

Chapter 6

The local dimension of SME and entrepreneurship policy in Canada

This chapter presents evidence on regional variations in small business and entrepreneurship activities and conditions, implying a need for some spatial differentiation of policy. It highlights the key mechanisms in place in Canada for spatial tailoring of small business policy. It also assesses mechanisms for co-ordination of small business policy between the federal and regional and local levels. The chapter points to the actions of provincial and territorial governments and the role of the federal Regional Development Agencies in tailoring small business policy to local needs. It also points to effective policy co-ordination mechanisms through the Regional Development Agencies, co-location of related business development infrastructures and supports on the ground and the co-ordination of provincial legislation. It highlights the need for further action to improve and harmonise provincial regulations affecting small businesses and support the exchange of local policy good practices.

Spatial variations in conditions for small business development

There are two major influences on the local conditions that affect small business and entrepreneurship development in Canada: factor endowments and population distribution.

Natural resource distribution is one of the important issues in terms of local factor endowments in Canada. A recent industry cluster analysis of Canada, for example, found that “resource clusters, which include agriculture, forestry, mining, and oil and gas, tend to be found in smaller urban areas that support large surrounding hinterlands. The location of such clusters follows a relatively straightforward logic of being where the resources are” (Spencer, 2013). In Canada, natural resource endowments have an important influence on which sectors drive local economies, and hence on the nature of opportunities for small business and entrepreneurship development. For example, the energy sector plays a key role in Alberta, while Ontario and Quebec have significant manufacturing and high-technology industries.

The key spatial feature of Canada with respect to population distribution is the fact that approximately 90% of Canadians live within 100 miles (160 km) of the border between the United States and Canada, while 80% live in urban areas (Leigh and Clark, 2011). However, the rest of the population often lives in remote and low population density locations. As a consequence, an important distinction needs to be made between remote and accessible areas (for example in terms of markets and suppliers) in the focus and the delivery of small business and entrepreneurship programmes.

The contribution of SMEs to the economy also varies significantly across regions (Table 6.1). The average number of small and medium-sized enterprises (SMEs) per 1 000 adults is approximately 39.0 across Canadian provinces. However, this ranges from 50.3 in Alberta to 35.2 in Ontario. The share of employment in SMEs (with less than 500 employees) is 63% for Canada as a whole, with provincial values ranging from 80% in Nova Scotia to 64% in Ontario.

Data on net jobs flows by industry for 2009 and 2013 (Tables 6.2 and 6.3) illustrate a variation in how provincial economies and their industries have responded to different economic conditions. For example, following the 2008/09 global recession, manufacturing experienced a major downturn across the whole country, with all provinces except Prince Edward Island showing negative job flows, while construction was especially affected in resource-rich provinces such as Alberta (oil) and British Columbia (forestry). In 2013, construction had recovered in the western provinces (Alberta, British Columbia, Manitoba and Saskatchewan) but not in the Atlantic provinces (Prince Edward Island, New Brunswick and Nova Scotia), while job creation in manufacturing continued to lack dynamism across almost all provinces.

A recent survey by Innovation, Science and Economic Development Canada (ISED) also found considerable variation across provinces in the main external and internal obstacles to growth reported by small businesses (ISED, 2013b). The proportion of small businesses reporting rising input prices as a key external obstacle ranged from 82% in the Atlantic region

Table 6.1. Variations in SME densities and SME shares of business employment across Canadian provinces, 2012

N. of SMEs per thousand people and Percentage values

	Business density (n. of SMEs per 1 000 adult population)	Percentage of 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

This table is also shown in Table 1.1.

Note: Business density is based on establishment-level data, while employment by firm size is based on enterprise-level data. In the business density indicator, SMEs are those with less than 500 employees and adults are defined as people aged above 15. In the employment by firm size indicator, data are not available for the Provinces of Newfoundland and Labrador and Prince Edward Island.

Source: ISED (2013a), 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.


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Table 6.2. Net employment flows by NAICS code for Canadian provinces, 2009

