 11%.

### ***Proportions of high-growth enterprises and start-ups are generally below top performing countries***

The proportion of high-growth enterprises in industry in Canada (4.6%) is the third highest of 15 OECD countries, as measured by the OECD's employment definition, but eighth when measured on the turnover definition. In services, the proportion of high-growth firms (3.1%) in Canada ranks eighth out of fifteen on the employment definition, with a similar ranking on the turnover definition (Figure 1.1).<sup>1</sup> The proportion of gazelles (recent start-ups with rapid growth) in Canada also appears to be towards the middle of the range of OECD countries for which data are available (OECD, 2015a).<sup>2</sup> These data suggest that although Canada's current performance in generating high-growth enterprises is largely in line with OECD averages, its performance does not match that of the leading countries.

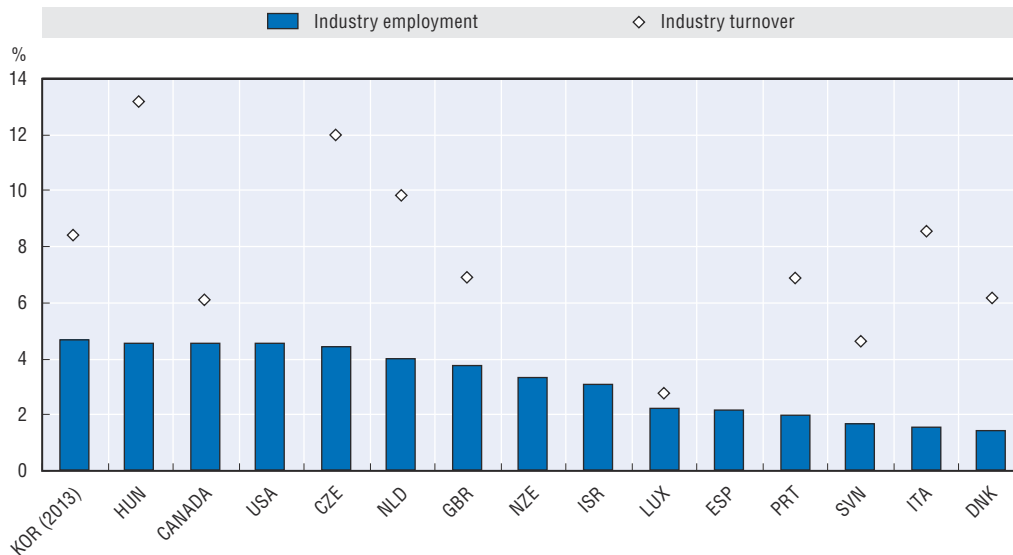
### ***Canadian SMEs are relatively innovative***

Canadian SMEs (1-249 employees) are active in research and development (R&D), accounting for 36% of total business R&D in 2013, in line with the OECD average (OECD, 2015b). Compared with other countries, Canadian SMEs have very strong performance in some aspects of innovation, with total innovation rates approaching those of large firms (Figure 1.2). Sixty-eight per cent (68%) of Canadian SMEs reported involvement in some

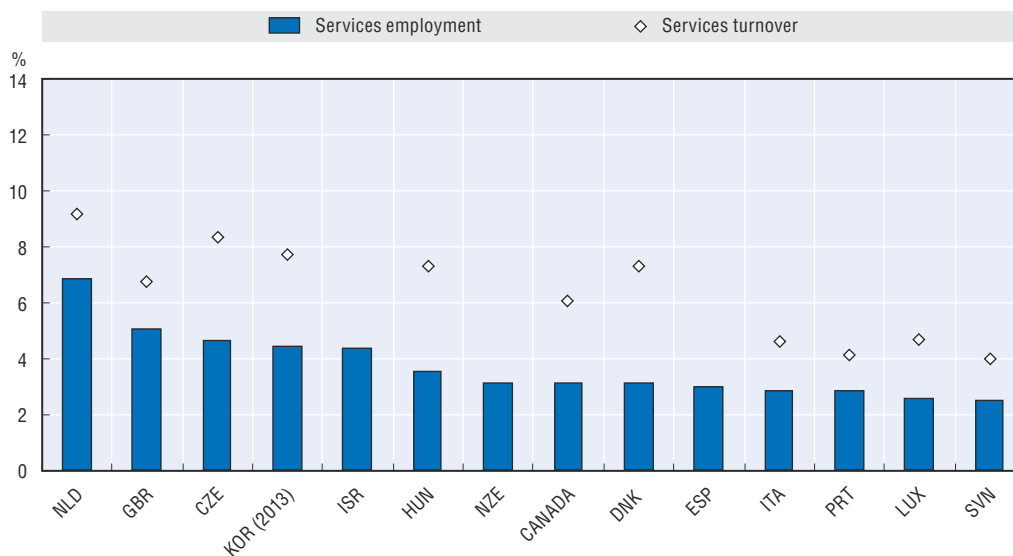
Figure 1.1. **Proportion of high-growth firms in the Canadian business population, 2012**

Percentage values (Total of employer enterprises with at least ten employees)


A) Rate of high-growth firms, industry



B) Rate of high-growth firms, services



Source: OECD based on OECD (2015a), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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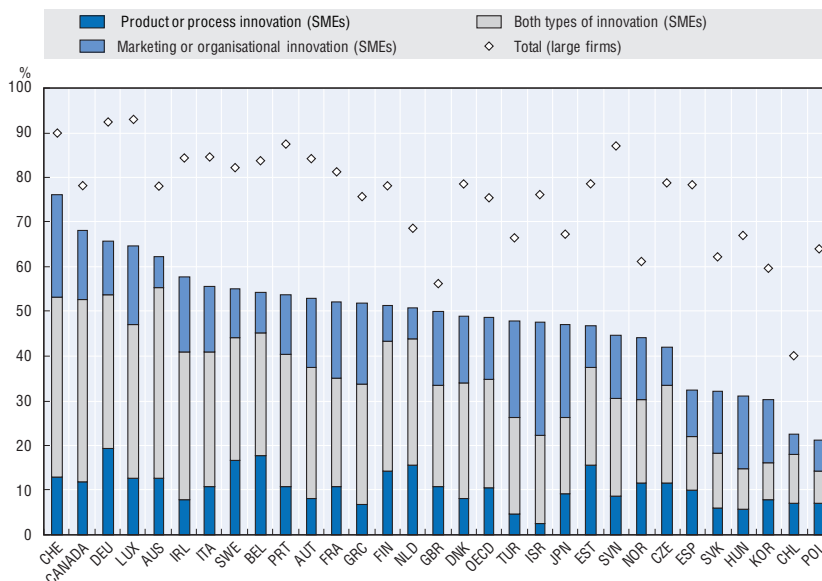
form of innovation in 2010-12, a result second only to Switzerland's 76%. Canada also has a large share of SMEs that combine both marketing/organisational and product/process innovation.

### **SME export activity is limited**

However, SMEs (with up to 249 employees) accounted for only 18% of the value of national exports in 2012 compared with an OECD average of 31% (Figure 1.3) (although these figures

**Figure 1.2. Types of innovation undertaken by SMEs and total “large firm” innovation, 2010-12**

As a percentage of all SMEs (and large firms)



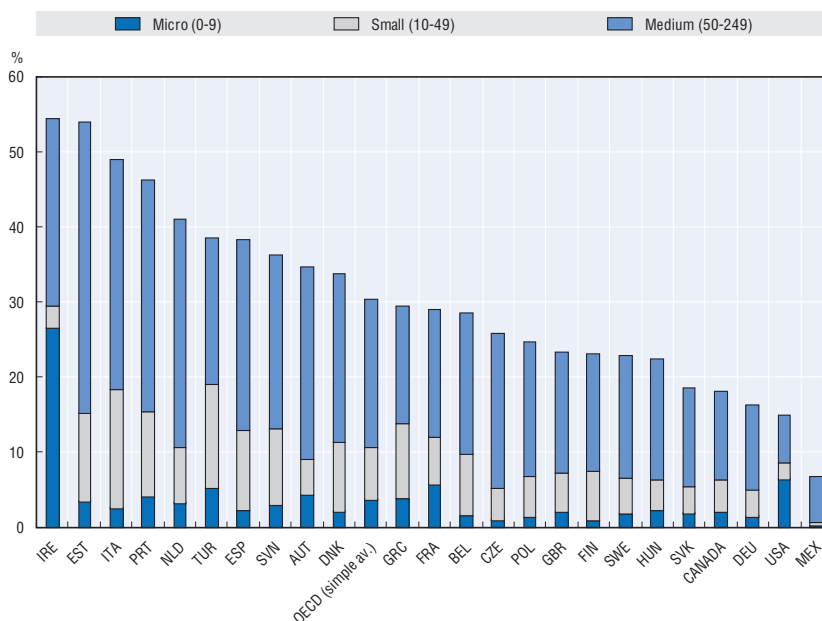
Note: Data are from the Eurostat Community Innovation Survey (CIS-2012) and other national innovation surveys. For Canada, data come from the Survey of Innovation and Business Strategy (SIBS) 2012 and refer to 2010-12. The survey covered firms with 20 or more employees and with at least CAD 250 000 annual revenue in 2009. The industries covered are NAICS (2007) 31-33, 41, 48, 49, 51, 52 and 54.

Source: OECD based on OECD (2015b), OECD Science, Technology and Industry Scoreboard 2015, OECD Publishing.

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**Figure 1.3. Share of export value by enterprise size, 2012 or latest available year**

Percentage of total export value



Note: The shares of exports by enterprise size are calculated as the ratio of the value of exports by each size class over the total value of exports.

