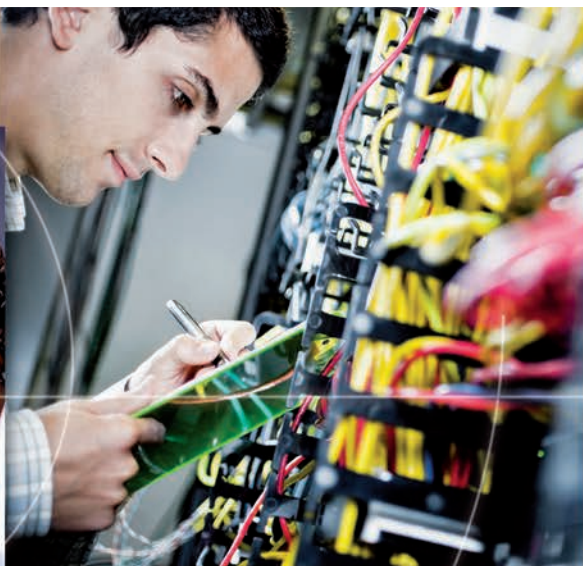




OECD Studies on SMEs and Entrepreneurship

SME and Entrepreneurship Policy in Canada



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Foreword

This publication presents the OECD country review of small and medium-sized enterprise (SME) and entrepreneurship policy in Canada. The report is part of the country review series of the Working Party on SMEs and Entrepreneurship and undertaken by the OECD Centre for Entrepreneurship, SMEs, Local Development and Tourism.

The SME and entrepreneurship policy reviews are undertaken in countries that express an interest in co-operating with the OECD on an external assessment of their policy successes and challenges that can be used to help strengthen their policy strategies, programmes and implementation arrangements in this area. Recently reviewed countries include Israel, Italy, Mexico, Poland, the Russian Federation and Thailand. The present review was requested by the Government of Canada, through Innovation, Science and Economic Development, Canada (ISED).

The reviews provide a comprehensive assessment of the structure and performance of SME and entrepreneurship activity, the business environment and framework conditions for SMEs and entrepreneurship, the strategic framework and delivery arrangements for policy, national SME and entrepreneurship programmes and the local dimension of the policy. They include international comparisons of data and policy approaches and offer specific recommendations for the countries concerned, often illustrated with inspiring practices from other countries.

The country reviews may include chapters of special relevance to the country concerned, as agreed between the OECD and the participating country. This report includes a special chapter on policy for women entrepreneurship. Special chapters in other review reports have focused on issues such as cluster development, policy evaluation and the development of medium-sized enterprises.

The methodology for the country reviews includes completion of a fact-finding questionnaire by national government authorities on SME and entrepreneurship conditions, policies and programmes, a study mission to the participating country by the OECD Secretariat and international experts, comments on a draft report by a steering group of members of the OECD Working Party on SMEs and Entrepreneurship and stakeholders in the reviewed country, and a peer review of the revised draft report by government delegates in a regular meeting of the Working Party on SMEs and Entrepreneurship.

Canada is a country with healthy entrepreneurial attitudes and strong performance in many aspects of SME innovation, although business dynamics are slow and SME direct export activity is limited. Small business taxation, regulation and labour market flexibility are favourable but there are weaknesses in some areas of small business finance markets. A number of recommendations are made for strengthening federal programmes for SMEs and entrepreneurship, such as in SME internationalisation, entrepreneurship education, public procurement and entrepreneurship among under-represented groups. The federal Regional Development Agencies and FedNor are playing key roles in adapting SME and entrepreneurship policy to varying local conditions across Canada and there are good arrangements for federal-local policy co-ordination, although local

legislation affecting small business could be improved in some areas. The report also points to important federal and local initiatives to increase gender equality in entrepreneurship that could be scaled up.

This report assesses the policies in place before the federal election in November 2015 and does not fully reflect changes in government programmes and initiatives since that date.

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Abbreviations

ACOA	Atlantic Canada Opportunities Agency (a Regional Development Agency)
ACPBR	Advisory Committee on Paperwork Burden Reduction
ACSBE	Advisory Committee on Small Business and Entrepreneurship
AEP	Aboriginal Entrepreneurship Program
AFI	Aboriginal Financial Institution
AIT	Agreement on Internal Trade
AMP	Advanced Manufacturing Partnership (United States)
AWBEN	Aboriginal Women Business Entrepreneurship Network
AWE	Alberta Women Entrepreneurs
BCIP	Build in Canada Innovation Program
BDC	Business Development Bank of Canada
BERD	Business Expenditure on Research and Development
BMWi	Federal Ministry of Economic Affairs and Energy, Germany
BWIT	Business Women in International Trade
CAD	Canadian Dollar
CAIP	Canada Accelerator and Incubator Program
CanNor	Canadian Northern Economic Development Agency (a Regional Development Agency)
CBN	Canada Business Network
CCC	Canadian Chamber of Commerce
CGPC	Canadian Council of Directors of Apprenticeship
CCDA	Canadian-Controlled Private Corporation
CECR	Centres of Excellence for Commercialization and Research
CED-Q	Canada Economic Development Agency for the Regions of Quebec (a Regional Development Agency)
CFIB	Canadian Federation of Independent Business
CFO	Community Futures Organisation
CFP	Community Futures Program
CGA	Certified General Accountants Association of Canada
CJF	Canada Job Fund
CJG	Canada Job Grant
CSBFP	Canadian Small Business Finance Program
CRA	Canada Revenue Agency
DC150	Digital Canada 150
DTAR	Digital Technology Adoption Resources
EDC	Export Development Canada
EDO	Economic Development Organisation
EI	Employment Insurance

EIS	Enterprise Investment Scheme (United Kingdom)
EPL	Employment Protection Legislation
ERP	Enterprise Resource Planning
ESDC	Employment and Social Development Canada
EUR	Euro
FCC	Farm Credit Canada
FedDev Ontario	Federal Economic Development Agency for Southern Ontario (a Regional Development Agency)
FedNor	Federal Economic Development Initiative for Northern Ontario (under Innovation, Science and Economic Development, a federal government department). FedNor is from a legal standpoint a regional development organisation that is part of ISED rather than a regional development agency.
FDI	Foreign Direct Investment
GAC	Global Affairs Canada
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GMAP	Global Markets Action Plan
GST	Goods and Service Tax
HEI	Higher Education Institution
HST	Harmonized Sales Tax
ICA	Investment Canada Act
ICT	Information and Communication Technologies
INAC	Indigenous and Northern Affairs Canada's
IRAP	Industrial Research Assistance Program
IRCC	Immigration Refugees and Citizenship Canada
ISED	Innovation, Science and Economic Development, Canada (a federal government department, formerly Industry Canada)
ITA	Industrial Technology Advisor
ITB	Industrial and Technological Benefits
ITC	Investment Tax Credit
ITF	Industry Training Fund (Italy)
LEAP	Longitudinal Employment Analysis Program
LINC Scotland	Business Angels Association of Scotland
LSVCC	Labour Sponsored Venture Capital Corporation
LCGE	Lifetime Capital Gains Exemption
MFP	Multifactor Productivity
MWDI	Maori Women's Development Initiative
NACCA	National Aboriginal Capital Corporations Association
NACO	National Angel Capital Organisation
NCE	Networks of Centres of Excellence
NGO	Non-Governmental Organisation
NLOWE	Newfoundland and Labrador Organization of Women Entrepreneurs
NRC	National Research Council
NSERC	Natural Sciences and Engineering Research Council of Canada
NWAC	National Women's Association Canada
OECD	Organisation for Economic Co-operation and Development

OSME	Office of Small and Medium Enterprises
PBRI	Paperwork Burden Reduction Initiative
PIAAC	Programme for the International Assessment of Adult Competencies
PISA	Programme for International Student Assessment
PSAB	Private Sector Advisory Board
PSPC	Public Services and Procurement Canada
QST	Quebec Sales Tax
R&D	Research and Development
RBS	Royal Bank of Scotland
RCC	Canada-United States Regulatory Co-operation Council
RDA	Regional Development Agency
SAC	Supplier Advisory Committee
SBCGR	Small Business Capital Gains Rollover
SBJC	Small Business Jobs Credit
SBTC	Senate Standing Committee on Banking Trade and Commerce
SEIS	Seed Enterprise Investment Scheme (United Kingdom)
SENO	Social Enterprise Northern Ontario
SEPH	Survey of Employment, Payrolls and Hours
SES	Scotland's Enterprising Schools
SME	Small and Medium-sized Enterprise
SR&ED	Scientific Research and Experimental Development tax credit
SSC	Standards Council of Canada
SSHRC	Social Sciences and Humanities Research Council of Canada
STEM	Science Technology Engineering and Maths
SWC	Status of Women Canada
TCS	Trade Commissioner Service
TEA	Total early-stage Entrepreneurial Activity
TTO	Technology Transfer Office
UNIDO	United Nations Industrial Development Organisation
USA	United States of America
VAT	Value Added Tax
VCAP	Venture Capital Action Plan
VCSIP	Venture Capital Strategic Investment Plan
WBE	Women Business Enterprises Canada
Canada	
WD	Western Economic Diversification Canada (a Regional Development Agency)
WDP	Western Diversification Program
WEC British Columbia	Women's Enterprise Centre British Columbia
WECI	Women's Enterprise Connect International Canada
WECM	Women's Enterprise Centre of Manitoba
WEI	Women's Enterprise Initiative
WEOC	Women's Enterprise Organizations of Canada
WES	Women Entrepreneurs of Saskatchewan Inc.
WINN	Western Innovation Initiative

BASIC STATISTICS OF CANADA

LAND, PEOPLE AND ELECTORAL CYCLE

	Canada	OECD average		Canada	OECD average
Population (million) (2014)	35.5		Population density per km ²	3.91	34.9
Under 15 (%)	16.1	18.1	Life expectancy (years, 2011)	81.5	79.9*
Over 65 (%)	15.7	16	Men	79.1	77*
Foreign-born (% , 2013)	20		Women	83.4	82.7*
Latest 5-year (2010-2014) average population growth (%)	1.05	0.61	Population of largest metropolitan areas (million people, 2015)		
			Toronto	6.13	
			Montreal	4.06	
			Vancouver	2.5	
			Latest general election	Oct-15	

ECONOMY

Gross domestic product (GDP) (volume, 2015)			Value added shares (%) (2012)		
In current prices (billion USD)	1 588		Primary sector	1.8	
In current prices (billion CAD)	1 983		Industry including construction	28.9	
Latest 5-year (2011-15) average GDP growth (%)	2.1	1.7	Services	69.3	
Per capita (000 USD PPP)	44.3	40.0			

GENERAL GOVERNMENT

Total receipts general government (% of GDP, 2016)	38.2	38	Government net lending (% of GDP) (2016)	2.2	2.9
Total disbursements general government (% of GDP, 2016)	40.5	40.9	Net government interest payments (% of GDP) (2016)	1.1	1.8

EXTERNAL ACCOUNTS

Exchange rate (CAD per USD) (2015) (average)	1.279		Main merchandise exports (balance-of-payments basis) (% of total), 2015		
PPP for GDP (national currency for USD) (2015)	1.248		Motor vehicles and parts	16.6	
Exports of goods and services (% of GDP, 2014)	31.7	29	Energy products	15.9	
Imports of goods and services (% of GDP, 2014)	32.6	29.2	Consumer goods	13.3	
Current account balance (% of GDP, 2015)	-3.3	0.1	Main merchandise imports (balance-of- payment basis) (% of total), 2015		
			Consumer goods	21.5	
			Motor vehicles and parts	18.3	
			Electronic and electrical equipment and parts	11.5	

LABOUR MARKET, SKILLS AND INNOVATION

Employment rate for 15-64 year-olds (%) (2015)	72.5	66.2	Unemployment rate (age 15 and over, %) (2015)	6.9	6.8
Men	75.6	74.1	Youth (age 15-24, %) (2015)	13.2	13.9
Women	69.4	58.5	Long-term (1 year and over) (% of total unemployment) (2015)	11.6	33.8
Participation rate for 15-64 year-olds (%) (2015)	65.9	59.7	Tertiary educational attainment 25-64 year-olds (% , 2015)	55	35
Men	70.6	68.7	Gross domestic expenditure on Research and Development (R&D) (% of GDP) (2014)	1.61	2.38
Women	61.2	51.4			
Average hours worked per year (2015)	1 706	1 766			

* OECD average is the average of the 35 OECD countries.