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	Territories
Total private sector (14)	-1.8	1.8	-2.8	-2.4	-1.9	-4.2	-1.1	0.3	-3.4	-4.7	-4.9
Agriculture (11)	0.2	-5.6	-5.5	-4.2	-0.2	-4.3	6.2	5.3	-4	-7.9	-61.1
Mining (21)	x	x	-8.3	-6.3	-21	-20.9	-17.7	-3.5	-7.3	-17.7	x
Construction (23)	4.8	8.1	2.5	0.7	3.1	-4	-1.8	-0.1	-13.2	-10.4	6.2
Manufacture (31-33)	-28	9.5	-13.7	-0.4	-7.4	-12.8	-9.9	-2.1	-2.4	-13.8	-33
Wholesale trade (41)	-0.1	-6.6	-6.1	-18.2	-3.3	-6.4	-0.8	1.9	-8	-8.9	-20.1
Retail (44-45)	-2.7	-3.5	-3.5	-0.1	-1.1	-0.4	-3.6	-1.5	-1.3	-3.4	1.7
Transport (48-49)	-6.6	-0.6	-3.8	-2.2	-5.1	-0.4	0.2	-2.5	-0.9	-2.9	6.1
Information (51)	x	x	-15.8	-8.9	-0.7	-5.5	-4.1	-4.6	-2	0.2	x
Finance (52)	0.3	2	-0.5	0	-1	1.6	7.5	-4.2	3	-4.8	4.7
Real estate (53)	5.7	-0.3	3.3	-5.3	0	-9.5	6	4.8	-8	-1.4	-10.9
Professional svc. (54)	-5.1	7.3	-0.5	2.3	-2.5	-3.5	1.5	2.9	-1.7	-6.4	-2.3
Management (55)	33.8	10.3	-7.1	-25	14.6	-27.8	-27.9	-1.5	-17	-17.1	-32.7
Administrative (56)	5.1	-6.3	5.3	-15.5	-3.2	-8.2	-3.1	0.9	-8	-8	-15.3
Arts and rec (71)	13.2	7.2	6.2	-5.6	0.7	0.6	16.1	5.5	6.7	4	9.2
Accom. & food svc.	3.3	0.4	-1.4	5.4	0.2	-0.7	4.1	5.2	-0.1	1.4	-13.8
Other svc. (81)	4.7	3.6	2.3	2.4	-2.4	0.9	-2.6	-1.5	3.4	-0.9	33.2
Unclassified (15)	56.7	74.6	68.6	66.4	69.4	72	65.8	66.6	57.4	59.4	41.8

Note: Newfoundland and Labrador (NL); Prince Edward Island (PE); Nova Scotia (NS); New Brunswick (NB); Quebec (QC); Ontario (ON); Manitoba (MB); Saskatchewan (SK); Alberta (AB); British Columbia (BC).

X denotes that the value has been suppressed to meet the confidentiality requirements of the Statistics Act.

Source: Statistics Canada, CANSIM Table 527-0009. Private sector employment flow rates expressed as a percentage of employment.

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to 48.3% in Quebec, while the proportion reporting unstable demand as a key external obstacle ranged from 63.1% in British Columbia to 35.9% in Quebec. Acquiring funding was seen as a key external obstacle by relatively few small businesses in general, but the proportion varied considerably across provinces, from as high as 18.2% of firms in the Atlantic region to as low as


Table 6.3. Net employment flows by NAICS code for Canadian provinces, 2013

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	Territories
Total private sector (14)	5.3	-1.3	-1.7	-1	0	0.9	2.8	3.6	4.4	1.8	-1.7
Agriculture (11)	-1	-0.4	-2.7	2.7	-0.1	2.6	6.1	6.8	7.1	0.9	-0.4
Mining (21)	x	x	-6.7	-3.9	5.6	0.6	-12.9	3.9	5.3	-21.3	x
Construction (23)	23	-7.4	-4.6	-2	0.5	0.2	7.6	6.7	11.7	4.8	-4.6
Manufacture (31-33)	3.3	-1.2	0.8	-1	-1.1	-0.4	0.3	6	-1.2	-6.6	-4.2
Wholesale trade (41)	3.2	-1.8	-4.7	0.2	-1.9	-0.5	1.8	4.4	6	1.2	1.7
Retail (44-45)	2.4	-3.1	-0.4	-0.8	0.4	2.5	2.1	3.9	3.5	2.6	-7
Transport (48-49)	0.4	-1	-2.5	1.4	1.3	1.7	0.2	-1.6	5.8	3.2	-7.9
Information (51)	x	x	-4.1	0	-11	1	-8.8	-3.8	-4.7	-3	x
Finance (52)	0.7	-0.6	0.9	-2.3	-2.4	0	2.3	-0.7	1.6	1.2	-1.7
Real estate (53)	11.4	11.6	3.3	-1.1	3.8	0.9	9.9	3.5	8.9	5.9	12.6
Professional svc. (54)	-0.9	-0.9	-1.4	-4.8	-1.2	2.3	3.9	0.1	-0.4	2.4	-6.9
Management (55)	11.4	-31	-23.1	19.5	-15.1	-24.4	1.8	-14.5	-4.4	-22.4	7
Administrative (56)	2.7	12	-6.8	-9.1	6	-0.4	0.7	14.2	4.8	2.3	-5.7
Arts and rec (71)	4.5	2	-4.6	-0.7	5.3	0.3	7.4	-0.2	-0.8	2.9	-12.7
Accom. & food svc.	3.3	-2.7	1.2	1.1	1.8	3.6	5.1	1.1	5.8	6.9	2.7
Other svc. (81)	-1.1	-5.6	-4.5	2	-0.8	1.4	6.4	4.8	2	3.8	8.3
Unclassified (15)	17.6	-2.1	21.9	20.2	29.1	28.8	35	48.6	28.4	25.6	14.5

Note: Newfoundland and Labrador (NL); Prince Edward Island (PE); Nova Scotia (NS); New Brunswick (NB); Quebec (QC); Ontario (ON); Manitoba (MB); Saskatchewan (SK); Alberta (AB); British Columbia (BC).