Source: OECD based on OECD (2015a), Entrepreneurship at a Glance 2015, OECD Publishing.

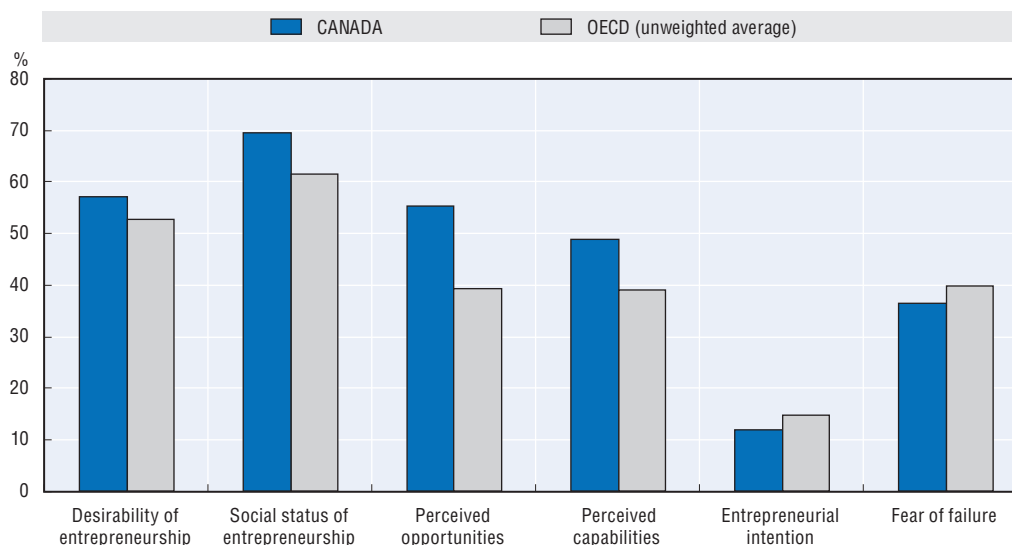
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exclude production of intermediates for export or export through intermediary wholesalers). Only 10% of Canadian enterprises with 1-99 employees exported directly. Even among medium-sized enterprises (100-499 employees), only 34% were involved in export (ISED, 2013a). This limited export activity is likely to limit the opportunities for the expansion of Canadian SMEs.

### **Canada has healthy entrepreneurship attitudes**


Attitudes to entrepreneurship in the Canadian adult population are generally more positive than averages for OECD countries (Figure 1.4). Furthermore, at 13% in 2014, Canada's Total early-stage Entrepreneurial Activity (TEA) rate (which measures the proportion of the adult population involved in starting or running a new business) was the fifth highest among the OECD countries for which recent Global Entrepreneurship Monitor (GEM) data are available. It is also encouraging that only 16% of Canadian early-stage entrepreneurs were motivated by lack of other opportunities in the labour market, which is below the OECD average (20%).

Figure 1.4. **Entrepreneurial attitudes in the Canadian adult population, 2014**  
Percentage values



Note: Percentage values are out of the total adult population (18-64), except for “fear of failure” which is out of those who “perceive a market opportunity”. This is the exact definition for each indicator: i) Desirability of entrepreneurship: Percentage of 18-64 population who agree with the statement that in their country, most people consider starting a business as a desirable career choice; ii) Social status of entrepreneurship: Percentage of 18-64 population who agree with the statement that in their country, successful entrepreneurs receive high status; iii) Perceived opportunities: Percentage of 18-64 who see good opportunities to start a firm in the area where they live; iv) Perceived capabilities: Percentage of 18-64 population who believe to have the required skills and knowledge to start a business v) Entrepreneurial intention: Percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who intend to start a business within three years; vi) Fear of failure: Percentage of 18-64 population with positive perceived opportunities who indicate that fear of failure would prevent them from setting up a business. OECD data exclude New Zealand and Iceland.

Source: OECD based on data supplied by the Global Entrepreneurship Monitor (GEM) research consortium.

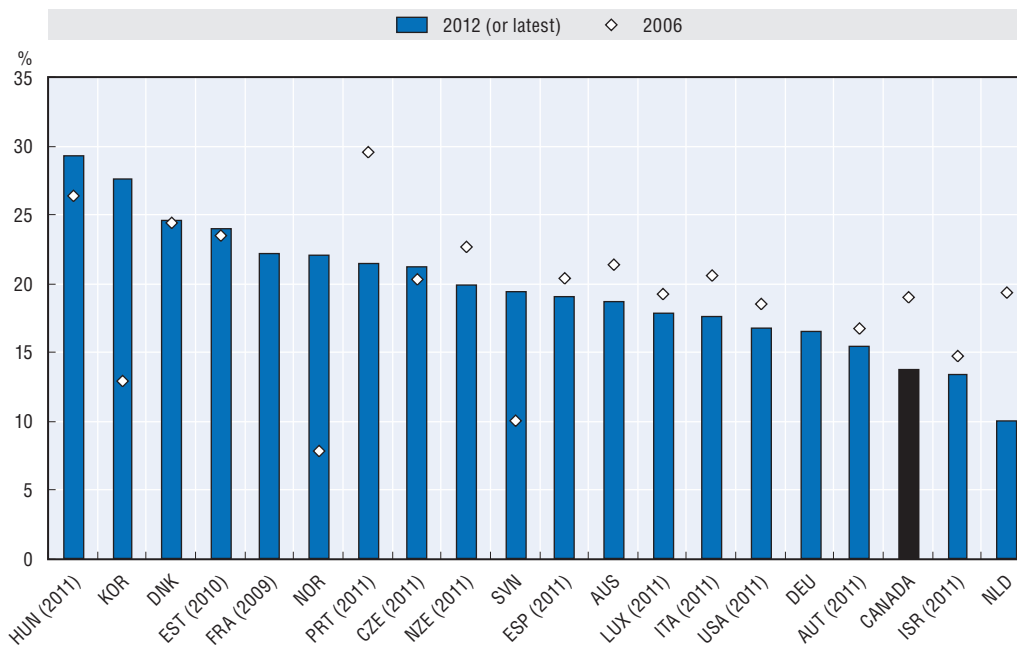
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### **Business dynamics are weak**


On the other hand, Canada's business dynamics appear to be relatively weak (Figure 1.5). The rate of business churn in Canada – i.e. the sum of business entries and exits – was estimated to be 18th among 20 OECD countries in 2012 and had declined since 2006 (OECD,

Figure 1.5. **Employer enterprise churn rate, total economy, 2012 (or latest available) and 2006**

Sum of the employer enterprise birth rate and death rate



Source: OECD based on OECD (2015a), *Entrepreneurship at a Glance 2015*, OECD Publishing.

StatLink  <http://dx.doi.org/10.1787/888933553385>

2015a).<sup>3</sup> Similarly, compared with other OECD countries, Canada is estimated to have a relatively small share of start-ups (0-2 years old) and young firms (3-5 years old) and a large share of old firms (10 years or older) among its small businesses (up to 50 employees) (Criscuolo et al., 2014). This suggests the need for measures to promote business entry and exit in Canada as a way of facilitating resource mobility across firms and encouraging the competitive spur in the economy.

#### Key recommendations on SME and entrepreneurship structure and performance

- Reinforce measures to increase the productivity levels of existing SMEs.
- Promote small business access to foreign markets.
- Strengthen programmes to stimulate high-growth SMEs and gazelles.
- Promote policies that favour the entry and exit of small businesses.

## Business environment for SMEs and entrepreneurship

### Taxation is supportive of small business

Canada's tax regime is favourable to SMEs. The average corporate tax rate (combining federal and provincial/territorial taxes) in Canada was 26.3% in 2015 (26.7% in 2016), slightly above the OECD average of 25% for 2015 but lower than the average of other G7 countries (31.8%). However, after a small business deduction on the first CAD 500 000 of federal corporate income, the overall federal average small business tax rate was only 10.5%

in 2016. With additional small business tax deductions offered by provincial and territorial authorities, the weighted average small business corporate tax rate was 15.2% in 2015 and 14.7% in 2016. This is generous by international standards, five percentage points below the 2015 median value (20%) for those OECD and G20 countries that had small business rates for corporate income tax (OECD, 2015c).

Small businesses can benefit from these preferential tax treatments without necessarily making new investments or changes in their business models. In seeking to achieve maximum impacts from public spending, an alternative to additional reductions in the small business tax rate, as originally announced in Budget 2015, would consist in strengthening targeted support programmes for small businesses ready to engage in growth projects, such as expanded support for innovation, exporting or skills development.

### ***Business regulation is generally non-burdensome***

Canada ranks second only to New Zealand worldwide in the World Bank Doing Business survey for ease of starting a business, as measured by the time and cost it takes to establish a limited company. Canada is also a top performer on other “Doing Business” categories such as the administrative and fiscal burden of the tax system and the soundness of the insolvency regime. This bears witness to the major efforts that federal and provincial/territorial governments have made in regulatory simplification. An exemplary initiative is the launch of BizPaL – an integrated online service that provides information on the permits and licences an entrepreneur will require from three levels of government to start or grow a business. Further recent simplification measures include introduction of the “one-for-one rule” and “forward regulatory plans”. The former requires regulators whose new regulations increase the administrative cost of doing business to delete an equal amount of administrative burden from past regulations. The latter describe future regulatory changes in order to help entrepreneurs take timely adaptive steps.