Source: OECD Country Statistical Profile of Canada; OECD Economic Outlook Database; OECD Labour Market Statistics Database; Statistics Canada.

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Executive summary

Small business and entrepreneurship performance is critical to the health of the Canadian economy, accounting for more than one-half of business sector employment. Canada has a vibrant small business sector and healthy attitudes to entrepreneurship. However, there are key challenges in scaling up small businesses, increasing the rate of business dynamism and high-growth firms, and increasing productivity and exporting in established small firms. This report examines the issues and identifies actions that public policy could take. Its proposals include developing a national strategy for small and medium-sized enterprises (SMEs) and entrepreneurship and increasing the range of programme interventions in areas such as financing, innovation, internationalisation, entrepreneurship education, management advice, and workforce skills development.

Main findings

Structure and performance

There are very healthy attitudes towards entrepreneurship in the Canadian population and Canadian SMEs are relatively innovative. However, Canada is not a top performer in the generation of high-growth firms, its SMEs have relatively little involvement in exporting, and there are relatively slow rates of business entry and exit. There is also a relatively large lag between the productivity of SMEs and large firms in Canada compared with the United States.

Business environment conditions

Small businesses in Canada benefit from a favourable small business tax regime, easy administrative procedures to start a business and a flexible labour market. On the other hand, bank lending volumes are relatively low and conditions relatively restrictive, and although there is substantial early-stage equity finance, domestic institutional investors are not playing the role that might be expected, the business angel market appears to be small and equity crowdfunding is limited. Furthermore, the innovation system is weighted to basic research rather than applied research.

Strategic policy framework and delivery system

There are many federal small business support programmes in Canada, offered by a range of government organisations including government departments, the federal Regional Development Agencies, and Crown Corporations. This brings the need for strong co-ordination mechanisms. Canada lacks a comprehensive strategy document for SME and entrepreneurship policy, a formal inter-departmental committee on SMEs and entrepreneurship, or rich statistical and evaluation evidence. However, there are other mechanisms which support policy formulation, including government consultative bodies,

independent advisory panels and formal programme consultations, such as the 5-year comprehensive reviews of main programmes and the 10-year legislative reviews of crown corporations. There are also effective national tools to guide small businesses and entrepreneurs towards relevant information on regulations and programme support, such as BizPaL and the Canada Business Network. A large share of federal support for SMEs and entrepreneurs is provided through tax incentives rather than targeted programmes.

Federal programmes

There is an extensive package of appropriate federal government interventions that are proving very effective in overcoming market failures and institutional problems affecting the emergence, growth and productivity of new and small firms. This includes many model initiatives from which other countries can learn and that need to be protected and maintained. For example, an ambitious Venture Capital Action Plan supports equity investments in small firms; the National Research Council's Industrial Research Assistance Program, Canada Accelerator and Incubator Program and Build in Canada Innovation Program support the development of innovative SMEs; the access of SMEs to public procurement opportunities is actively pursued by the Office of Small and Medium Enterprises within Public Services and Procurement Canada; and Regional Development Agencies support start-ups, SME innovation and growth/productivity, by facilitating access by local SMEs to international markets, global value chains and defence procurement through their regular programmes and initiatives and foster entrepreneurship and SME development in the rural regions of Canada through the Community Futures Programme.

Today's challenge is to fill gaps in this policy offer where there is lack of appropriate scale of interventions and lack of action to address specific aspects of market and institutional failure. In financing, gaps include limited reach of initiatives for credit guarantees and business angel investment. Innovation support is currently weighted to research and development (R&D) tax credits, whereas scale is lacking in support for non-technological innovation, advice and mentoring for digital technology adoption and support of university knowledge exchange activities. For exporting, more could be done to encourage export of intangibles and develop networks of exporting SMEs.

Despite many good practices in entrepreneurship education across schools and universities in Canada, there is little support for developing entrepreneurial skills and mind sets in the vocational education system, and some of the best tools for experiential learning in schools and universities need to be rolled out to more institutions and students. Furthermore, despite model management consultancy interventions by Business Development Bank of Canada and the federal Regional Development Agencies among others, more could be done to support access to private business development services and online diagnostics for SME management. Also, aside from the Canada Job Grant, there is relatively little emphasis on developing skills in existing SME workforces at the federal level of government.

The local dimension

There are substantial spatial variations across Canada in conditions for small business development. Regions vary, for example, in the sectors of their driving clusters, the importance of obstacles in areas such as skills and finance, and the extent to which SMEs are involved in innovation. There is a very effective system of adapting small business policy to varying local needs through the direct programmes of provinces/territories and

region-specific interventions of the federal Regional Development Agencies. There are also effective mechanisms for policy co-ordination across federal, provincial/territorial and municipal governments. There is nonetheless an opportunity to further increase the supply and use of local economic intelligence for policy design, boost the exchange of information on local good policy practices, and strengthen the co-ordination of provincial legislation in internal trade, skills recognition and financial innovation.

Women and entrepreneurship

The involvement of women in entrepreneurship is high in Canada. Nevertheless, the female entrepreneurship rate is far behind that of males. There is also an important gender difference in the scale of businesses created. The government is actively addressing these inequalities, as are the provincial/territorial governments and women's enterprise organisations. Federal government, for example, has introduced a national forum and an online platform to bring together women entrepreneurs, a programme for mentorship and championing of women entrepreneurs, and the Canadian Businesswomen International Trade Program to increase access to foreign markets. Women entrepreneurship programmes still need to be boosted, however, particularly in financing and supplier diversity, and the co-ordination of policy could be improved by developing a women's enterprise strategy for Canada.

Main recommendations

- Strengthen measures to increase productivity and access to foreign markets in existing SMEs, stimulate the entry of new businesses and promote high-growth SMEs.
- Improve framework conditions by further supporting lending to small business where there are market gaps, revamping apprenticeship training, and aligning policies for attraction of foreign direct investment with small business development strategies.
- Develop an integrated national SME and entrepreneurship strategy, giving leadership of the strategy to one government entity.
- Fill niche gaps in federal programmes for small businesses and entrepreneurship within the areas of financing, innovation, internationalisation, entrepreneurship education, management consultancy, workforce skills development, public procurement and support for disadvantaged and under-represented social groups.
- Strengthen the diffusion of local good practice interventions through new mechanisms for information generation and exchange and increase co-operation among provinces and territories in the promotion of internal trade, apprentice mobility and financial regulation.
- Boost interventions for financing women entrepreneurs and increasing gender diversity in public and private procurement, replicate successful local women entrepreneurship support programmes in other regions and formulate a women's enterprise strategy.

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).¹ 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).² 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.

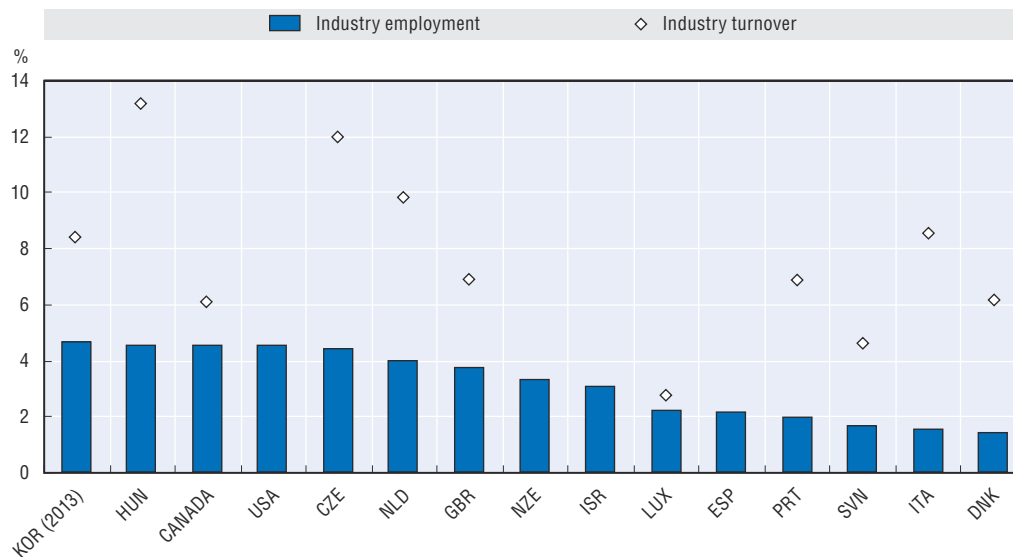
Canadian SMEs are relatively innovative

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

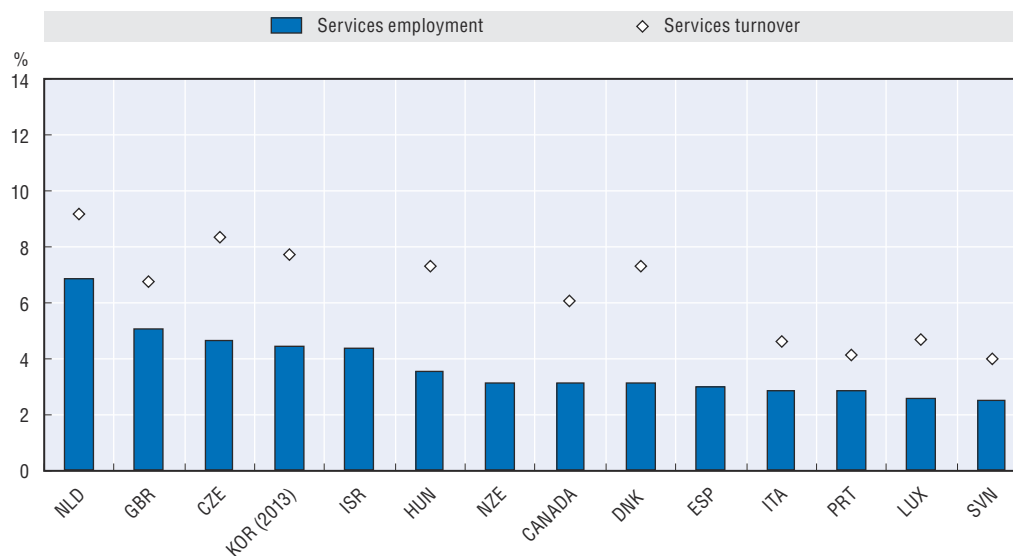
Figure 1.1. **Proportion of high-growth firms in the Canadian business population, 2012**

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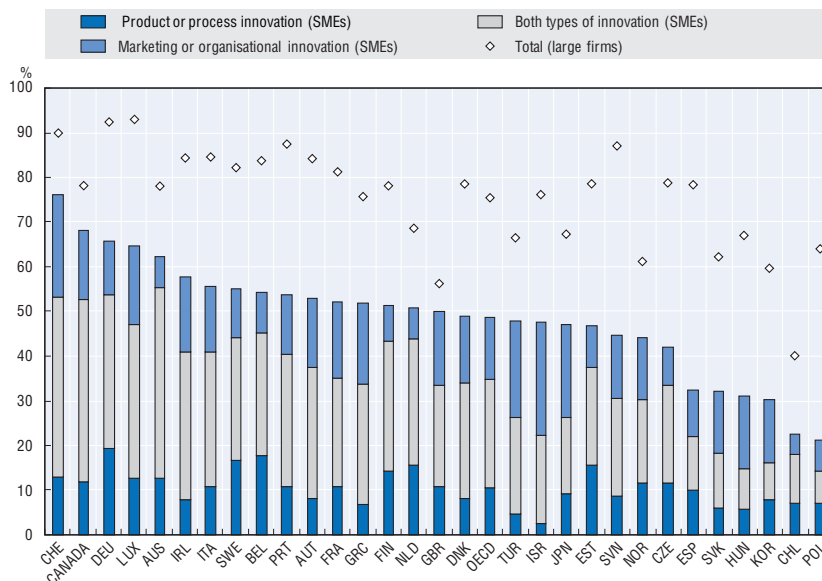
form of innovation in 2010-12, a result second only to Switzerland's 76%. Canada also has a large share of SMEs that combine both marketing/organisational and product/process innovation.