X denotes that the value has been suppressed to meet the confidentiality requirements of the Statistics Act.

Source: Statistics Canada, CANSIM Table 527-0009. Private sector employment flow rates expressed as a percentage of employment.

StatLink  <http://dx.doi.org/10.1787/888933554506>

7.4% of firms in Manitoba. There were also important differences across provinces in the proportions of small businesses reporting internal obstacles to growth. For example, the proportion experiencing problems with employee recruitment and retention ranged from 53.6% in Saskatchewan to 33.3% in the Atlantic region. In addition, whereas an average of one-third of SMEs across Canada reported engagement in at least one innovation project between 2009 and 2011, this varied from a high of 44.2% in Ontario to a low of 29.4% in Quebec.

These spatial variations in the nature of small business and entrepreneurship activities and the conditions that affect them imply the need for an element of small business policy that can adapt to the varying needs and opportunities in different provinces/territories and localities.

Mechanisms for tailoring small business programmes to local conditions

In Canada, there are two main mechanisms for ensuring that small business policy can adapt to local conditions, namely the presence of small business policy actions designed and implemented directly by provincial and territorial governments, and region-specific actions delivered by the federal Regional Development Agencies (RDAs) and FedNor as well as the gathering and transmission of local intelligence on federal small business policy needs and impacts by the RDAs and FedNor to other federal government departments and bodies.

Provincial and territorial government programmes

Canada contains ten provincial and three territorial jurisdictions. The division of responsibilities between the federal and provincial/territorial level can be described as a “loose federalism” approach, which is ultimately determined by the constitutional division of powers between the federal and provincial/territorial authorities.

The provinces and territories have a substantial amount of authority over policy arenas that influence the business environment for small business and entrepreneurship. For example, education falls under the responsibilities and authority of the provinces and territories rather than the federal government. Furthermore, immigration is a shared responsibility between provinces and territories and the federal government. These powers influence the approaches taken locally in areas such as business mentoring, skills upgrading, and attracting immigrant entrepreneurs.

Provincial and territorial governments also deliver their own support programmes directly to small businesses and entrepreneurs and make investments in business support infrastructures that they judge to be appropriate to local needs. Municipal governments also play a role in SME policies and programmes (Clark, 2010). Notable examples include port redevelopments in Montreal and Quebec City that incorporated urban regeneration, historic preservation, and tourism strategies with intentional support for small businesses in the artisans and hospitality sectors.

Federal Regional Development Agency Programmes

The five federal regional development agencies (RDAs) and FedNor are the main tool for the local tailoring of federal small business and entrepreneurship policies. RDAs and FedNor provide support both directly to small businesses and entrepreneurs and indirectly by funding the work of non-profit organisations that support small businesses and entrepreneurs and by investing in regional assets that affect small business development. They do this in collaboration with other federal government departments and agencies, provinces and territories, the private sector and post-secondary education institutions both in order to leverage resources and to ensure that federal economic development policies are coherent and complementary.

The five RDAs and FedNor, which together cover the whole Canadian territory, are: the Atlantic Canada Opportunities Agency (ACOA), Canada Economic Development for Quebec Regions (CED-Q), the Canadian Northern Economic Development Agency (CanNor), the Federal Economic Development Agency for Southern Ontario (FedDev), Western Economic Diversification Canada (WD), and the Federal Economic Development Initiative for Northern Ontario (FedNor). Box 6.1 spells out each of their mandates.

The RDAs and FedNor manage and deliver nationwide programmes on behalf of the federal government. In this capacity, they deliver:

- a) the Community Futures Program (CFP), which supports small businesses through the Community Futures organisations (CFs) and engages in lending as well as business counselling (all RDAs and FedNor except CanNor offer the CFP); and
- b) the Economic Development Initiative (EDI), which provides economic development programmes to official language minority communities across the country.

For example, FedNor makes use of the CFP to offer non-repayable contributions to 24 locally-based not-for-profit CFs (also known as Community Futures Development Corporations in northern Ontario), which provide leadership in strategic community planning and socio-economic development activities, business services and investment in small businesses and social enterprises.

In addition to implementing national programmes, RDAs and FedNor manage their own regular economic development programmes for their regions, as well as ad-hoc interventions responding to specific local economic challenges, such as industrial

Box 6.1. **The mandates of Canada's Regional Development Agencies and FedNor**

The Atlantic Canada Opportunities Agency (ACOA) works with businesses, business organisations, provincial governments and other federal departments to help create more and better employment opportunities in Atlantic Canada.

Canada Economic Development for Quebec Regions (CED-Q) promotes the long-term economic development of the regions of Quebec by giving special attention to those where slow economic growth is prevalent or opportunities for productive employment are inadequate.

Western Economic Diversification Canada (WD) works to promote the development and diversification of the economy of Western Canada and to advance the interests of the West in national economic policy, programme and project development and implementation.

The Federal Economic Development Agency for Southern Ontario (FedDev Ontario) works to strengthen southern Ontario's economic capacity for innovation, entrepreneurship and collaboration and promotes the development of a strong and diversified southern Ontario economy.