### ***Bank lending to small business has not grown in line with the economy and banks have high demands for collateral***

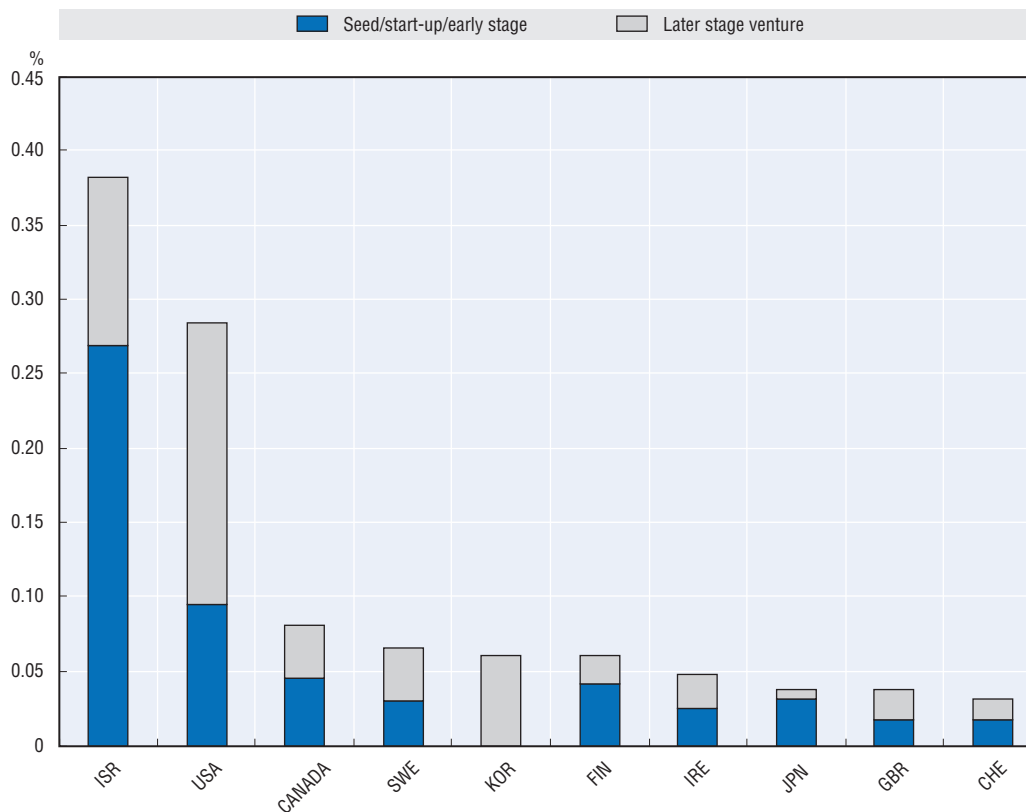
The volume of small business lending increased only marginally in Canada in 2007-14, despite sustained economic growth, and decreased as a proportion of total bank business lending (OECD, 2015d). At the same time, small business lending conditions have been relatively poor. Short-term loans (i.e. loans with maturity of 12 months or less plus lines of credit and credit cards) represented more than half of all small business loans in 2014. This short-termism limits the ease of access to investment finance for Canadian small businesses. Average interest rate spreads between small firm and large firm lending were also high, at 2% in Canada compared with 1% in the United Kingdom and 0.75% in France. Furthermore, 50-75% of Canadian small business loans required collateral, compared with only 30% in the United Kingdom, for example, highlighting potential obstacles in access to finance for small businesses without strong tangible assets (OECD, 2016).

### ***Canada has a large early-stage equity market, but there is room for strengthening the role of domestic financial institutions and further supporting business angels***

Canada has the third largest volume of venture capital investment as a percentage of GDP among OECD countries, behind only Israel and the United States (Figure 1.6). Furthermore, a high proportion of this investment is in the seed, start-up and early stages, which are the stages of most relevance to small business and entrepreneurship. The

Figure 1.6. **Venture capital investments in top 10 OECD venture capital markets by stage of investment, 2014**

Percentage of national GDP



Note: The break-down by stage of investment for Korea is not available.

Source: OECD (2015d), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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proportion of seed, start-up and early-stage investment out of the total is 56% in Canada, exceeding the corresponding shares in the United States (33%) and the United Kingdom (48%), but lower than in Israel (70%) and Finland (69%). The public sector plays an important role in the Canadian venture capital industry. In 2014, government-backed sources represented more than two-thirds of new commitments to the venture capital industry (i.e. CAD 833 million). On the other hand, there is relatively limited involvement in the industry from large Canadian institutional investors such as pension funds, insurance companies, corporations and banks. Furthermore, United States venture capital funds have accounted for a substantial share of recent venture capital investments in Canada, particularly at later stages (ISED, 2014), which raises the threat of potential long-run loss of control and high-level functions in the Canadian enterprises in which they invest. Building the participation of domestic institutional investors could respond to this potential threat.

Canada has a small but active community of business angels. However, their activity is primarily concentrated in Ontario and British Columbia. Furthermore, according to the National Angel Capital Organisation (NACO) there is a drop off of equity availability at deal sizes of around CAD 2-5 million, i.e. between the point where business angel finance dries up and venture capital deals tend to kick in.

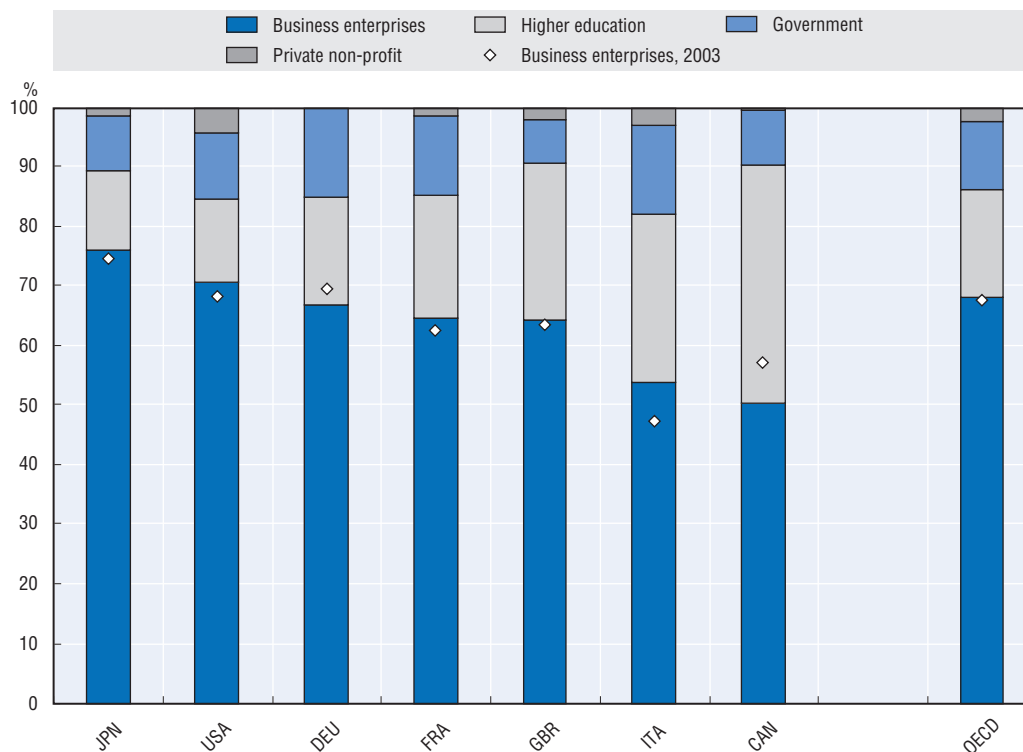



### Business R&D activity is relatively low

The business sector accounted for only 50% of R&D expenditure in Canada in 2013. This share was significantly below the average for OECD countries and below that of other G7 economies (Figure 1.7). It resulted in a rate of business investment in R&D of only 0.82% of GDP in Canada, which was below the OECD median value and only one-half the rate of the USA. This reflects a Canadian innovation system weighted towards basic research rather than applied research, and to the government and higher education sectors. This emphasis could constraint the ability of the economy to commercialise research.

Figure 1.7. **R&D expenditure by performing sectors in the G7 economies and OECD, 2013**