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)



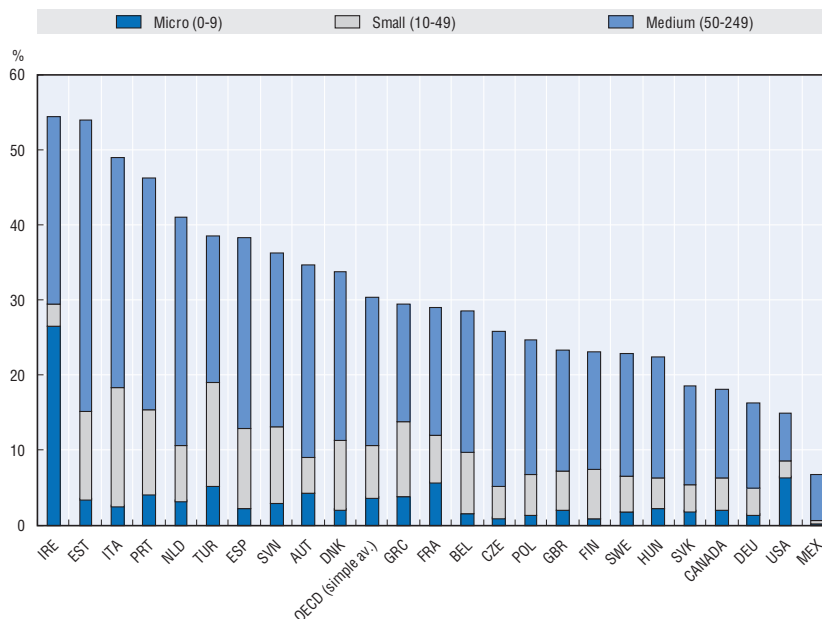
Note: Data are from the Eurostat Community Innovation Survey (CIS-2012) and other national innovation surveys. For Canada, data come from the Survey of Innovation and Business Strategy (SIBS) 2012 and refer to 2010-12. The survey covered firms with 20 or more employees and with at least CAD 250 000 annual 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.

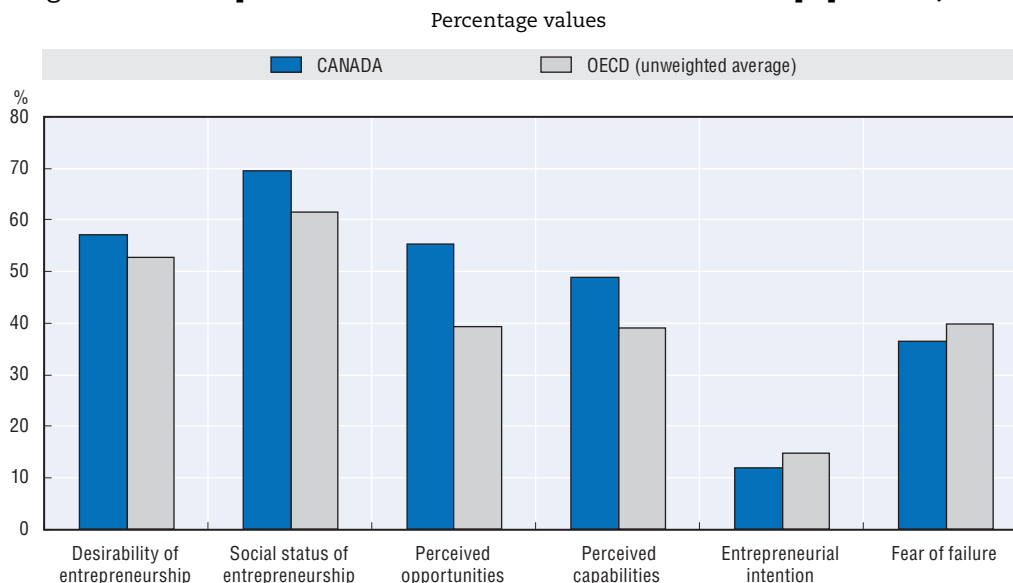
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exclude production of intermediates for export or export through intermediary wholesalers). Only 10% of Canadian enterprises with 1-99 employees exported directly. Even among medium-sized enterprises (100-499 employees), only 34% were involved in export (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**



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.

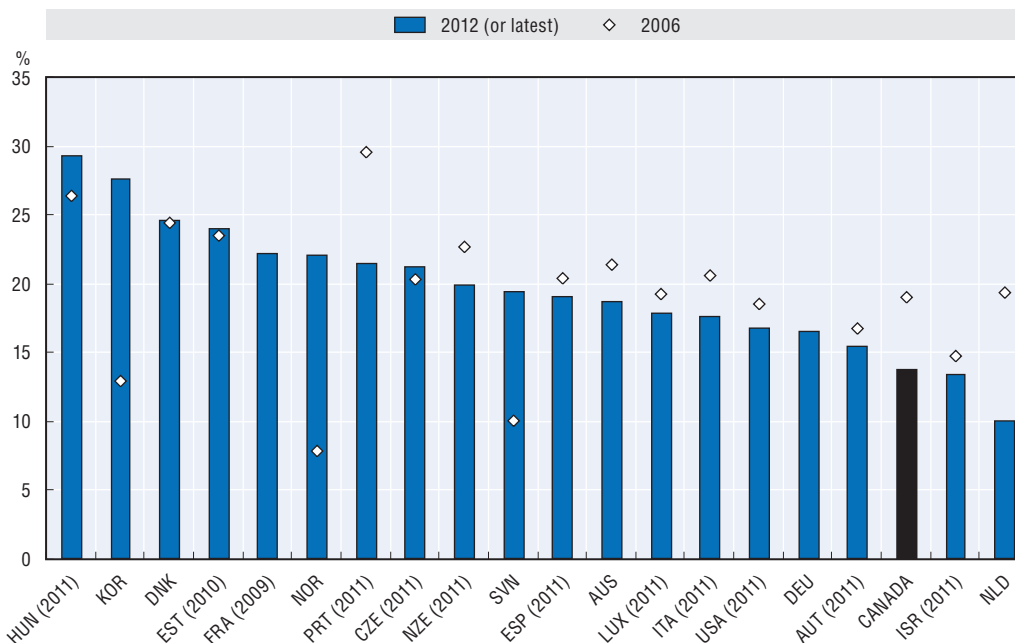
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Business dynamics are weak

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).³ 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

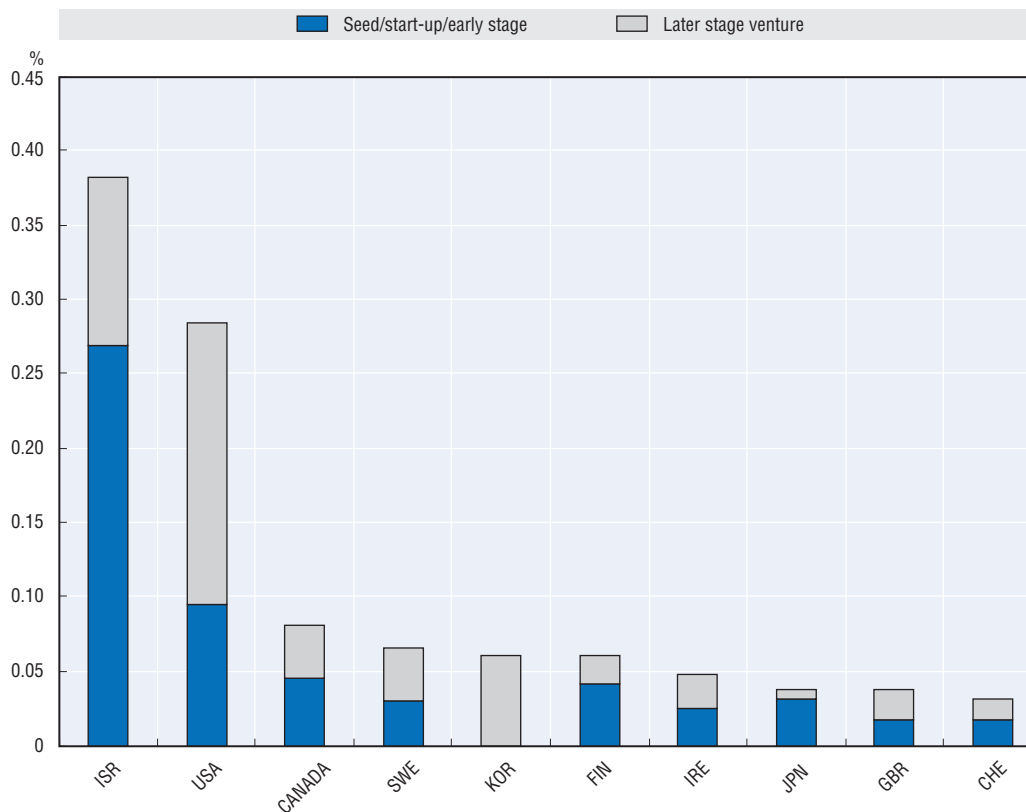
The volume of small business lending increased only marginally in Canada in 2007-14, despite sustained economic growth, and decreased as a proportion of total bank business lending (OECD, 2015d). At the same time, small business lending conditions have been relatively poor. Short-term loans (i.e. loans 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.