The Canadian Northern Economic Development Agency (CanNor) works to develop a diversified, sustainable, and dynamic economy across Canada's three territories, while at the same time contributing to Canada's prosperity.

The Federal Economic Development Initiative for Northern Ontario (FedNor) works with businesses and community partners to build a stronger Northern Ontario through its programmes and services and through its financial support of projects that lead to job creation and economic growth. (FedNor is not an RDA, but a government department.)

Source: Websites of the RDAs and FedNor.

restructuring or natural disasters. Box 6.2 provides a brief description of the regular programmes that the RDAs and FedNor deploy and their relevance to small business and entrepreneurship development.

The Canadian federal RDA and federal regional government department model has evolved over the years into its current form. In the 1960s and 1970s, Canada had initially developed a single agency for regional economic development focused on reducing regional disparities. As in the United States, where the Appalachian Regional Commission and the Tennessee Valley Authority were initial federal investments in lagging regions defined by multi-state territories rather than functional jurisdictions, so too was the initial Canadian RDA model. However, in 1987 four RDAs were created with the aim of encouraging regional development by building on regional strengths and assets rather than primarily to reduce economic disparities. FedNor, the regional government department for Northern Ontario was also set up at around this time. In 2009, in response to the global economic crisis, there was an expansion of RDAs, resulting in all regions of the country being covered by an RDA or regional government department in federal government. The full coverage of the country by the RDAs and FedNor has facilitated the spatial tailoring of national programmes, such as the CFP and EDI, and enabled the RDAs and FedNor to be charged with the implementation of part of the federal stimulus package following the 2008/09 global recession.

The main form of support of the RDAs and FedNor is repayable and non-repayable contributions, with the first primarily targeted at SMEs and the second at non-governmental organisations (NGOs) undertaking projects of relevance to local communities and local entrepreneurs. Repayable contributions (i.e. loans) are generally interest-free, do not require

Box 6.2. **The regular programmes of Canada's Regional Development Agencies and FedNor**

Atlantic Canada Opportunities Agency (ACOA)

The regular programme of ACOA is the Business Development Programme. It is very much focused on entrepreneurship and small business development by backing start-ups, business expansion, business modernisation, and research commercialisation. Through this programme, ACOA helps Atlantic Canadian companies to internationalise by exposing them to foreign market opportunities, helping them develop strategies and assisting them in acquiring the skills and technology they need to bring products to markets. In addition, ACOA runs the Atlantic Innovation Fund, which encourages partnerships among firms, universities, and other research organisations to develop and commercialise new products and services.

Canada Economic Development for Québec Regions (CED-Q):

The regular programme of CED-Q is the Quebec Economic Development Programme. This aims to support entrepreneurship, business performance, regional mobilisation and investment in the regions while providing support for economic activity in Quebec communities on an ad-hoc basis to stabilise or strengthen their economies. The programme includes various actions to support small business and entrepreneurship, including actions for “new business development and start-ups”, “business succession and transfer”, “productivity and expansion”, “innovation and technology transfer”, “commercialisation and export”, and “network structuring”. Support is mainly provided in the form of grants and repayable contributions.

Western Economic Diversification Canada (WD)

The main programme of WD is the Western Diversification Program (WDP), through which WD makes strategic investments in initiatives that enhance and strengthen the economy of Western Canada. This includes the Western Innovation Initiative (WINN). The latter is a CAD 100 million five-year federal Initiative that offers repayable contributions for SMEs with operations in Western Canada to move their innovative technologies from the later stages of research and development to the marketplace.

Federal Economic Development Agency for Southern Ontario (FedDev ontario)

FedDev runs four direct delivery programmes: i) investing in business growth and productivity; ii) investing in business innovation; iii) investing in commercialisation partnerships (focused on business clusters); and iv) the Advanced Manufacturing Fund (focused mainly on large firms but also on the development of their supply chains). In addition to these core programmes, FedDev manages four other programmes mostly with a focus on business innovation (e.g. financing and skills development in high-tech and manufacturing) through third-party organisations.

Canadian Northern Economic Development Agency (CanNor)

CanNor's main regular programme is Strategic Investment in Northern Economic Development. This focuses on strengthening key driver sectors of the economy in the territories, as well as promoting economic growth and diversification, supporting innovation and capacity development, and creating jobs for Indigenous and non-Indigenous Northerners. CanNor also offers support to Indigenous peoples in Canada's three territories through its Northern Aboriginal Economic Opportunity Program. The programme provides financial support to First Nations and Inuit communities to improve their capacity to participate in economic opportunities and to Aboriginal entrepreneurs, businesses, and commercial entities to expand their business in the three territories.

Box 6.2. The regular programmes of Canada's Regional Development Agencies and FedNor (cont.)