Percentage of gross domestic expenditures on R&D

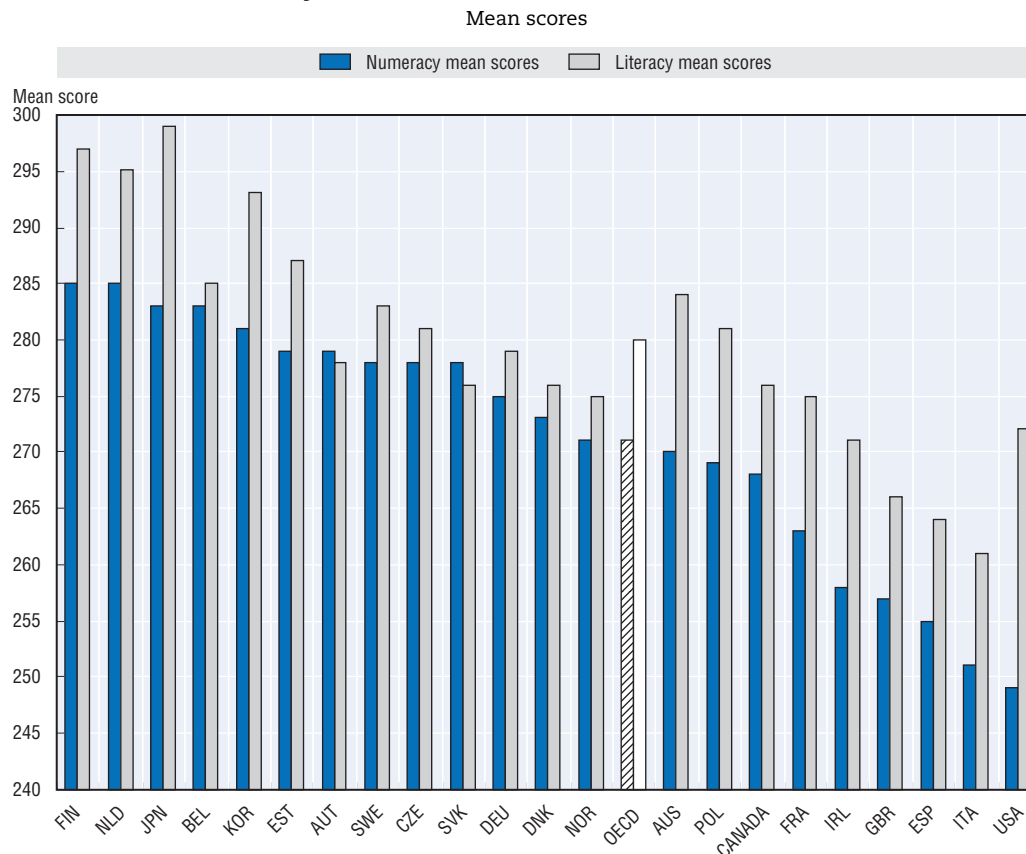


Source: OECD based on OECD (2015b), *OECD Science, Technology and Industry Scoreboard 2015*, OECD Publishing, Paris.  
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### The labour market is flexible, but adult skill formation is constrained by low rates of completion of apprenticeships and a limited offer of work-integrated learning

Canadian 15-year old high-school students ranked as high as seventh in numeracy proficiency and fourth in literacy proficiency among OECD countries in the latest survey of the OECD Programme for International Student Assessment (OECD, 2012). On the other hand, the OECD Programme for the International Assessment of Adult Competencies found that 16-24 year old working adults had below OECD average numeracy and literacy skill levels (Figure 1.8), and that the proportion of adults aged 15-29 and 30-54 with low numeracy and literacy skills (proficiency level of 2 or below out of 6) were above the OECD averages (OECD, 2012). The low literacy scores reflect a large immigrant population in Canada.

Figure 1.8. **Performance of adults (16-24) in PIAAC numeracy and literacy skills across selected OECD countries, 2012**



Note: The OECD average result is based on the sample of OECD countries and regions assessed in the PIAAC Survey of Adult Skills.

Source: OECD based on OECD (2013), OECD Skills Outlook, OECD Publishing.

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Apprenticeships can help supply relevant skills to business. However, although the number of registered apprentices in Canada grew from 200 000 in 2000 to 445 000 in 2012 (CCDA, 2014), completion rates are low, at around 50% nationwide. The reasons include the high cost of the technical training component of apprenticeship programmes (i.e. the block training of 8-10 weeks), the high average starting age of people enrolled in apprenticeship programmes and the long average duration of apprenticeship programmes in Canada compared to other OECD countries. Work-integrated learning, in the form of internships, co-operative (co-op) education, field placements and summer jobs, can also strengthen workforce skills. The Mitacs Accelerate Program funds student placements in innovative firms (mostly SMEs). However, despite this federal support, more than one-half of university students and almost one-third of college students complete their studies without any experience of work-integrated learning (Peters et al, 2014).

On the other hand, Canada does not suffer from major skills mismatches nationwide. This is partly thanks to a flexible labour market. The OECD Employment Protection Legislation database indicates that Canadian small businesses can benefit from favourable procedures for dismissing individuals or groups of workers and for hiring workers on fixed-term or temporary work contracts.

### ***Inward investment needs to grow outside of natural resource-based activities***

FDI can play an important role in stimulating access to international markets and technologies for small businesses. According to the OECD's Globalisation Database, Canada's inward foreign direct investment (FDI) stock is high in relation to GDP compared to other G7 economies and OECD and G20 averages, suggesting good potential as a vector for strengthening SMEs. On the other hand, a relatively high share of the inward FDI stock has been related to natural resources exploitation. The collapse of global oil prices since mid-2014 and the associated depreciation of the Canadian dollar can be expected to lead to diversification. However, regulatory restrictions on FDI are high in Canada compared with OECD averages (OECD, 2014), which may hinder exploitation of the full potential of FDI for SME linkage building in other sectors.

#### **Key recommendations on the business environment for SMEs and entrepreneurship**

- Discontinue the trend of reductions in the small business tax rate unless further reductions can be shown to address important market failures affecting all SMEs. Instead favour targeted programme measures that address market failures for particular groups of SMEs and start-ups.
- Consider expanding loan guarantee programmes at the federal and provincial levels with a view to boosting bank lending to SMEs.
- Consider enhancing direct government lending while keeping its focus on credit market niches which are unlikely to be served by commercial banks, such as entrepreneurship by socially disadvantaged groups (e.g. women, youth and indigenous communities) and innovative entrepreneurship.
- Strengthen the apprenticeship training system for SMEs by shifting from a block release model towards a closer integration of practical and theoretical training, offering some of the training online and introducing collaborative training arrangements for SMEs where one company provides apprenticeship training in co-operation with other firms or specialised training centres.
- Consider the introduction of a system of dual studies at the tertiary education level, combining studies at specialised colleges or universities with paid on-the-job training in companies.
- Create new work-integrated learning programmes and increase funding for existing programmes (such as Mitacs) that arrange internships for post-secondary students in innovation-oriented SMEs.
- Increase FDI promotion efforts in knowledge-based sectors of strategic importance to Canada and reduce regulatory barriers to inward FDI flows.

### **The strategic framework and delivery system for small business policy**

#### ***There is no formal lead agency or overall strategy document to guide federal small business and entrepreneurship policy***

Federal policies and programmes for SMEs and entrepreneurs are designed and delivered by more than 20 government departments and bodies in Canada. This reflects the fact that small business and entrepreneurship policies often cut across policy domains (e.g. financing, innovation, skills, etc.). Some federal departments, e.g. the Innovation, Science

and Economic Development (ISED) department and the federal Regional Development Agencies (RDAs) and FedNor, and crown corporations, e.g. the Business Development Bank of Canada (BDC), play greater roles than others, but the need for effective policy co-ordination at federal level is critical given the large number of stakeholders involved.

Policy co-ordination could be strengthened by establishing a clear leadership in SME and entrepreneurship policies within the federal government. This would involve assigning a clear mandate and resources to a government department or body to undertake this role, with collaboration and support from other government departments and bodies. One of the responsibilities of the lead body would be to develop a comprehensive and integrated written strategy document for federal SME and entrepreneurship policy in collaboration with other government, NGO and business sector stakeholders. No such document currently exists in Canada. Preparing such a strategy document could help set out the overall policy objectives and priorities of government in this area, make explicit the responsibilities of various federal ministries and agencies for delivering relevant interventions, secure their commitment to deliver against the agenda and provide a framework for the co-ordination of the various programmes and policy actions undertaken across government.

### ***The evidence base for policy formulation could be strengthened***

Access to official statistics in fields relevant to SME and entrepreneurship development (such as structural and demographic business statistics, labour market information, and training and education outcome data) is often difficult in Canada. Many Canadian specialised surveys have been discontinued in recent years. Even when useful data are collected by the national statistical office, they can be hard for government ministries and bodies and external researchers to access because of high charges and restrictive rules on privacy. An improved statistical database and easier access to this database for researchers and policy-makers could lay the foundation for better-informed SME and entrepreneurship policy design.

At the same time, a systematic portfolio analysis of federal small business and entrepreneurship programme expenditures, activities and impacts should be undertaken, broken down by the aims of each programme and the types of company and entrepreneur the programme targets. The resulting evidence could assist in adapting the distribution of federal resources across interventions according to the policy priorities that need to be addressed and the effectiveness and efficiency being achieved.

There are ongoing efforts to exploit Canada Revenue Agency's (CRA) business number as a Common Business Identifier to identify the interactions of a given business across different government departments and bodies and layers of government. If linked to tax or statistical data on changes in employment and turnover in beneficiary and non-beneficiary companies, a Common Business Identifier could play an important role in the evaluation of federal support programmes. It could also facilitate access to programmes by making it clearer which businesses have benefited from particular programmes and could therefore gain from related policy offers.

### ***Model mechanisms are helping small businesses identify relevant programmes and regulation***

The federal government operates some 250 business support programmes. A wide range of programmes can be useful in meeting diverse needs. However, it can also make it difficult for entrepreneurs to identify relevant support and how to access it and can hamper

processes of transferring clients across relevant initiatives. In order to address these issues, the government has established the Canada Business Network (CBN), which comprises a website and call centres (as well as physical office spaces in the Western provinces and Quebec) that provide information on support programmes for starting, financing and growing a business. In addition, it has created BizPaL, an online platform involving collaboration between federal, provincial, territorial and municipal governments. This delivers information on the business permits and licenses required to start or expand a business according to the location in which the entrepreneur operates. Awareness of the CBN in the business population could be strengthened, however.

### **Key recommendations on strategy policy framework and delivery system**

- Develop an integrated national SME and entrepreneurship policy strategy document that sets out the federal government's vision, objectives, priorities, and proposed actions to support SMEs and entrepreneurship, and assigns responsibilities for appropriate interventions across government departments and bodies.
- Give clear leadership of the strategy to one government entity, including the roles of leading the drafting of the strategy, coordinating its implementation across government departments and bodies, and developing monitoring and evaluation evidence to guide policy decisions.
- Improve the availability of statistical data relevant to SME and entrepreneurship policy development and make it more easily accessible to researchers and policy makers.
- Carry out a formal portfolio analysis of federal programme expenditures, activities and impacts to identify gaps in policy support and significant divergences in policy effectiveness and efficiency as evidence to be used in adjusting the overall SME and entrepreneurship programme mix, including between tax and direct programme expenditures.
- Leverage the Canada Revenue Agency's business number as a common business identifier for government, so as to facilitate government-business transactions, keep track of which companies have received government support and support public programme evaluation.
- Increase awareness of the Canada Business Network among entrepreneurs and SME managers through more advertising, increased co-operation with intermediary organisations delivering interventions on the ground, and use of a common, recognisable brand for the programme across the whole country.