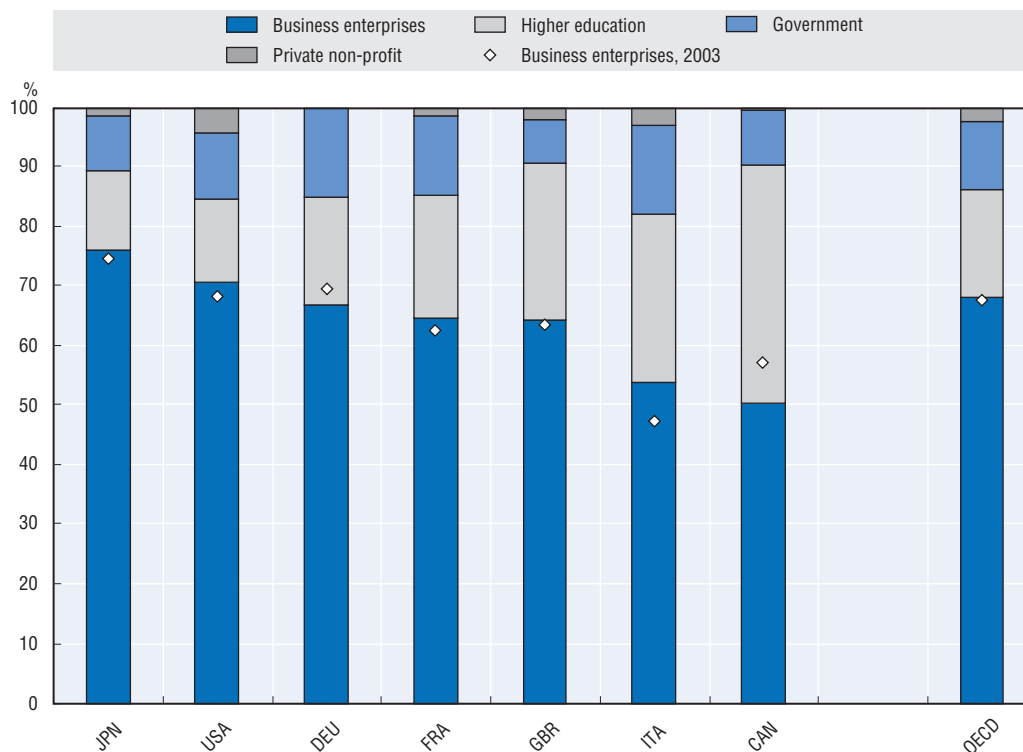
Canada has a small but active community of business angels. However, their activity is primarily concentrated in Ontario and British Columbia. Furthermore, according to the National Angel Capital Organisation (NACO) there is a drop off of equity availability at deal sizes of around CAD 2-5 million, i.e.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



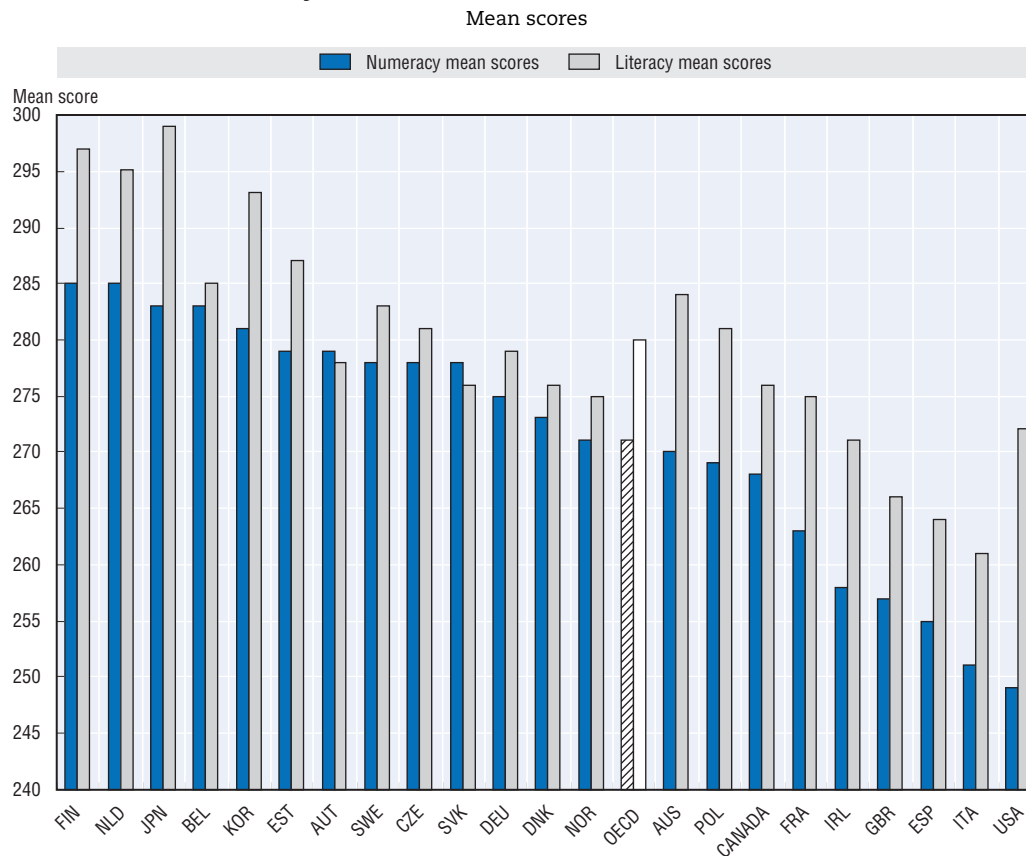
Source: OECD based on OECD (2015b), OECD Science, Technology and Industry Scoreboard 2015, OECD Publishing, Paris.

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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.

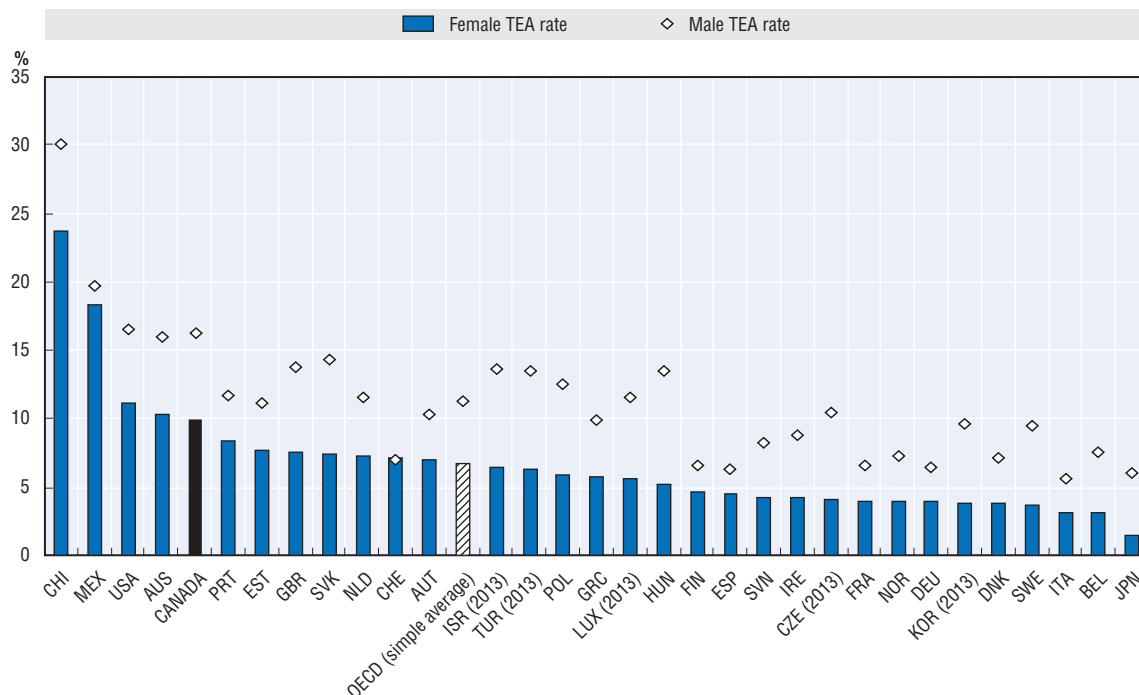
Women and entrepreneurship

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

StatLink <http://dx.doi.org/10.1787/888933553461>

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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Chapter 2

SME and entrepreneurship characteristics and performance in Canada

This chapter describes the structure and performance of SME and entrepreneurship activity in Canada. It presents information on numbers of enterprises and employment by enterprise size class and the productivity of SMEs in Canada. It examines the proportions of high-growth firms and gazelles in the business population, rates of R&D and innovation in SMEs and the level of SME exporting in Canada. It also presents evidence on entrepreneurial attitudes and the rate of early-stage entrepreneurial activity in the Canadian population, and indicators of business demography covering business entry and exit rates. It points to the importance of small business to employment, a relatively large productivity gap between small and large firms, rates of high-growth firms and gazelles that lag the leading countries and relatively low business entry-exit dynamism. It shows that a high proportion of Canadian SMEs engage in innovation-related activities but Canadian SMEs are not very active in international markets.

The structure of canadian businesses¹

Enterprises by size class

Statistics Canada data indicate that there were slightly more than 1.1 million employer companies in Canada in 2014, of which nearly 94% had less than 20 employees (micro), 6% had between 20-99 employees (small), nearly 1% had between 100-499 employees (medium), and 0.2% had 500 employees or more (large).² Over the last four years for which data are available (2010-14), the number of employer enterprises increased by 3.7%, corresponding to nearly 40 000 additional firms in the economy. Moreover, in this period, there was a decline in the overall proportion of micro-enterprises and a rise across all other enterprise size bands. This suggests some degree of scaling-up among Canadian small and medium-sized enterprises (SMEs), whereby the share of enterprises in the small and medium size classes increased whereas that of micro-enterprises declined.

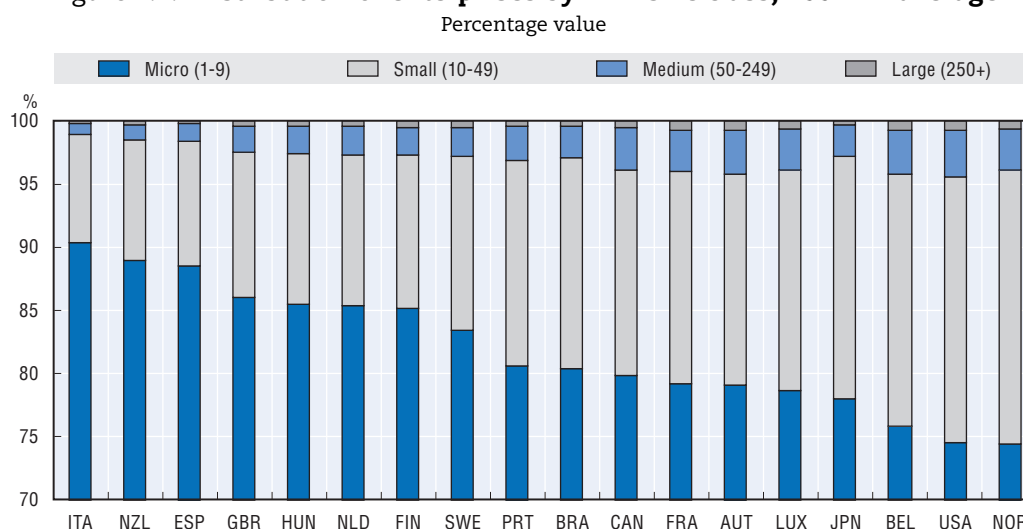
Table 2.1. **Canadian private-sector employer enterprises by firm size, 2010-14**

	Absolute values and percentage shares				
	2010	2011	2012	2013	2014
Micro (0-19 employees)					
Absolute value	989 190	1 003 620	1 006 040	1 011 280	1 023 030
Percentage share	93.01	93.00	92.92	92.74	92.72
Small (20-99 employees)					
Absolute value	63 190	64 070	64 990	67 210	67 990
Percentage share	5.94	5.94	6.00	6.16	6.16
Medium (100-499 employees)					
Absolute value	9 420	9 730	9 850	10 180	10 390
Percentage share	0.89	0.90	0.91	0.93	0.94
Large (500+ employees)					
Absolute value	1 710	1 730	1 790	1 830	1 900
Percentage share	0.16	0.16	0.17	0.17	0.17
Total	1 063 490	1 079 140	1 082 660	1 090 500	1 103 300

Source: OECD based on Statistics Canada database, CANSIM Table 527-0002 (Longitudinal Employment Analysis Program).