Federal Economic Development Initiative for Northern Ontario (FedNor)

FedNor is not properly an agency but a part of the government department Innovation, Science and Economic Development (ISED) Canada. The main regular programme of FedNor relevant to small business development and entrepreneurship is the Northern Ontario Development Program (NODP). This provides repayable and non-repayable contributions to not-for-profit organisations and SMEs for projects focused on one of three priorities: community economic development; business growth and competitiveness; or innovation. FedNor has developed targeted initiatives under the NODP, including the Targeted Manufacturing Initiative for Northern Ontario, which aims to enhance productivity, business management capacity, and trade and export performance in SMEs and a Youth Internships Program, which helps post-secondary graduates obtain professional experience while providing Northern Ontario businesses with access to young people to help support their activities.

Source: Background document prepared by Canadian RDAs and FedNor for the *OECD Regional Outlook Survey*, OECD Regional Development Policy Committee and additional programme information submitted by the RDAs to the OECD secretariat.

guarantees by the borrower, and have a maturity period of up to 10 years. These contributions can be “unconditionally repayable” or “conditionally repayable” depending on the risk involved in the project. The latter, in particular, are used for projects where technical and/or market penetration risks are higher than average. These may include research and development (R&D), commercialisation of new products, new market development and supplier development such as bidding on procurement contracts. In this case, the repayment is conditional on certain specific conditions occurring or being met throughout the duration of the project.

Altogether, the RDAs and FedNor represent a major source of locally-tailored support for small businesses and entrepreneurs, particularly in the areas of improving access to finance (e.g. through interest-free repayable contributions), support for innovation (e.g. product development and commercialisation and SME-university collaborations), provision of management training, construction of facilities and the support of entrepreneurship in specific social target groups (e.g. youth and Aboriginal people).

Generating and diffusing information for policy tailoring

As well as delivering nationwide programmes on behalf of federal government and developing their own regular and ad hoc programmes, the RDAs and FedNor carry out an important local economic intelligence and advocacy role within federal government, by advocating for a regional perspective in federal economic development policies and informing federal decision makers on major regional development issues. Results from Canadian SME surveys also provide some information on differences in the policy intervention needs for small business and entrepreneurship development in different regions.

However, further information would help tailor the design of federal and local programmes more strongly to the needs of different types of businesses at different stages of development in different locations. There are two main options to strengthen this information base. Firstly, generating statistics about how many firms seek information about specific issues could be explored by web portals such as BizPaL and CBN and could be assessed by policy analysts. Secondly, information can be gathered from ongoing monitoring

and evaluations of local policy experiments and fed up to federal government and provincial and territorial governments as an input into policy design and the more rapid diffusion of successful policy interventions across regions.

Joint foresight exercises could also be carried out at the regional and local level between key policy stakeholders from government, business and higher education for example. This would require organised processes for local economic intelligence development and policy visioning. The Advanced Manufacturing Partnership initiative in the United States illustrates how a university and private sector led policy visioning process has been used to identify how to rethink and retool federal initiatives while simultaneously creating stakeholder ownership of the resulting policy ecosystem (Box 6.3). Even though this particular initiative was developed to guide a common national policy rather than regionally-differentiated ones, the approach could be modified to provide regional small business development policy visioning.

Box 6.3. A policy visioning process – the Advanced Manufacturing Partnership, United States

Description of the approach

In 2011, President Obama launched the Advanced Manufacturing Partnership (AMP) 1.0, a national effort to bring together industry, academia, and government to invest in emerging technologies that will create high quality manufacturing jobs in the United States. The effort was jumpstarted with more than USD 500 million invested in five areas:

1. Building domestic manufacturing capabilities in critical national security industries;
2. Reducing the time needed to make advanced materials used in manufacturing products;
3. Establishing U.S. leadership in next-generation robotics;
4. Increasing the energy efficiency of manufacturing processes; and
5. Developing new technologies that will dramatically reduce the time required to design, build, and test manufactured goods.

The AMP 1.0 was developed as a university and private sector-led initiative. The initial universities involved in the AMP included MIT, Carnegie Mellon University, Georgia Tech, Stanford University, University of California-Berkeley, and University of Michigan. The manufacturers initially involved included Allegheny Technologies, Caterpillar, Corning, Dow Chemical, Ford, Honeywell, Intel, Johnson and Johnson, Northrop Grumman, Procter and Gamble, and Stryker. The universities joined together with industry partners and leading government agencies to define research opportunities and build a collaborative roadmap to identify key technology priorities for future development in the programme.

The AMP 1.0 steering committee called for a number of actions including, sustaining U.S. investment in science, technology and innovation; establishing a National Network of Manufacturing Innovation Institutes (a set of public-private partnerships); upgrading community-college and returning veteran workforce training programmes; and improving the business climate for manufacturing investment through tax, regulatory, energy and trade reform.

In 2013, President Obama launched the Advanced Manufacturing Partnership Steering 2.0. The AMP 2.0 brought together industry, academia, government and labour, and highlights the importance of supporting SMEs. The AMP 2.0 steering committee was more focused on implementation and included, among others, Massachusetts Institute of Technology, the University of Michigan and Georgia Tech among academic institutions and Honeywell, Siemens and the Dow Chemical Company among corporations.