## **Federal programmes for SMEs and entrepreneurship**

### ***Programmes are facilitating debt and equity availability, but additional niche interventions are warranted***

As a public bank, the BDC plays a critical role in facilitating access to finance for Canadian SMEs and entrepreneurs. It makes direct loans to SMEs and entrepreneurs in markets lacking supply from Canadian commercial banks, and has a total loan portfolio of over CAD 21 billion. It also operates a BDC Growth and Transition Capital Offering, now exceeding CAD 200 million, to be used for business growth and transition projects. However, its direct lending may need to be increased for clients (e.g. socially disadvantaged entrepreneurs) and projects (e.g. innovative projects) that are not being adequately served by commercial banks.

The government also offers guarantees to banks for their small business lending. The RDAs and FedNor, the BDC and the Department of Agriculture all operate small business loan guarantee schemes. However, the combined scale of these guarantees is low by international standards, amounting to only CAD 1.1 billion in 2013 (CAD 1.5 billion in 2014), compared with USD 22.5 billion in the United States, EUR 9 billion in France and EUR 10.8 billion in Italy (OECD 2016, OECD 2015d). The Canadian Small Business Finance Program (CSBFP) is one of the most important schemes guaranteeing loans of up to CAD 1 million. However, it is used by only approximately 6 000 SMEs per annum. Use is hindered because the CSBFP does not guarantee working capital or inventory loans, precludes the use of intangible assets as collateral, and cannot support non-profit enterprises. In addition, banks appear to be reluctant to bring forward potential SME loans for support by the programme. This may reflect high registration and administration fees and low maximum applicable interest rates as well as a high paperwork burden. Changes have therefore recently been made aimed at reducing the administrative burden.

An effective package of federal support has been created to support equity capital access for promising small businesses. The Venture Capital Action Plan (VCAP) has deployed CAD 400 million in new capital to establish/recapitalize four large-scale private sector-led fund-of-funds and make direct investments in a few high-performing venture capital funds, with the BDC acting as the Government's investor. This is helping respond to early-stage and mid-stage investment opportunities in the information and communications technologies (ICT), life sciences, clean-tech and energy sectors in particular. The BDC also runs the Venture Capital Strategic Investment Plan (VCSIP) and the Canada Accelerator and Incubator Program (CAIP), which aim at facilitating smaller deals at the very early stage of business development. These initiatives have worked well in attracting some of the larger domestic financial institutions back to the venture capital asset class and increasing the supply of domestic venture capital finance. However, there is still room for some targeted support to increase the scale of business angel investment in Canada.

The RDAs are also actively engaged in SME finance support through the provision of loans and grants to SMEs for start-up, improving productivity, fostering innovation and product/technology/process commercialisation, exportation, internationalisation, integrating global value chains and networking/clusters, as well as to non-government organisations that actively support small business owners and entrepreneurs.

The importance of enhancing the financial skills and strategic vision of SME managers and entrepreneurs is underlined in the G20/OECD High-Level Principles on SME Financing. The BDC is active in this area, frequently bundling its supply of finance with consultancy and mentoring. BDC Advantage is a key programme offering rounded support for high-impact firms. However, a larger-scale initiative is warranted to reach a broader population of Canadian entrepreneurs and small business managers.

### ***Small business innovation programmes can be strengthened***

The federal government's Scientific Research and Experimental Development (SR&ED) tax credits benefit many small businesses by providing broad support for their R&D investments. The SR&ED tax credits provide over CAD 3 billion in R&D tax credits annually. In 2015, approximately half of this amount went to SMEs through the refundable enhanced investment tax credit (ITC) for SMEs. However, this tax credit is focused particularly on supporting R&D expenditures, whereas other complementary support is also required for

non-R&D based innovation and innovation projects directly focused on achieving productivity and employment growth in SMEs.

There are several direct SME innovation programmes, although total expenditure on these programmes is well below that on the SR&ED investment tax credits. In 2014-15, some 2 500 SMEs received contribution funding for technology projects from the National Research Council's (NRC) Industrial Research Assistance Program (IRAP) and approximately 10 000 benefited from technical and business advisory services, often delivered by the programme's 250 Industrial Technology Advisors (ITAs). The Centres of Excellence for Commercialization and Research and the business-led Network of Centres of Excellence support the commercialisation of research from universities and public research organisations. The Build in Canada Innovation Program (BCIP) helps companies to bridge a pre-commercialisation gap by procuring and testing late-stage innovative goods and services within the federal government. The Canada Accelerator and Incubator Program (CAIP) provide funding support to fifteen accelerators and incubators hosting innovative start-up and growth companies. The RDAs and FedNor are also very active in supporting SME innovation and innovative entrepreneurship in their respective locations. Furthermore, the NRC provides a Concierge Service offering SMEs a single access point to find external advice on innovation.

All this makes up an appropriate package of innovation support targeting the main bottlenecks for SMEs and entrepreneurship. Some adjustments could nonetheless be considered. First, the BCIP responds to innovation proposals put forward by SMEs, whereas it might also identify public innovation challenges for new and small firms to respond to. In addition, the BCIP could be better publicised to potential small business users, the process of evaluation of small business proposals streamlined and the volume of innovative procurement from SMEs increased, for example through set asides. Second, although the research commercialisation initiatives are helping, many universities still focus more on securing licensing fees than other forms of knowledge exchange with business. Third, the accelerator and incubator infrastructure would benefit from a larger pool of mentors, a stronger focus on global market-ready start-ups and high-growth SMEs, and a forum to disseminate best practices. Fourth, the Digital Technology Adoption Resources (DTAR) stream of IRAP provides online advice for entrepreneurs to adopt digital technology and the BDC has set aside CAD 200 million in financing to help entrepreneurs adopt and access expertise related to ICT (as part of the Digital Canada 150 Strategy). However, face-to-face advice and counselling to entrepreneurs on digital technology adoption is limited.

There is also a broad need to increase the scale of innovation programme support so as to impact on more SMEs, including an expanded focus on non-technological areas of innovation. The Trudeau government, which took office following federal elections in October 2015, is currently developing an Innovation Agenda, which was launched through a public engagement in June 2016. This is expected to provide further support to incubators, accelerators and IRAP. The role of RDAs and FedNor is also expected to be enhanced by grouping them under the responsibility of the Minister of Innovation, Science and Economic Development Canada and giving the RDAs and FedNor clear mandates to make strategic innovation investments that build on regional competitive advantages. One of the main priorities of the Innovation Agenda is to scale up Canadian companies.

### ***There are some gaps in SME internationalisation support***

The federal Government runs several SME internationalisation programmes through the Trade Commissioner Service (TCS), Export Development Canada (EDC), and the Canadian

Commercial Corporation; all under the responsibility of the Global Affairs Canada (GAC) department. The services they offer to SMEs include expert advice and counselling, export credits, soft loans, promotional exposure, and brokering of linkages with potential overseas partners (e.g. supporting participation in the Eureka collaborative research programme), and the sub-contracting benefits of government-to-government contracting. In addition, the RDAs and FedNor run export promotion activities for SMEs, mostly through their regular programmes.

These instruments appear to be working effectively and in a complementary fashion. However, some obstacles to SME internationalisation still need to be fully addressed. First, there is little attention to facilitating the export of intangibles, despite their increasing importance in the economy. Second, relatively few programmes are exploiting the potential to deliver support to networks of SMEs, aside from RDA and FedNor supported cluster initiatives. Third, many SMEs are unaware of the relevance of internationalisation or the existence of public support. Finally, SMEs are under-investing in digital technology, including in Enterprise Resource Planning (ERP) software systems, which can be important for integration in large firm supply chains.

### ***The range and content of entrepreneurship education activities should be expanded***

Entrepreneurship education can increase skills and confidence in potential entrepreneurs and increase their likelihood of taking successful steps to entrepreneurship. There are many examples of the use of entrepreneurship education tools in Canadian schools. However, some provinces (notably Quebec and Ontario) are forging ahead of others and some activities are limited on the ground, such as contacts between inspiring role models and students; school trips to local business incubators and enterprises; summer camps for successful participants of entrepreneurship competitions; and online competitions and virtual firm games. At tertiary level, almost all institutions offer a few entrepreneurship courses and extra-curricular activities such as workshops, business competitions and mentoring. However, the proportion of students reached is limited and many of the activities depend on the efforts of a few individuals rather than institutionalised processes (ISED, 2010). Furthermore, entrepreneurship education seems to have little penetration in the Canadian apprenticeship training system. Although education policies are largely the competence of provinces and territories, the federal government could help stimulate the growth of entrepreneurship education through federally-funded seed programmes and encouraging mechanisms for best practice sharing among provinces and territories.

### ***Management advice should be scaled up for established SMEs***

The BDC is a major player in offering publicly-supported management consultancy and advice to small business. In addition, the RDAs and FedNor provide management advice through their field officers, including signposting to networks of local business advice providers. However, the support targets a few high potential firms rather than the typical established SME. In 2014, for example, BDC was working on only 2 500 SME consultancy mandates. The 2016 Budget proposes a new initiative combining financing, advice, exporting and innovation support, but it will initially target only 1 000 SMEs. To expand the number of firms benefiting from advice, the use of existing private sector business development services suppliers could be stimulated with public-sector subsidies and brokerage. In addition, useful support could be provided to large numbers of SMEs via online diagnostic and guidance tools.