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A recent Organisation for Economic Co-operation and Development (OECD) project using firm-level data from national business registers offers comparable information on SME numbers for Canada and another 17 countries (16 OECD countries plus Brazil) over the period 2001-11.³ Based on this source, Figure 2.1 shows that the SME share in the total enterprise population was on average above 99% in Canada in that period, in line with other OECD countries. Micro-enterprises (employing less than 10 people) represented only 80% of all Canadian businesses, which was less than in most other countries though more than in other G7 economies such as the United States, Japan and France. Canada's proportion of medium-sized firms (50-249 employees) was significant by international standards (3% of total enterprises); although it was lower than in the United States.

Figure 2.1. **Distribution of enterprises by firm size class, 2001-11 average**

Note: The period covered is 2001-11 for Belgium, Canada, Finland, Hungary, the Netherlands, the United Kingdom and the United States; 2001-10 for Austria, Brazil, Spain, Italy, Luxembourg, Norway and Sweden; 2001-09 for Japan and New Zealand; 2001-07 for France; and 2006-11 for Portugal. The sectors covered are: manufacturing, construction, and non-financial business services. Owing to methodological differences, figures may deviate from officially published national statistics. For Japan data are at the establishment level, for other countries at the firm level. The percentage values are averages across all available years.

Source: Criscuolo C., P. Gal and C. Menon (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", OECD Science, Technology and Industry Policy Papers, No. 14, OECD Publishing, <http://dx.doi.org/10.1787/5jz417hj6hg6-en>.

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Sector-wise, in the period 2008-12, Canada experienced a contraction in the number of manufacturing SMEs, a trend common to most OECD countries, and an increase in the number of SMEs in services and construction (Figure 2.2).

A comparison of sector-level data for Canada and the United States provides further insights on the size structure of Canadian enterprises (Figure 2.3):

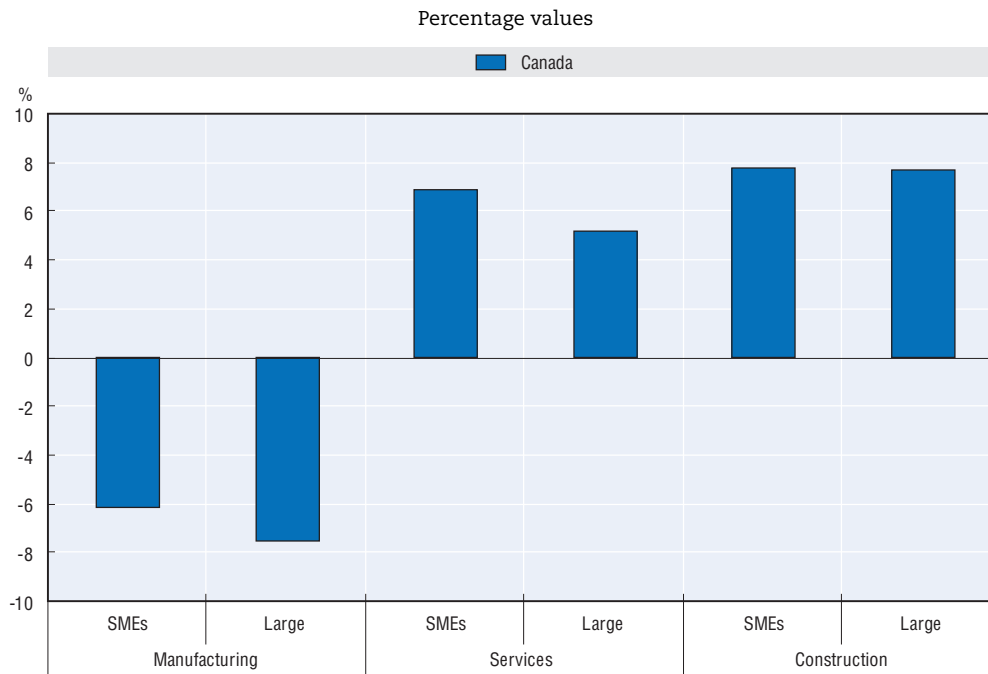
- Canada's share of large manufacturing companies (250+) is half that of the United States. This may undermine productivity in a sector of the economy where economies of scale are highly relevant;
- The firm size profile in the services industry is virtually the same in Canada and the United States, with firms of up to 50 employees making up 97% of the total stock of companies;
- Canada has a much larger percentage of medium and large companies in the construction sector than the United States.

Employment by enterprise size class

Data from Canada's Survey of Employment, Payrolls and Hours (SEPH), which covers all businesses that have at least one employee, indicate that SMEs (1-499 employees) accounted for 57.7% of total employment in the business sector in 2015, compared with 57.0% in 2010. Within the SME business segment, all enterprise size bands experienced net job creation. However, the employment weight of micro-enterprises in the economy inched down by 0.6% over 2010-15, whereas that of SMEs in the small and medium size classes inched up by 0.7% and 0.6% respectively (Table 2.2).

Based on the OECD Dynemp project, SMEs (1-249) accounted for 60% of total employment in Canada on average over the period 2001-11 (Figure 2.4). This was the 12th largest value

Figure 2.2. Change in the number of enterprises across three main sectors in Canada, 2008-12

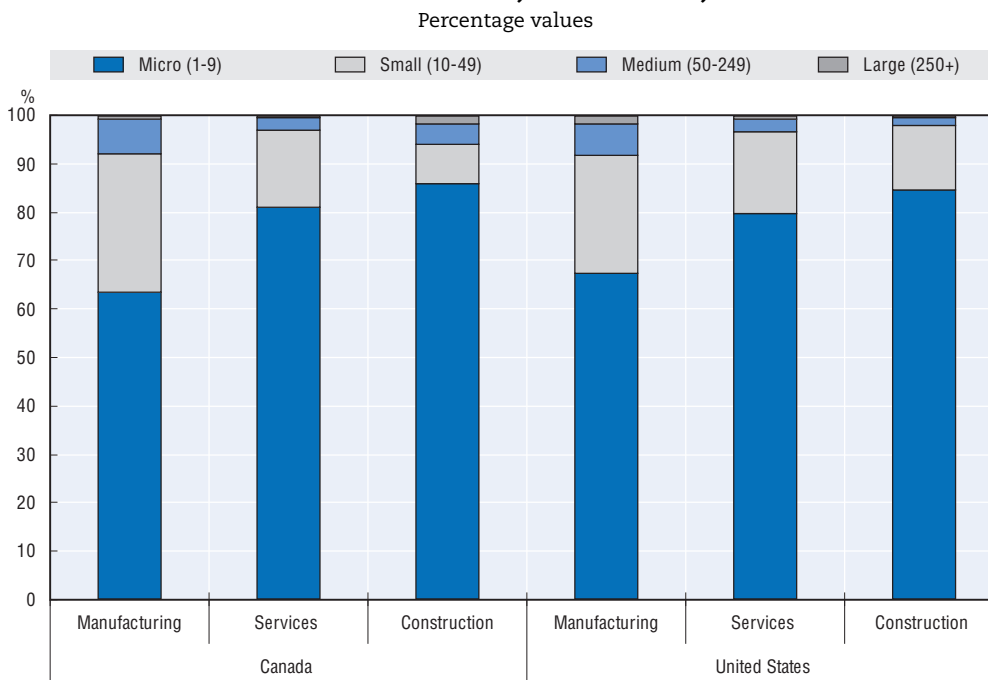


Note: The OECD definition of SME (1-249) is adopted in this graph.

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

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Figure 2.3. Distribution of enterprises by size class in Canada and the United States, main sectors, 2012



Note: Both Canada and the United States do not include non-employer enterprises.

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

StatLink <http://dx.doi.org/10.1787/888933553518>

Table 2.2. **Employment and employment weight by firm size in the Canadian business sector, 2010-15**

Absolute numbers and percentage values

	2010	2011	2012	2013	2014	2015
Micro (1-19)						
Absolute numbers	2 975 409	2 987 852	3 022 319	3 051 399	3 093 037	3 120 603
Percentage values	22.2	21.9	21.7	21.6	21.6	21.6
Small (20-99)						
Absolute numbers	2 653 006	2 705 616	2 783 548	2 872 005	2 914 785	2 962 628
Percentage values	19.8	19.8	20.0	20.3	20.3	20.5
Medium (100-499)						
Absolute numbers	2 015 987	2 079 807	2 127 012	2 189 537	2 244 484	2 264 650
Percentage values	15.0	15.2	15.3	15.5	15.7	15.6
Large (500+)						
Absolute numbers	5 776 028	5 868 127	5 988 373	6 027 370	6 084 714	6 125 489
Percentage values	43.0	43.0	43.0	42.6	42.4	42.3
Total	13 420 430	13 641 402	13 921 252	14 140 311	14 337 020	14 473 370

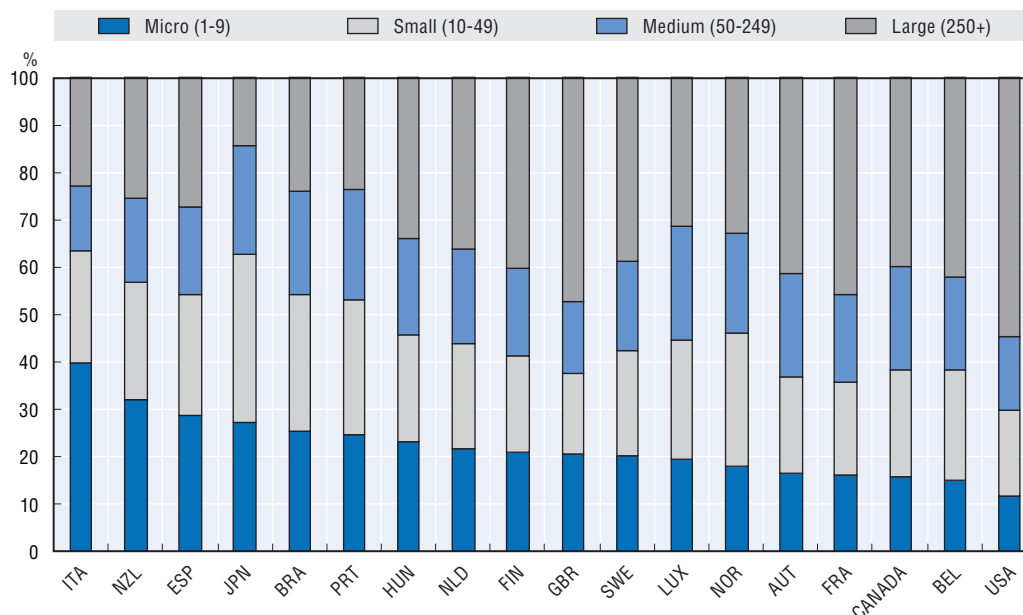
Note: Values are for all industries except Public Administration, NAICS Industrial Classification 11-81. Only employees are counted.

Source: OECD based on Statistics Canada, CANSIM Table 281-0042, Survey of Employment, Payrolls and Hours (SEPH).