Box 6.3. A policy visioning process – the Advanced Manufacturing Partnership, United States (cont.)

Factors of success

The success of this effort seems to be due to the significant federal effort to redirect existing financial commitments of various public agencies and private industries based on information on university and private sector development priorities. The programme influenced the use of USD 300 million from the Departments of Defense, Homeland Security, Energy, Agriculture, Commerce and other agencies; USD 70 million from the National Science Foundation, National Aeronautics and Space Administration, National Institutes of Health and the Department of Agriculture; USD 100 million from the Materials Genome Initiative; and USD 120 million from the Department of Energy.

The AMP's web portal additionally provided information about federal initiatives related to AMP, a list of the National Network of Manufacturing Innovation (NNMI) Institutes, and relevant news.

Obstacles and responses

As identified in the steering committee's initial report, sustained private and public investment in advanced manufacturing technology and innovation is essential for this effort to be successful. Political shifts could become an obstacle to the AMP by changing the level of public investments.

Relevance for Canada

The AMP 1.0 and 2.0 processes leverage the private sector and academic institutions to review and engage the policy ecosystem to assist and encourage US manufacturing and innovation policies – and specifically the connections between the two. The effort included evaluating existing programmes and identifying gaps in the current system. As a consequence, agencies across the federal government received intelligence from their user communities and other experienced stakeholders about how to modernise the array of federal programmes and policies across agencies and how they coordinated with state and local efforts. Such a policy visioning process with input from higher education and private sector stakeholders could be organised at regional as well as federal levels.

For further information

Institutional websites www.manufacturing.gov and www.whitehouse.gov.

Mechanisms for co-ordinating programmes

Co-ordination of RDAs, FedNor and other federal entities

The small business and entrepreneurship actions of the federal RDAs and FedNor are designed to be complementary to those of other federal entities, such as the Business Development Bank of Canada (BDC) in the area of access to finance and management consulting, the National Research Council (NRC) in the area of innovation support, and the Trade Commissioner Service (TCS) and Export Development Canada (EDC) in business internationalisation. Furthermore, following the federal elections of October 2015, the five RDAs and FedNor have been gathered under the responsibility of ISED. This bodes well for further coordination and complementarity in federal SME and entrepreneurship policy support at the regional level and for the involvement of the RDAs and FedNor in the new Innovation Agenda, launched by the Trudeau government.

Co-ordination across levels of government

A number of mechanisms are used to co-ordinate federal, provincial/ territorial small business and entrepreneurship programmes. For example, the research centres, incubators and accelerators developed in ISED's Networks of Centres of Excellence (NCE) programme have often involved co-investments by federal, provincial/territorial, and municipal governments or co-location of facilities primarily supported by particular parties. Similarly, the NRC's Industrial Research Assistance Program (IRAP) often co-locates offices with other relevant federal, provincial/territorial, and municipal centres and services. This enables coordination across levels of government by sharing of intelligence amongst the managers of the different programmes.

The Canada Business Network (CBN) is another key initiative, which facilitates the easy access of SMEs and entrepreneurs to the support services and facilities of different parts of government in the form of a "one-stop shop" service. The CBN includes a national web portal that offers information to entrepreneurs about existing federal and provincial/territorial support programmes as well as online market research and strategic advice. The information is organised by technology or industry category without regard to which scale of government is administering any specific programme. In the Western Provinces and Quebec, the CBN also offers a network of physical one-stop business and call centres; in the Northern Territories, Atlantic Provinces and Ontario, the CBN offers a network of call centres. The CBN is managed centrally by ISED and by the five RDAs and FedNor at local level.

BizPaL is a further important partnership among the federal government, provincial and territorial governments, and municipal authorities. BizPal provides information through one single web portal on the permits and licences that entrepreneurs require, depending on the industry and location from where they operate. To support the co-ordination, the federal government interacts with provincial and territorial governments, which in turn liaise with those municipalities within their own jurisdictions that are part of the programme.

Finally, there is a significant project to create a Common Business Identifier to facilitate the interactions of any business with any part of government and assist government departments and entities at different government levels to identify relevant support and refer small businesses onto it, thanks to common information on all the contacts that a small business has had with government. The project has so far involved three federal programmes, six provinces and one municipality with the view to improve and simplify relationships between the government and business clients.

Despite these co-ordination mechanisms, there is a lack of a formal and permanent body to exchange information on policy development across federal government and the provincial and territorial governments. The current working groups and commissions that span these jurisdictions for small business policy development are largely loose, informational, and term-limited. A more permanent form of co-ordination could help, such as the creation of a standing committee on SME and entrepreneurship policy consisting of focal points from federal, provincial and territorial government departments who regularly meet (e.g. twice or three times a year) to discuss progress on ongoing major programmes, new emerging issues and possible solutions to address these issues.