### ***Small business in-company training should be strengthened***

Canadian small businesses have a weak propensity to invest in training their existing workforces (Burleton et al, 2013), despite frequently recognising a need for training (BDC, 2012). The RDAs and FedNor provide support as part of their regular programmes and SMEs can also benefit from the Canada Job Grant (CJG), a joint initiative between the federal government and provincial/territorial governments budgeted with CAD 500 million per year, which helps enterprises to train the unemployed or current employees for specific available jobs. Notwithstanding these initiatives, federal and provincial resources devoted to the upskilling of existing SME workforces are relatively low in Canada (CCC, 2012). Many OECD countries have more strongly developed in-company workforce training programmes for SMEs combining training incentives for employers and employees and support in identifying training needs, such as the Industry Training Funds in Italy.

### ***Public procurement programmes have been effective in helping SMEs obtain contracts***

SME participation in public procurement is high in Canada relative to many other OECD countries (PwC, 2014). This is supported by effective government initiatives. A dedicated government department, Public Services and Procurement Canada (PSPC), acts as a common service provider for federal departments and agencies, handling more than 75% of federal procurement. It operates an Office of Small and Medium Enterprises (OSME) providing advocacy and awareness-raising for SMEs and federal government entities. SMEs are awarded approximately 80% of PSPC's procurement contracts by volume and 40% by value. In addition, the Build in Canada Innovation Program (BCIP) offers contracts to firms to develop innovations in specified priority areas, and the Government's defence procurement strategy includes an Industrial and Technological Benefits (ITB) element requiring companies awarded a defence and security contract to undertake business activity in Canada equal to 100% of the value of the contract, 15% of which needs to be assigned to SMEs. There is nevertheless still an under-representation of SMEs in large public procurement contracts and late payments of public contracts are common (CFIB, 2011).

### ***There are active programmes for entrepreneurship in specific social target groups***

The federal Government has a range of support for self-employment, business creation and small business development among populations that are disadvantaged or under-represented in entrepreneurship. The RDAs and FedNor support rural entrepreneurship through the Community Futures Program (CFP), which offers loans and business advisory services to small firms through Community Futures Organisations (CFOs). Social enterprises are stimulated through federal social procurement strategies. Youth entrepreneurship is stimulated through a federal funding contribution to Futurpreneur, a non-governmental organisation (NGO) that offers financing and mentoring to young entrepreneurs. Immigrant entrepreneurship is supported by the Start-Up Visa programme, which provides permanent resident status to start-up entrepreneurs who secure a minimum equity investment from a designated venture capital fund or angel investor group or who have been accepted into a designated incubator or accelerator programme. Aboriginal entrepreneurship is encouraged through Indigenous and Northern Affairs Canada's (INAC) Aboriginal Entrepreneurship Program (AEP), which offers improved access to finance, business information, business advice and technology development opportunities for Aboriginal entrepreneurs and majority-owned Aboriginal enterprises, and through further programmes run by the RDA Canadian Northern Economic Development Agency (CanNor), the BDC and Aboriginal Financial Institutions (AFIs).

However there is scope to increase the reach of these programmes into their target populations. Increased funding would be needed to meet the demand from rural entrepreneurs for CFP support services. A longer-term funding commitment would be needed to enable Futurpreneur to build its position and reach more potential youth entrepreneurs. More marketing and awareness-raising would be needed to attract immigrant entrepreneurs from more source countries to the Start-up Visa programme, together with simplification of procedures for their potential Canadian sponsors. More promotion work would also help grow the profile of entrepreneurship among Aboriginal populations. There are also administrative obstacles to the participation of social enterprises in some mainstream federal entrepreneurship programmes and barriers for social entrepreneurs to access private financing through social impact investment.

Although not necessarily a disadvantaged or under-represented group, up to 60% of Canadian enterprise owners are likely to retire within the next five to ten years, with less than 20% having a robust succession plan (CFIB, 2012; PwC, 2014b). A dedicated programme to facilitate business succession is warranted, going beyond the business acquisition financing that can be obtained from the BDC's Growth and Transition Capital Offering and certain region-specific interventions.

### **Key recommendations on federal programmes for SMEs and entrepreneurship**

#### **Financing programmes**

- Expand government loan guarantee support by making the CSBFP more attractive to banks and small businesses. This could be achieved by further reducing the costs and paperwork burdens, breaking the “prime + 3%” interest rate cap, and broadening the eligibility criteria to include working capital lending and lending for projects that are not investments in physical assets.
- Consider enhancing direct government lending while keeping its focus on credit market niches that are unlikely to be served by commercial banks, such as entrepreneurship by socially disadvantaged groups (e.g. women, youth and indigenous communities) and innovative entrepreneurship.
- Maintain support to VCAP, VCSIP and CAIP, which is an effective package in filling gaps in the availability of domestic venture capital.
- Encourage business angel investments in small businesses through reduced capital gains taxation for individuals who invest in small businesses either individually or through business angel syndicates.
- Explore ways of improving the financial literacy of latent and existing entrepreneurs and small business managers.

#### **Innovation programmes**

- Consider the case for reducing the generosity of the enhanced SR&ED tax incentive for small businesses and increasing public expenditures on more targeted programme measures relevant to non-R&D based small business innovation.
- Strengthen support for the adoption of digital technologies by small businesses by introducing a one-on-one advice and counselling programme to complement existing information services.
- Review BCIP with a view to streamlining the process from application through to contract award, introducing calls for new and small firms to deliver specific innovative products and services required by government, and introducing set asides of a proportion of government procurement activity for small businesses and entrepreneurs.
- Reinforce programmes which encourage collaborative research between university researchers and small businesses and the creation of academic spin-outs that commercialise university research.

### **Key recommendations on federal programmes for SMEs and entrepreneurship (cont.)**

- Consider establishing a new federal programme that specifically supports non-technological innovation (e.g. marketing and organisational innovation), including a focus on the services industry.

#### **Internationalisation programmes**

- Expand EDC services to offer finance and insurance support to small businesses looking to export intangibles.
- Encourage the creation of SME export consortia and export networks and introduce a channel of internationalisation support delivery to these groups.
- Develop an FDI-SME linkage programme. The programme should co-ordinate FDI attraction efforts with local supply bases and cluster development policies, broker relationships between FDI operations and potential domestic small business suppliers, and offer training and mentoring for Canadian small businesses in supply chain and operations management and related digital technologies (e.g. ERP software).

#### **Entrepreneurship education programmes**

- Establish a national web portal that offers information and resources (e.g. learning materials and self-assessment tools) on how to introduce entrepreneurship-related courses and activities in schools, colleges and higher education institutions.
- Place adequate emphasis on experiential learning in entrepreneurship education, including the use of role models, visits to local companies, online business plan competitions and virtual firm games. Establish formal links between entrepreneurship education activities and publicly-supported business incubators and accelerators and other initiatives that can offer learning opportunities such as internships to students.
- Introduce basic principles of entrepreneurship training into apprenticeship programmes to equip future tradespeople with a set of basic entrepreneurship skills.
- Offer federal support to trigger the more widespread establishment of activities for entrepreneurship education in the higher education system, including business idea competitions, virtual student business start-ups, start-up internships, entrepreneur-in-residence programmes, and on-campus entrepreneurship centres that are not linked to any specific university department.

#### **Management consultancy and advice programmes**

- Increase the frequency of occasions on which the provision of finance for entrepreneurship and small business development is combined with the offer of business advisory services.
- Expand business advisory services available to established small businesses outside of technology sectors, including by covering part of the costs for small businesses of contracting certified private sector consultants and by establishing a government accreditation system of private-sector consultants specialised in management advice for small businesses.
- Introduce a comprehensive free-or-charge or low cost online self-assessment diagnostic tool to offer a large number of small businesses the opportunity to evaluate the strengths and weaknesses of their management practices in key areas such as marketing, innovation, human resource management and operational efficiency.

#### **SME workforce skills development programmes**

- Consider a new measure to incentivise SME workforce training such as a national workplace training fund, tax credits to small businesses for training activities, or personal training vouchers for selected groups of SME workforces.
- Offer SMEs, especially the smallest ones, consultancy to help them identify in which areas and for which groups of employees training is most urgent and could deliver greatest benefits.

### **Key recommendations on federal programmes for SMEs and entrepreneurship (cont.)**

#### **Public procurement programmes**

- Consider granting the Office of Small and Medium Enterprises (OSME) within Public Service and Procurement Canada (PSPC) the authority to review large procurement contracts and determine whether or not they could be broken up into smaller parts.
- Explore the advantages and disadvantages of introducing set-asides for SMEs in public procurement markets.
- Tackle late government payments to small businesses, which should not exceed the 30-day timeline stipulated by the Treasury Board of Canada.