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Figure 2.4. **Employment by firm size across selected economies, average 2001-11**

Percentage of total business sector employment



Note: The period covered is 2001-11 for Belgium, Canada, Finland, Hungary, the Netherlands, the United Kingdom and the United States; 2001-10 for Austria, Brazil, Spain, Italy, Luxembourg, Norway and Sweden; 2001-09 for Japan and New Zealand; 2001-07 for France; and 2006-11 for Portugal. Sectors covered are: manufacturing, construction, and non-financial business services. Owing to methodological differences, figures may deviate from officially published national statistics. For Japan data are at the establishment level, for other countries at the firm level. Average across all available years.

Source: Criscuolo C., P. Gal and C. Menon (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", OECD Science, Technology and Industry Policy Papers, No. 14, OECD Publishing, <http://dx.doi.org/10.1787/5jz417hj6hg6-en>.

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among the 18 benchmarked countries. Micro-enterprises (1-9 employees) generated 16% of total employment, the third smallest value in the group of 18 countries, small firms (10-49 employees) accounted for 23% of total employment, the 10th highest value, and medium-sized firms (50-249 employees) accounted for 22% of employment, the 5th highest value. These data indicate that medium-sized enterprises play an important role in the Canadian economy in international terms. However, compared to the United States, Canada has larger proportions of both micro-enterprises and SMEs as a whole.

High-growth enterprises and gazelles

High-growth enterprises, i.e. firms which grow rapidly over a short period of time, are a major source of job creation.⁴ For example, the OECD finds that although high-growth firms represented only between 3.2% and 6.4% of the total stock of enterprises in several countries, they accounted for between 40% and 64% of all new jobs, depending on the country (Bravo-Biosca et al., 2013). High-growth enterprises also favour the entrepreneurial process of creative destruction and often generate knowledge spill-overs which other firms can harness (Bravo-Biosca et al., 2013; Mason and Brown, 2010).

Figure 2.5 shows that, on the employment measure, Canada rates of high-growth enterprises in construction (5.8%) and industry (4.6%) are relatively high. Canada's rank is second and third among OECD countries with comparable data for these measures. Canada is also one of the few countries where the incidence of high-growth enterprises is higher in construction than in services. This might be linked to the commodity price boom cycle, which stimulated demand for construction until 2014 and to booming house prices. Data based on the turnover definition confirms these patterns, except for industry where Canada is only an average performer.

Gazelles are a specific subset of high-growth enterprises, i.e. those aged less than 5 years at the beginning of the observation period. With the exception of construction, Canada's rate of gazelles does not compare as favourably to other countries as its rate of high-growth enterprises.⁵ This might denote scale-up barriers facing young firms.

Canada's rate of high-growth enterprises generally increased over the period 2008-12 (Figure 2.6). This highlights the strength of the Canadian economy at a time when most OECD economies were grappling with the effects of the 2008-09 global recession.

The productivity, innovation and internationalisation performance of Canadian small businesses

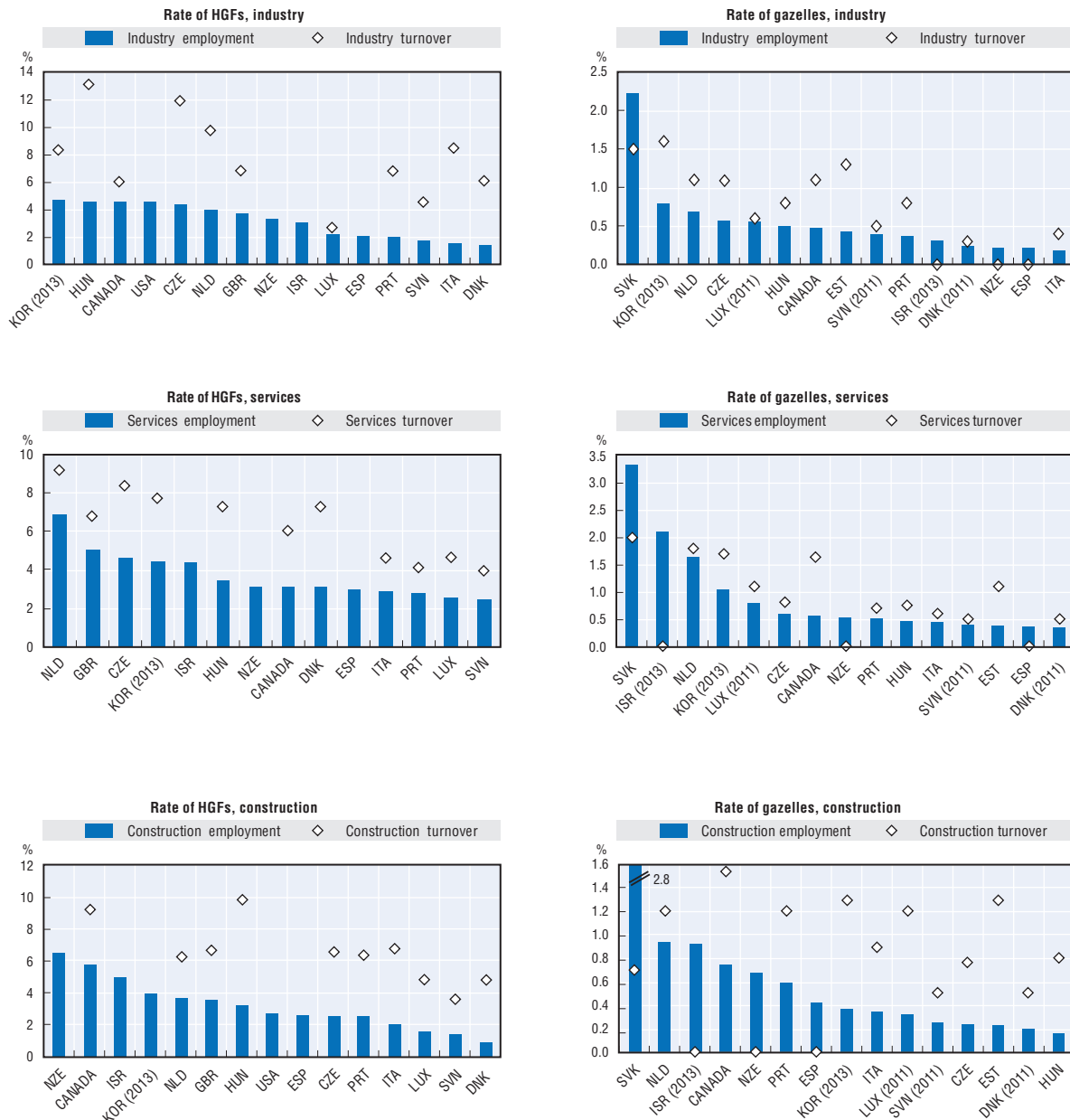
Productivity of canadian SMEs

An analysis by Statistics Canada found that in 2008 small businesses (employer enterprises with 1-99 employees) accounted for 40.6% of business-sector gross domestic product (GDP), medium-sized businesses (100-499) for 11.5%, and large businesses for nearly 47.9% (Leung et al., 2012). The total SME share of GDP (52.1%) was significantly below the SME share of employment indicated by the Statistics Canada SEPH database (57.2%). This is a standard finding in SME analysis, given that larger firms often benefit from greater economies of scale.

There is a lack of internationally-comparable data for Canada set against other OECD countries on the relative size of the productivity gap between SMEs and large firms. However, a study by Statistics Canada (Baldwin et al., 2014) provides some potentially interesting insights through a comparison of the gap in productivity performance between

Figure 2.5. The rate of high-growth enterprises and gazelles (employment and turnover definition) across OECD countries, 2012 or latest available year

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

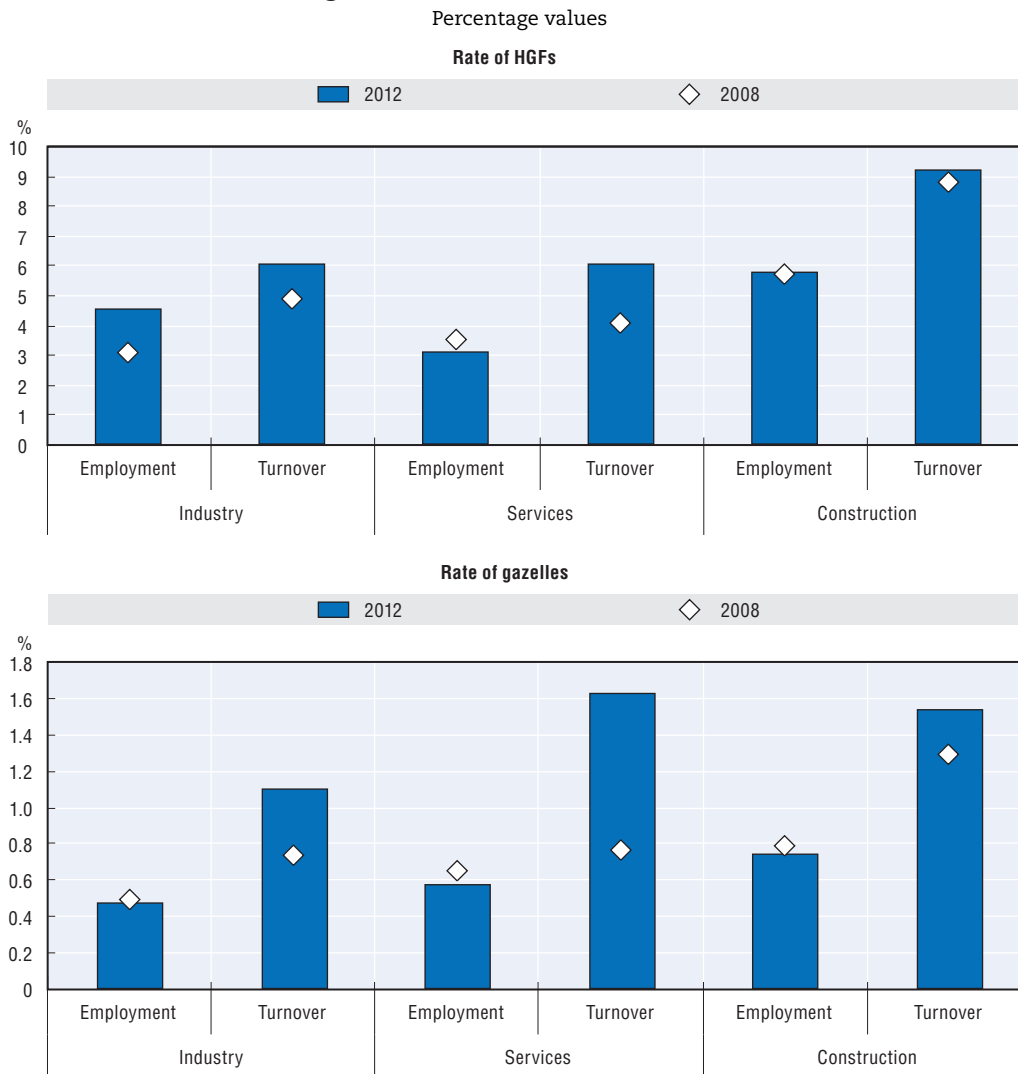


Note: High-growth enterprises, as measured by employment (or turnover), are enterprises with average annualised growth in employees (or turnover) greater than 20% a year, over a three-year period, and with ten or more employees at the beginning of the observation period. Gazelles are a subset of high-growth enterprises, i.e. those which have been employers only for a period of up to five years. The rates are calculated on the total number of employer enterprises with at least 10 employees at the beginning of the observation period. The category “industry” includes ISIC4 sectors 05-39, i.e. mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities.