The *Conferenza Stato-Regioni* from Italy is an example of such a standing committee. This is a statutory body that coordinates relations between the state and the regions in relation to the programming of the European Structural Funds. An objective of this body is to design European Union-funded projects that have stronger strategic importance from a national

point of view by involving more regions in common projects. Italian regions (and Italy's two autonomous provinces of Trento and Bolzano) have also established a second voluntary body (i.e. the *Conferenza delle Regioni e delle Province Autonome*) whose objective is to reinforce interregional policy co-ordination in economic development policies, bring up the views of regions to central government, and act as a forum to share problems and policy solutions in local economic development. This type of formal arrangement could add to the policy co-ordination mechanisms already in place in Canada.

Mechanisms for co-ordinating local legislation affecting small business

Governments at the provincial and territorial levels have legislative responsibility in several areas related to small business development, including trade regulations, skills regulations, and financing regulations. While this is a decentralised responsibility of provinces and territories, certain obstacles to small business and entrepreneurship development can arise from regional differences in regulations.

Barriers to inter-regional trade

Inter-regional differences in business regulations and permits in certain sectors of the economy can act as barriers to internal trade. As noted by the Department of Finance (2014), for example, “small business registration requirements (still) vary from province to province. This creates a hurdle for firms to grow beyond their home province and seize opportunities in other parts of Canada”. Heterogeneous sector-specific credentials, certification standards and regulations also continue to hinder internal trade (SSC, 2014), such as provincial/territorial production quotas on certain agricultural products, local content preferences on provincial/territorial government purchasing and differences in requirements for professional registration. Lack of data on internal trade barriers and the failure to resolve sector-specific challenges around corporate registration and reporting are additional factors reported to slow down progress in this area (Canada's Public Policy Forum, 2013).¹

These barriers reduce the size of the domestic market and represent an obstacle for small business scale up via non-local sales and investments. Inter-provincial trade flows in relation to gross domestic product (GDP) experienced a decline during the 1980s and 1990s in Canada, decreasing from 27% in 1981 to 22% in 1989 and 20% in 1997 (Grady and Macmillan, 1998).² The benefits from reducing interprovincial trade barriers have been estimated at between a few marginal points and one full percentage point of GDP per year (Beaulieu, 2013), although some estimates put them as high as CAD 50 billion, i.e. approximately 2.5% of Canada's GDP.³ Positive long-term effects from reducing such barriers are also expected on job creation (Coulombe, 2003).

The main federal piece of legislation which works to reduce internal trade barriers is the Agreement on Internal Trade (AIT), which was established in 1995 and subsequently reformed on various occasions. This agreement establishes the principles of:

- restricting the establishment of new barriers to internal trade;
- treating people, goods, services and investments equally regardless of the provincial/territorial origins; and
- reconciling standards and regulations.

Although progress has been made since the establishment of the AIT, there is a general consensus in the federal government that more needs to be done to ensure better free movement of goods and services across provinces and territories (Department of Finance, 2014).

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. As of the second half of 2016, these negotiations were ongoing and supported by a new Internal Trade Promotion Office within ISED. Moreover, a new internal trade barriers index is to be developed which will help identify existing trade barriers and areas for reform (OECD, 2016). One possible reform could involve turning the AIT from an agreement which uses a “positive list approach”, in which only rules expressly mentioned in the Agreement apply, to one based on a “negative list approach”, where rules apply to the economy as a whole except for the cases expressly mentioned in the Agreement. The main benefit from such a change would be a more transparent list of internal trade barriers that could be more easily eliminated in future negotiations (OECD, 2016).

On occasions when progress at the federal level has stalled in the past, provinces have sometimes proceeded through bilateral agreements to improve inter-provincial trade flows. For example, the comprehensive British Columbia-Alberta Trade, Investment, and Labour Mobility Agreement was established in 2007 and enlarged to Saskatchewan in 2010 to become the New West Partnership Trade Agreement. This agreement aims to eliminate unnecessary differences in standards and regulations and sets up a conflict resolution mechanism that is mutually accepted by the three provinces. Other agreements that work to boost trade across provinces are the Ontario-Quebec Trade and Cooperation Agreement, the New Brunswick-Nova Scotia Partnership Agreement on Regulation and the Economy, and the Atlantic Procurement Agreement. However, such bilateral trade agreements are second bests compared to a stronger AIT to the extent that they do not fully address fragmentation in the domestic market.

Barriers to inter-regional labour mobility

There are also a few barriers to inter-provincial mobility of skilled labour, which are mainly linked to the provincial accreditation of apprenticeships. In this field, mutual recognition of provincial apprenticeship certificates is assured by the Red Seal Program, a federal-provincial partnership launched over 50 years ago to promote common technical standards allowing the recognition of skilled-trade certifications across provinces. Apprentices with Red Seal endorsement receive training based on nationally-recognised standards and are certified through a common interprovincial examination. The Canadian Council of Directors of Apprenticeship (CCDA) manages the Red Seal Program in close co-operation with industry representatives. From 2003 until 2015, the number of designated Red Seal trades increased from 45 to 57, covering approximately 80% of all registered apprentices in Canada. There is still some work to do to cover all apprenticeship fields through Red Seal, however.