#### **Programmes for entrepreneurship in disadvantaged and under-represented social groups**

- Increase funding for the Community Futures Program and assist Community Futures Organizations in unblocking unused resources with the aim of increasing the penetration of small business loans and business development services in remote and rural areas of Canada.
- Remove barriers to participation of social enterprises in government SME support programmes, for example by widening BDC's lending eligibility criteria beyond commercial enterprises.
- Develop certifications for social enterprises in collaboration with the not-for-profit sector, with the aim of helping these enterprises better access social impact financing and socially-oriented public procurement and public support programmes targeted to social entrepreneurship.
- Consider increasing support to Futurpreneur through a longer-term and expanded co-funding commitment in order to safeguard its successful support structure, network relations and well-known brand. Introduce an explicit business succession support component to Futurpreneur.
- Further accelerate the application process to the Start-Up Visa programme and encourage marketing activities in a large number of countries with potential participant entrepreneurs.
- Communicate indigenous entrepreneurship and small business support programmes more strongly to regional community centres, schools and the media to address potential entrepreneurs and promote indigenous entrepreneur role models.
- Strengthen policy measures to ensure a smooth transfer of enterprise ownership on retirement of existing owners, for example through awareness raising and information campaigns, consultancy support for succession strategy development, consultancy and financing programmes for potential successors and an online marketplace to improve the flow of accurate information between buyers and sellers of small businesses.

## **The local dimension**

### ***Conditions affecting small business development vary across Canada***


Conditions favouring or hindering SMEs and entrepreneurship vary substantially at regional and local levels across Canada. Differences include industry compositions, cluster locations, population densities, and distances from markets and suppliers. There are also important spatial variations in how places have responded to recent economic shocks and in the obstacles to growth reported by SMEs, such as the extent to which they are hindered by problems in acquiring funding or in employee recruitment and retention (ISED, 2013). The numbers of SMEs per 1 000 adults and the shares of employment accounted for by SMEs also vary substantially across Canadian provinces (Table 1.1), as does the proportion of SMEs that engage in innovation (ISED, 2013). All these local differences need to be taken into account in the local design, mix and scale of SME and entrepreneurship policies

Table 1.1. **Variations in SME densities and SME shares of business employment across Canadian provinces, 2012**

	Number of SMEs per 1 000 adult population	Percentage of business employment in SMEs
Newfoundland and Labrador	40.5	N/A
Prince Edward Island	46.6	N/A
Nova Scotia	38	80.2
New Brunswick	40.3	78.1
Quebec	35.6	73
Ontario	35.2	63.6
Manitoba	37.4	76.9
Saskatchewan	47.8	80.7
Alberta	50.3	67.6
British Columbia	45	76.1
Total for Canadian provinces	39	63.3

Note: Business density is based on establishment-level data, while employment by firm size is based on enterprise-level data. SMEs are establishments or enterprises with less than 500 employees. Adults are defined as people aged above 15 years.

Source: ISED (2013), Key Small Business Statistics Aug 2013, Page 9, Table 4, [www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE\\_August-Aout2013\\_eng.pdf/\\$FILE/KSBS-PSRPE\\_August-Aout2013\\_eng.pdf](http://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_August-Aout2013_eng.pdf/$FILE/KSBS-PSRPE_August-Aout2013_eng.pdf) and OECD based on Statistics Canada, CANSIM Table 27-0012.

StatLink  <http://dx.doi.org/10.1787/888933554297>

### **The federal RDAs, FedNor and provincial/territorial governments are key players in enabling enterprises to build on local assets and competitive advantages**

Canada has ten provincial and three territorial governments, all of which have their own small business development programmes. Many municipal governments also operate complementary small business development programmes. These local programmes help to ensure that particular local needs are met for small business and entrepreneurship, such as appropriate measures for access to finance, skills development, access to markets and cluster development.

In addition, there are five federal government RDAs and a federal government department for Northern Ontario, each focused on different regions of the country. They all have regular programmes through which they make strategic investments designed to respond to the specific needs of their regional economies which use federal funding to develop place-based tailored actions to promote economic development and economic diversification in their respective regions, including support for starting a business/ entrepreneurship, business innovation, productivity, enterprise financing and business internationalisation. The RDAs and FedNor also deliver federal nationwide programmes with location-specific objectives (e.g. infrastructure, the Community Futures Program, which supports entrepreneurship in rural regions of Canada) and sometimes run ad-hoc interventions to respond to exceptional events in their regions (e.g. responses to major industrial restructuring or natural disasters). Going forward, the RDAs and FedNor are expected to play a key role in delivering parts of the federal government's new Innovation Agenda alongside other federal government bodies.

As well as delivering their own regionally-tailored programmes, the RDAs and FedNor play an important function in providing information on how other federal programmes may need to be adapted to regional needs and advocating within the federal government for a regional approach in national economic policies. In addition to the local economic intelligence provided by the RDAs and FedNor, attention should be paid to the potential to make greater use of digital information generated by SMEs when they use online public

programme tools for the purposes of adapting federal programmes to local needs. In addition, a policy visioning process could be developed at regional level with key stakeholders from higher education, business and government.

### ***Arrangements for federal-local policy co-ordination are effective***

The RDA and FedNor interventions and the actions of provincial, territorial and municipal governments are complementary to other federal government actions. While mainstream federal actions aim to provide relevant support across all of Canada in line with local demand, the sub-national actions target opportunities for economic development and diversification that are particularly important or specific to their areas.

There are also several mechanisms that aim to avoid possible competition between policy actions at different government levels and to maximise the positive synergies among them. For example, the Networks of Centres of Excellence (NCE) initiative involves co-ordination across federal, provincial, and municipal governments resulting in the co-location of various research centres, incubators and accelerators in the same local sites with funding contributions from various different public players. Moreover, the five RDAs and FedNor have recently all come under the responsibility of ISED. This augurs well for further coordination and complementarity in SME and entrepreneurship policy at federal level and for the involvement of the RDAs and FedNor in the implementation of the Innovation Agenda currently being developed by the federal government.

There is nonetheless scope to strengthen the exchange of information on successful local policy experiments to support their rapid diffusion in the country. This could be achieved by creation of a standing committee with representatives from relevant federal, provincial and territorial government departments to exchange information on small business policy challenges and experiences and more attention to monitoring and evaluation of local policies.

### ***Local legislation affecting small business could be improved and harmonised in certain fields***

Provincial and territorial governments have legislative responsibility in several fields affecting small business development, including domestic trade, recognition of skills, and financial market regulations. As a result, local differences in legislation can sometimes create a hindrance to small business development.

A number of existing federal and provincial/territorial internal trade agreements facilitate free trade in most markets. However, some domestic trade barriers remain that affect the capacity of SMEs to scale up. They take the form of heterogeneous sector-specific credentials, certification standards and regulations, such as production quotas on certain agricultural products; local content preferences in aspects of provincial/territorial government purchasing; and differences in provincial/territorial requirements for professional registration (Department of Finance, 2014; SSC, 2014). The main federal legislation in this area is the 1995 Agreement on Internal Trade (AIT). This sets down the principles of restricting the establishment of new barriers to internal trade; treating people, goods, services and investments equally regardless of their provincial/territorial origins; and reconciling standards and regulations. In several areas of trade, the AIT uses a positive list approach, implying that only sectors explicitly identified in the agreement are covered. An alternative approach would be a negative list, in which all sectors are covered by the agreement unless specifically excluded. At the end of 2014, the federal government launched

negotiations to modernise the AIT with the aim of making this agreement at least as ambitious as international free trade agreements.

The Red Seal Programme is a successful and longstanding federal-provincial/territorial government partnership to facilitate inter-regional labour mobility by instituting the mutual recognition of most skilled-trade certifications. However, this does not yet include all skill areas and some barriers remain related to lack of mutual recognition of intermediate training taken towards final apprenticeship accreditations. Further progress is expected from the full implementation of the Provincial-Territorial Apprentice Mobility Agreement.

In the area of financial market regulations, provincial and territorial governments are at different states of advancement in putting in place appropriate regulations for equity crowdfunding. The Canadian Securities Administrators could be empowered to work with the provincial and territorial regulators to encourage the introduction of good practice and compatible regulations in this area. It could also support provinces and territories to work towards the appropriate introduction of other financial innovations including peer-to-peer lending, asset-based finance, debt securitisation and hybrid finance.

#### **Key recommendations on the local dimension**

- Consider the feasibility of generating and analysing information on local variations in small business information and programme application requests from BizPaL and CBN as a means to support the local tailoring of small business and entrepreneurship policies.
- Create an inter-regional standing committee on small business and entrepreneurship policy consisting of focal points from different federal departments and provincial/territorial governments who meet regularly to exchange information and evidence on local policy initiatives and emerging policy challenges as a means of more rapidly diffusing successful local policy experiments.
- Consider introducing a negative-list approach, rather than the existing positive-list approach, in the ongoing reform of the Agreement on Internal Trade (AIT) in order to increase transparency in internal trade barriers and facilitate future internal trade negotiations.
- Advance implementation of the Provincial-Territorial Apprentice Mobility Agreement in order to strengthen the mutual recognition by provinces and territories of apprenticeship qualifications and intermediate qualifications towards apprenticeship certifications.
- Strengthen collaboration between the national Canadian Securities Administrators and provincial and territorial financial regulators, for example through convening a forum of representatives, with the aim of facilitating the appropriate introduction of financing innovations that can support small business such as equity crowdfunding.