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

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small and large businesses in Canada vis-à-vis the United States.⁶ That study found that GDP per hour worked in SMEs was only 47% that of large firms in Canada in 2008, compared with 67% in the United States. It was estimated that bringing the productivity of SMEs

Figure 2.6. **Evolution in the rates of high-growth firms and gazelles in Canada, 2012 and 2008**

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

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relative to large firms up to the level of the United States would increase aggregate Canadian labour productivity by 11%.⁷ Approaching the productivity performance of SMEs in the United States could be expected to require further scale-up of Canadian SMEs, increased efficiency gains in existing SMEs, and higher business entry and exit rates.

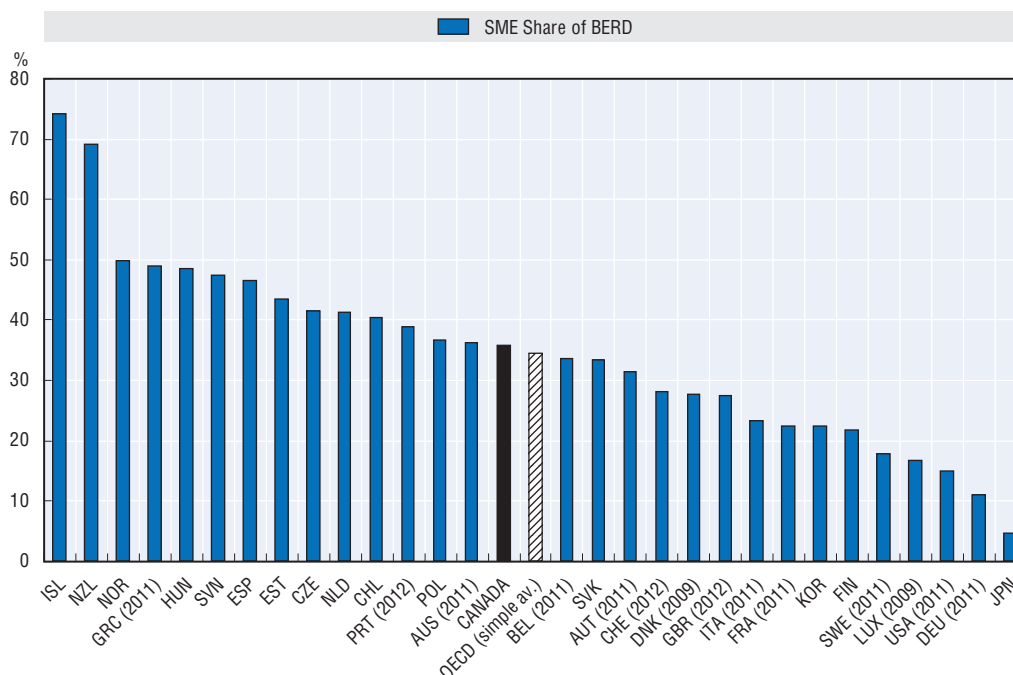
R&D and innovation in Canadian SMEs

Canadian business expenditure on research and development (R&D) was 0.82% of GDP in 2013, back to the levels of the early 1990s after having climbed in the early 2000s to reach 1.26% of GDP in 2001. The SME (1-249 employees) share of business expenditure on R&D in Canada was 36% in 2013, which is in line with the OECD un-weighted average for the 30 OECD countries for which data are available (Figure 2.7). It should nonetheless be recognised that Canadian SMEs represent a somewhat smaller share of GDP than the average, which affects the SME share in R&D. Other estimates by Innovation, Science and

Economic Development Canada (ISED) reveal that when the Statistics Canada's definition of SME is used (1-499 employees), SMEs accounted for 49% of total business expenditure on R&D in 2009; 31% by small enterprises (1-99 employees) and 18% by medium-sized enterprises (100-499 employees).

Figure 2.7. **Business R&D by firm size, 2011 or latest available year**

Percentage of R&D performed in the business sector



Note: For a number of countries, methodological improvements were adopted over the period 2003-13, which may hinder data comparisons over time. For Japan, firms with less than JPY 10 million in capital are excluded from the scope of R&D surveys. This leads to overstating the share of R&D accounted for large firms

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

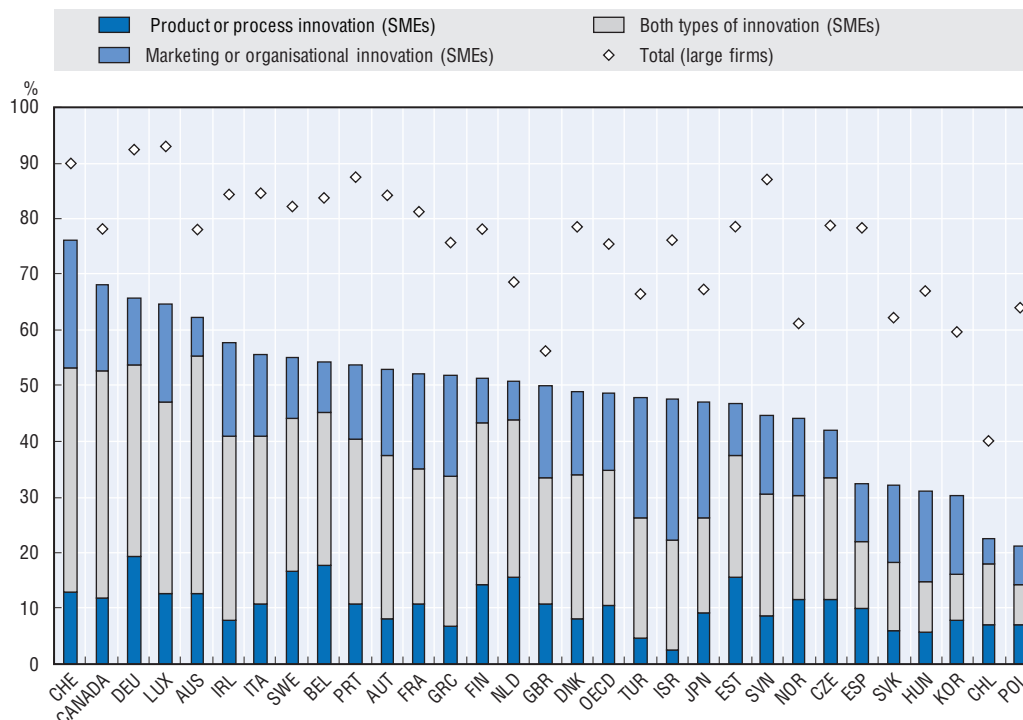
StatLink <http://dx.doi.org/10.1787/888933553594>

Canadian SMEs are active in many aspects of innovation in addition to R&D. Figure 2.8 presents comparisons with other countries, although full comparability is partially undermined by the use of different entry-thresholds between Canada's survey and, for example, the EU Community Innovation Survey (CIS).⁸ Sixty-eight per cent (68%) of Canadian SMEs reported involvement in some form of innovation, a result only second to Switzerland's 76%. In particular, 12% of Canadian SMEs had introduced at least one product or process innovation in the 2010-2012 period, 15% had introduced a marketing or organisational innovation, and 41% had done both. The evidence indicates that most Canadian innovative SMEs are taking a complementary approach to innovation in which they embark on both technological and non-technological innovation.

Policy-wise, direct government funding of business enterprise R&D is generous to SMEs in Canada;⁹ the proportion accounted for by SMEs (1-499 employees) varied between 58% of the total in 2009 and 48% in 2013.¹⁰ More generally, innovation survey data show that more than fifty per cent (52%) of innovative SMEs in Canada (i.e. companies that have introduced either product or process innovation) had received some form of government support during 2008-10. This is the second largest figure across OECD countries and only

Figure 2.8. **Types of innovation undertaken by SMEs and total “large firm” innovation, 2010-12**

Percentage of all SMEs and large firms



This graph is also proposed as Figure 1.2.

Note: Data are from the Eurostat Community Innovation Survey (CIS-2012) and other national innovation surveys' data sources. 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 (2015), OECD Science, Technology and Industry Scoreboard 2015, OECD Publishing.

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10 percentage points less than the proportion of large firms that benefited from government support (Figure 2.9).

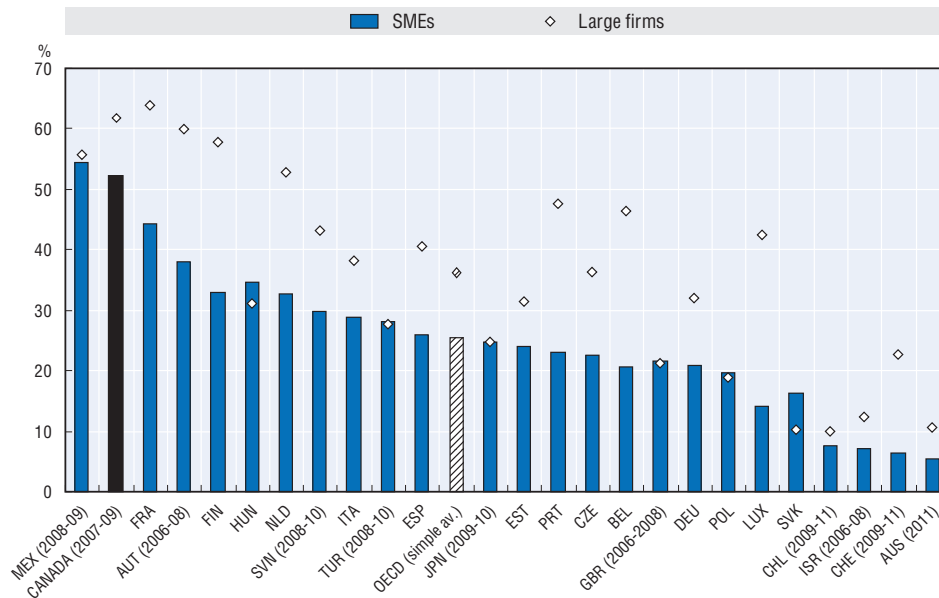
Internationalisation in Canadian SMEs

The direct contribution of SMEs to national export activity is not as strong in Canada as in other OECD countries.¹¹ Data from Statistics Canada show that while about 90% of exporters are small businesses (1-99 employees), only 10% of small businesses are exporters, with the proportion growing to 34% among medium-sized enterprises (100-499 employees) (ISED, 2013). As shown in Figure 2.10, approximately one-quarter (26%) of Canada's total export volume is accounted for by the ten largest exporters and slightly more than half by the fifty largest exporters (53%). Only smaller economies such as Luxembourg, Ireland and Finland have more concentrated direct export activity than Canada.