In addition, some barriers affect apprentices who cannot complete the full apprenticeship programme in one single province. In this case, provinces do not always recognise each other’s training towards the apprenticeship. This can therefore interrupt the achievement of the final qualification. Mutual recognition of training requirements across provinces even before the delivery of the final certification could improve the completion rate in apprenticeship programmes, which is only about 50% nationwide. In this regard, since September 2015 provinces and territories are implementing the Provincial-Territorial Apprentice Mobility Agreement, which provides apprentices with greater recognition of their training, work experience and examination results when moving between provinces or territories (OECD, 2016).

Barriers to financial market development

In Canada, provinces and territories have freedom under the Constitution to regulate their own financial securities markets. This can act as a constraint in the development of certain new financial markets, such as crowdfunding. Crowdfunding involves the pooling of numerous small investments into a larger pool of money dedicated to a new entrepreneurial project. It is mainly performed online, with dedicated websites showcasing investment projects which private non-accredited investors can choose to support with injections of cash. There are two distinct types of crowdfunding sites, donation-based or equity-based. Of these, equity crowdfunding sites are the most important vehicles for investment in new entrepreneurial start-ups.

Canada is lagging behind countries such as the United Kingdom and United States in equity crowdfunding. In these countries, national financial market regulators have passed legislation which places crowdfunding on a secure legal footing. In setting up these frameworks, the regulators have sought to find a balance between enabling investments on one hand, and protecting the public against fraudulent offers on the other. Several provinces in Canada are starting to develop rules specifically for crowdfunding in order to catch up with the phenomenon. There are also efforts to co-ordinate the regulations among them. Thus in May 2015, the securities regulatory authorities of British Columbia, Saskatchewan, Manitoba, Quebec, New Brunswick and Nova Scotia announced that they were adopting substantially harmonised registration and prospectus exemptions (the start-up crowdfunding exemptions) to allow start-up and early-stage companies in these jurisdictions to raise up to CAD 500 000 per calendar year through online funding portals.

These sorts of arrangements need to be spread across the whole country. This could be facilitated by empowering the national body responsible for aligning provincial and territorial regulators, the Canadian Securities Administrators, to maximise the harmonisation of regulations in this area. Another job for the provincial and territorial regulators and the Canadian Securities Administrators working together is to respond to ongoing financial innovations elsewhere in the world. These include peer-to-peer lending, where Canada is also lagging behind other G7 countries such as the United States and the United Kingdom, as well as asset-based finance, debt securitisation and hybrid finance, where there are already some appropriate interventions in Canada (OECD, 2015).

Conclusions and policy recommendations

Canada's decentralised governance arrangements help to provide the required flexibility for SME and entrepreneurship policies to respond to differing local conditions while ensuring coherent and co-ordinated approaches across government levels. There are nonetheless three main challenges for the federal government.

The first challenge is how to prioritise the "right" SME and entrepreneurship policy solutions at the right time for firms at different stages of development in differentiated regional economies. This could be supported by a strengthening of the information being generated and exchanged on policy needs and impacts at sub-national level.

The second challenge is to accelerate the diffusion of successful local small business policy experiments across the country. The current arrangements could be reinforced by the creation of a formal committee on small business policy bringing together focal points from federal and provincial/territorial governments.

The third challenge is to coordinate legislation among provincial and territorial governments, under the guidance of the federal government, in areas of legislation that mainly fall within the remit of provincial and territorial authorities. There is a risk that overly heterogeneous legislation across the country could lead to fragmentation in domestic product, labour and financial markets, which could result in less than optimal growth opportunities for Canadian small businesses. Important efforts are already underway for example through the reform of the AIT and the Provincial-Territorial Apprentice Mobility Agreement and development of various co-operations among provinces in the area of financial regulation. However, more could be done to fill remaining obstacles to internal trade, labour mobility and financial market development.

Based on this analysis the following recommendations are offered to strengthen coordination and local tailoring in SME and entrepreneurship policies.

Key recommendations on the local dimension

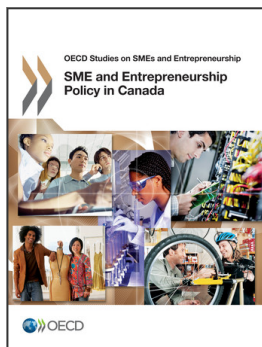
- Consider the feasibility of generating and analysing information on local variations in small business information and programme application requests from BizPaL and CBN as a means to support the local tailoring of small business and entrepreneurship policies.
- Create an inter-regional standing committee 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.

Notes

1. The Public Policy Forum's report summarises the key findings of the "Symposium on Internal Trade", a high-level conference organised by the federal government of Canada that involved over 100 public, private, non-profit and labour leaders.
2. In nominal terms, interprovincial trade increased by 32% between 1984 and 1990 and by 25% between 1990 and 1998. Nominal growth in international exports, on the other hand, expanded substantially over the same time periods by 32% and 121% respectively.
3. "Industry Minister Moore Kicks Off Internal Trade Tour in Ottawa", 17 June 2014, <http://news.gc.ca/web/article-en.do?nid=858449>.

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