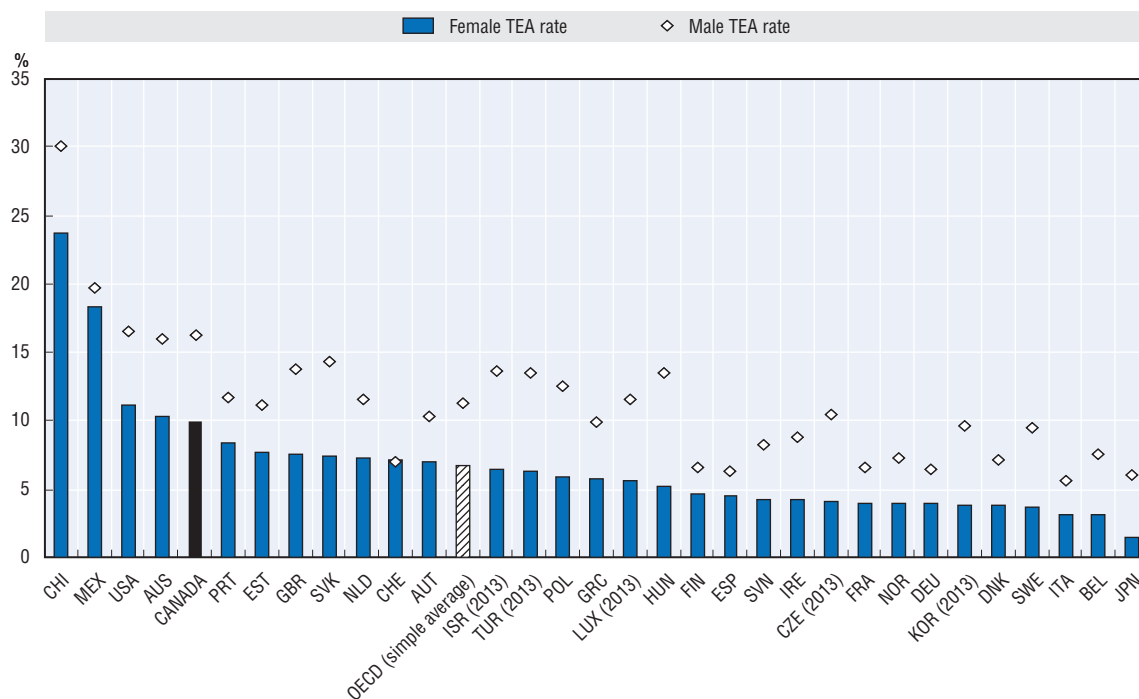
## **Women and entrepreneurship**

### ***There are significant gender gaps in entrepreneurship in Canada***

The Global Entrepreneurship Monitor (GEM) estimates that 16% of adult males in Canada were involved in early-stage entrepreneurship in 2014 compared with only 10% of adult females. This is a large gender gap compared to most other OECD countries (Figure 1.9). The trends are positive in the sense that the gender gap has been shrinking in Canada since 2003, and given Canada's strong overall performance on this measure Canada's female early-stage entrepreneurship rate is still one of the highest among OECD countries. However, more needs to be done to meet the potential of women in boosting entrepreneurship and small business performance in Canada.

Figure 1.9. **Proportion of the adult population involved in early-stage entrepreneurship (TEA rate), 2014**

Percentage of the surveyed adult population (18-64)



Note: OECD value is the simple average of the 32 OECD countries for which data are available.

Source: OECD based on data supplied by the Global Entrepreneurship Monitor (GEM) research consortium

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There is also evidence that Canadian women entrepreneurs are less likely than their male counterparts to run high value-added and growth-oriented enterprises: far fewer self-employed women (31.3%) than men (50%) incorporate their businesses (Canada Works, 2014); female majority-owned SMEs tend to be smaller and report lower revenue growth than male majority-owned firms (ISED, 2015); women entrepreneurs are under-represented in high-technology manufacturing and knowledge-intensive sectors and disproportionately concentrated in low value-added services (Institute for Competitiveness and Prosperity, 2012); and only 5% of majority female-owned SMEs exported in 2011, compared with 12% of majority male-owned SMEs (ISED, 2015). Furthermore, SMEs owned by Canadian women are less likely to seek external finance and more likely to have loans rejected because of insufficient collateral than those of Canadian men (ISED, 2015), and female SME owners were only half as likely as male SME owners to have managerial experience of at least five years in 2011 (ISED, 2015). On the other hand there are positive trends in the quality of women-owned enterprises in Canada as well as in the number of women entrepreneurs. In particular, the proportion of majority female-owned SMEs with 20-99 employees more than doubled in the period 2007-11 (ISED, 2015).

### **Policy is actively promoting gender equality in entrepreneurship**

The federal government has acted forcefully to reduce gender inequalities in entrepreneurship through the introduction of new programmes. They include fostering networking through a national forum and an online platform to bring together women



entrepreneurs, encouraging mentorship and championing of women entrepreneurs through the “It Starts with One – Be Her Champion” campaign, enhancing access to international markets through trade missions through the Canadian Businesswomen International Trade Program, and providing finance for women entrepreneurship, such as through additional lending to women-owned businesses of CAD 700 million by the BDC over three years. There are also many regional and local programmes in support of women entrepreneurship.

### ***Additional financing and supplier diversity actions could be taken***

Despite impressive existing initiatives, there is still a gap in access to financing for Canadian women entrepreneurs. The BDC has set itself a target of increasing the share of women entrepreneurs accessing its services and designated a national champion for women entrepreneurship to promote and co-ordinate the effort. However, a dedicated BDC programme for female entrepreneurs should be considered. Furthermore, BDC could increase its partnerships with women’s enterprise organisations to deliver appropriate services to women entrepreneurs, and introduce quotas for female participation in its financing, consultancy and financial literacy programmes. Alongside stronger BDC support, the reach of peer lending circles and microloan funds for women entrepreneurs could usefully be extended. Furthermore, removal of restrictions on the eligibility of part-time entrepreneurs to public enterprise finance programmes could have disproportionate benefits for women entrepreneurs.

There is also an opportunity to further help the development of women-owned businesses by reinforcing supplier diversity initiatives that aim to increase the participation of women-owned businesses in public and private procurement contracts. Canada has a good institutional infrastructure to build on in this respect, including bodies to certify the women-owned status of enterprises, federal support to access foreign procurement markets and a range of existing supplier diversity programmes offered by women’s enterprise organisations. The effort could be boosted by the introduction of set-asides for women-owned businesses in federal, provincial/territorial and municipal public procurement and a programme to raise awareness of supplier diversity principles among government procurement officers and private-sector businesses.

### ***Local good practices could be extended***

There are many good practice initiatives for women entrepreneurship at local level involving RDAs and FedNor, provincial, territorial and municipal governments and non-governmental organisations. They include the “Grow to Greatness” and “Growth Excelsator” initiatives of Alberta Women Entrepreneurs and the “My Gold Mine” Program of the Women’s Enterprise Centre of Manitoba. A major cross-regional initiative is the offer of advisory services, training, networking opportunities, business loans and referrals to complementary services by women’s enterprise organisations in four provinces with financing from the RDA Western Economic Diversification Canada as part of the Women’s Enterprise Initiative. However, the coverage of such initiatives is uneven across regions, and there is much scope to roll out proven approaches to other locations.

### ***Co-ordination and prioritisation of women enterprise programmes could be increased***

The co-ordination and prioritisation of public programmes for women entrepreneurship have not always been satisfactory in the past. In 2015, important progress was achieved by the creation of the Interdepartmental Committee on Women Entrepreneurs. A further step

could be taken by developing a national women's enterprise strategy. This should be undertaken in consultation with all the relevant government players and with a wide range of representatives of women entrepreneurs, from high-profile women entrepreneurs to grassroots organisations voicing the views of minority women entrepreneurs. A specialised women's enterprise policy agency could also be established to lead the implementation of the strategy. In addition, the evidence base for policy formulation in this area could be improved. In terms of underpinning statistics and surveys, more information should be collected and disseminated on gender divergences in entrepreneurship activity and in the scale and nature of obstacles to entrepreneurship and small business growth. There is also a need for more consistent collection and analysis of differences in the propensity of women and men to participate in various public SME and entrepreneurship programmes.

### **Key recommendations on women and entrepreneurship**

- Consider the creation of a dedicated BDC programme for women entrepreneurs and quotas for the participation of women entrepreneurs in other BDC programmes, backed up by gender disaggregated data on the use of BDC programmes.
- Step up the provision of microfinance to accommodate for the needs of women entrepreneurs operating in sectors of the economy where external finance requirements are small.
- Remove unwarranted restrictions on the eligibility of part-time entrepreneurs to public enterprise support programmes.
- Explore the possibility of set-asides for women-owned enterprises in public procurement and undertake a federal initiative to raise awareness of supplier diversity principles among government and private sector procurement officers.
- Extend successful local women entrepreneurship support programmes (e.g. the Women's Enterprise Initiative) outside of Western Canada.
- Formulate a national women's enterprise strategy setting out the main objectives, support measures, implementation mechanisms and government responsibilities for promotion of women entrepreneurship together with procedures for coordination among federal and provincial/territorial governments.
- Consider creation of a specialised government agency to take the lead on women's entrepreneurship policy.
- Improve the availability of gender-disaggregated data on SME and entrepreneurship activities, obstacles and programme use in order to support policy formulation.

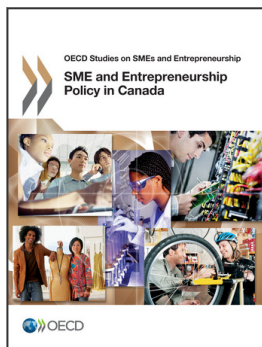
### **Notes**

1. OECD defines high-growth enterprises as enterprises with average annualised growth in employees (or in turnover) greater than 20% a year, over a three-year period, and with ten or more employees at the beginning of the observation period. Gazelles are a subset of high-growth firms, born five years or less before the end of the three-year observation period.
2. The estimated rate of gazelles in Canada may be distorted by the fact that mergers, acquisitions and reorganisations are absent from the firms count in the Canadian data whereas they are included in other countries.
3. Business demography indicators for Canada (business birth rate, business death rate, and business churn-rate) may be negatively affected relative to other OECD countries by the absence of mergers, acquisitions and reorganisations from the count of new firms and of ceased firms.

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