Export activity is also primarily directed to one main foreign partner country (the United States), which is the natural consequence of the geography of Canada. As shown in Figure 2.11, among a group of OECD countries, Canada has the highest share of export volume (26%) produced by enterprises that export to only one country and, conversely, the smallest share generated by worldwide exporters that export to 10 or more partner

Figure 2.9. The share of SMEs receiving public support for innovation compared to large firms, 2008-10

Percentage of product/process innovative firms



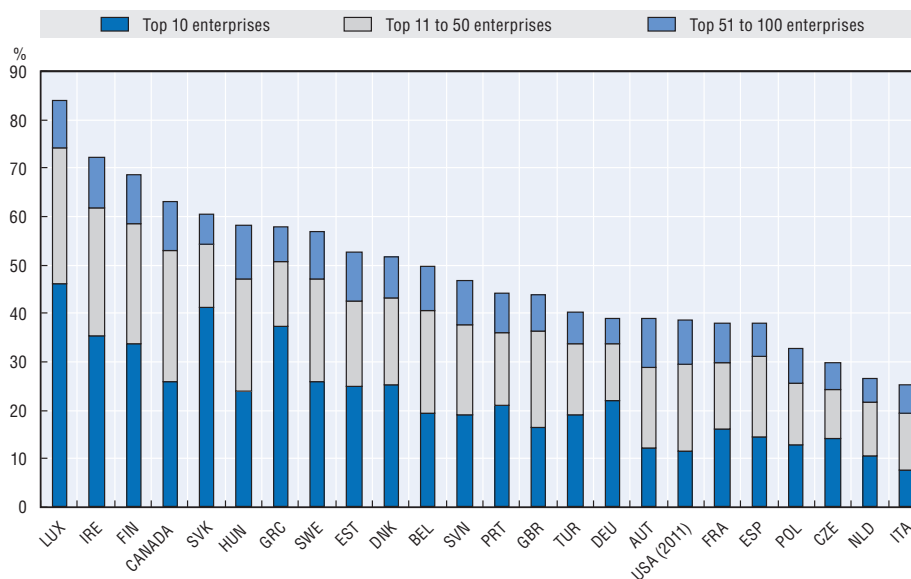
Note: For Canada, data refer to 2007-09 and firms with 20 or more employees and with at least CAD 250 000 of annual revenues in 2009. Firms with ongoing/abandoned innovation activities are not identified. Data refer only to grants and tax credit programmes across all levels of government. The industries covered are NAICS (2007) 31-33, 41, 48, 49, 51, 52 and 54 for 2007-09 and manufacturing only for 2002-04.

Source: OECD based OECD (2013), *OECD Science, Technology and Industry Scoreboard*, OECD Publishing.

StatLink <http://dx.doi.org/10.1787/888933553613>

Figure 2.10. Concentration of exports by exporting enterprises, total economy, 2012 or latest available year

Percentage of export volume

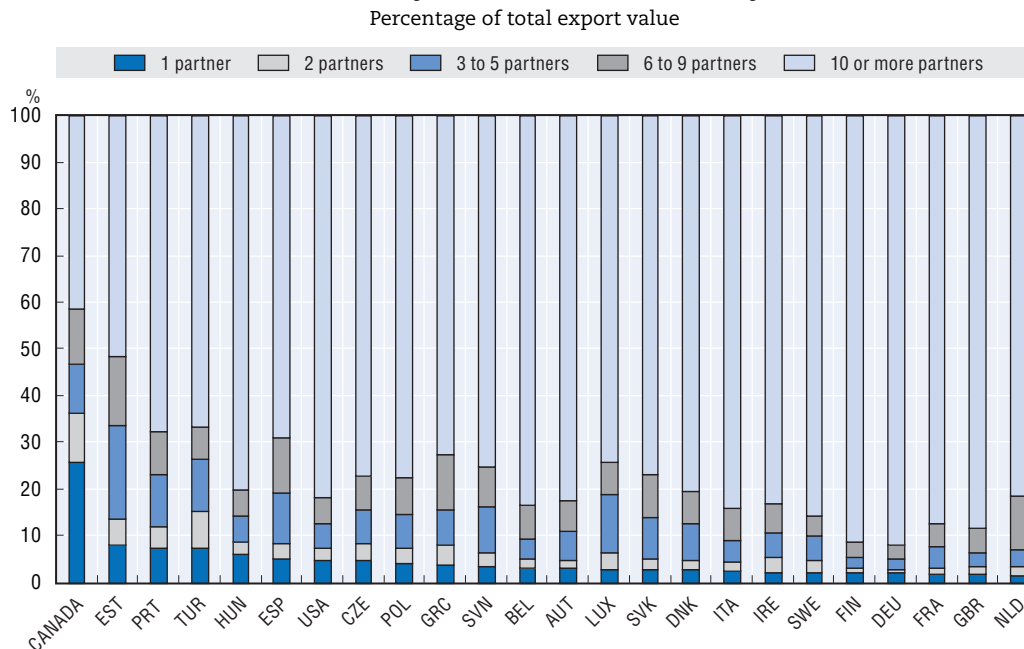


Note: The concentration of exports by exporting enterprises is calculated as the ratio of the value of exports by each rank (top 10, top 11 to 50, and top 51 to 100 exporting enterprises) divided by the total value of exports.

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

StatLink <http://dx.doi.org/10.1787/888933553632>

Figure 2.11. **Concentration of the value of exports by number of partners, total economy, 2012 or latest available year**

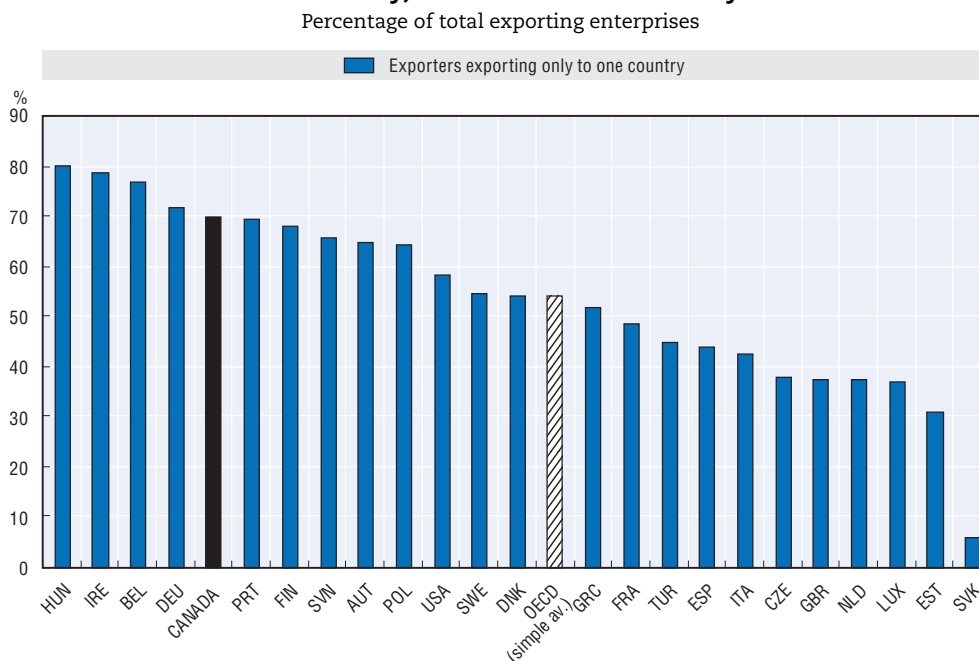


Note: The concentration of the value of exports by number of partners is calculated as the ratio of the value of exports by enterprises who have x partner countries to the total value of exports. Data are presented in descending order from the one, Canada, where most export value is accounted for by enterprises which only export to one partner country.

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

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Figure 2.12. **Proportion of exporters exporting to only one country, total economy, 2012 or latest available year**



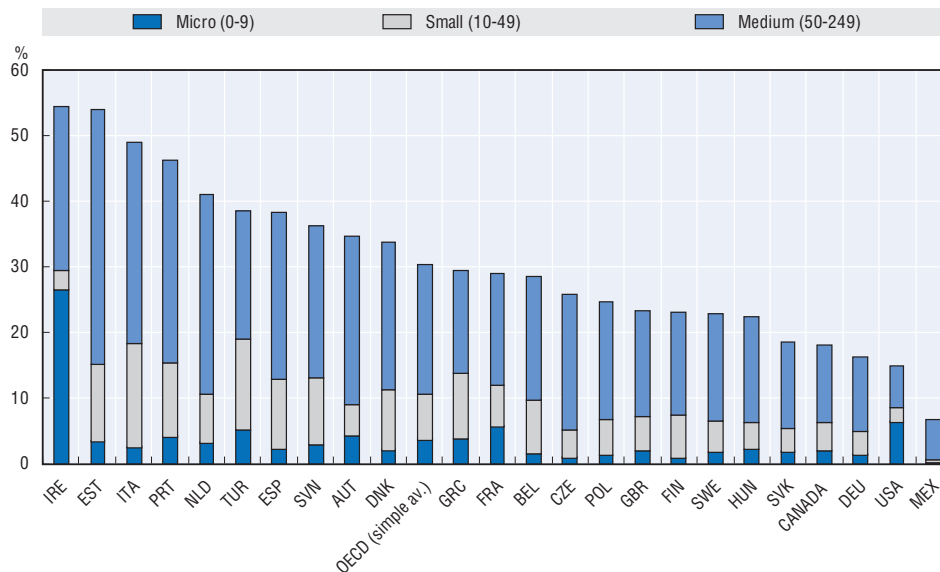
Note: The OECD simple average is the unweighted average of the country values for which data are available.

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

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Figure 2.13. **Share of export value by enterprise size, 2012 or latest available year**

Percentage of total export value



This graph is also proposed as Figure 1.3.

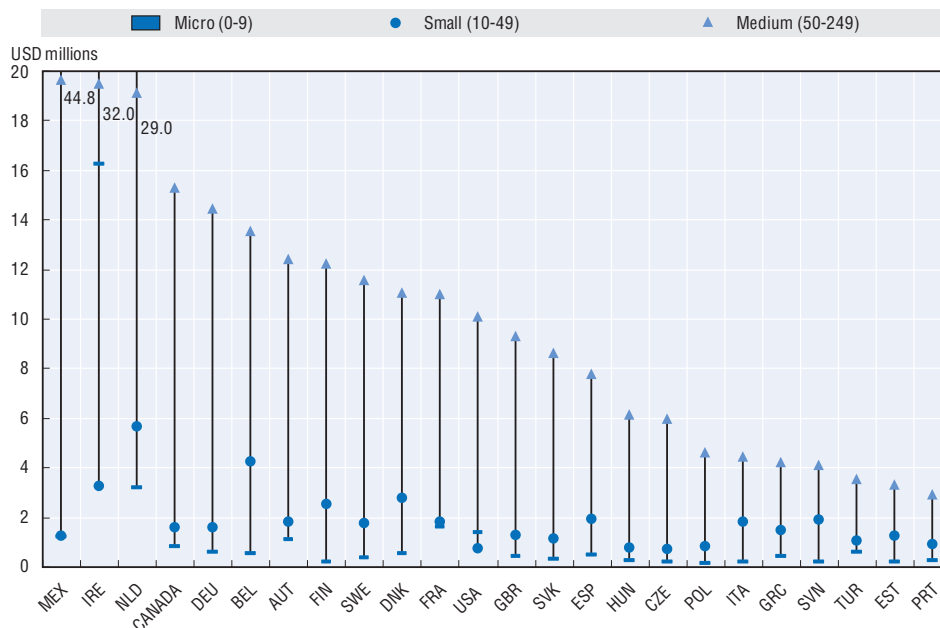
Note: The shares of exports by enterprise size are calculated as the ratio of the value of exports by each size class over the total value of exports.

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

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Figure 2.14. **Average value of export by size class and total, 2012 or latest available year**

Millions US dollars



Note: Average value of exports per enterprise is defined as the value of exports divided by the number of exporting enterprises.

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

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countries. In terms of number of enterprises (rather than export volumes) 70% of Canadian exporters export to only one country, which is a higher proportion than in most other OECD countries (Figure 2.12).

SMEs (1-249 employees) accounted for only 18% of the national direct export value in 2012; less than the OECD un-weighted average of 31% (Figure 2.13 and Figure 2.14). Within the SME segment, Canadian small enterprises (up to 50 employees) generated 6% of the total export value, compared with the OECD un-weighted average of 11%. The average direct export value (USD million) of Canadian small enterprises (10-49 employees) is also not high in comparison with several other OECD countries (Figure 2.14).

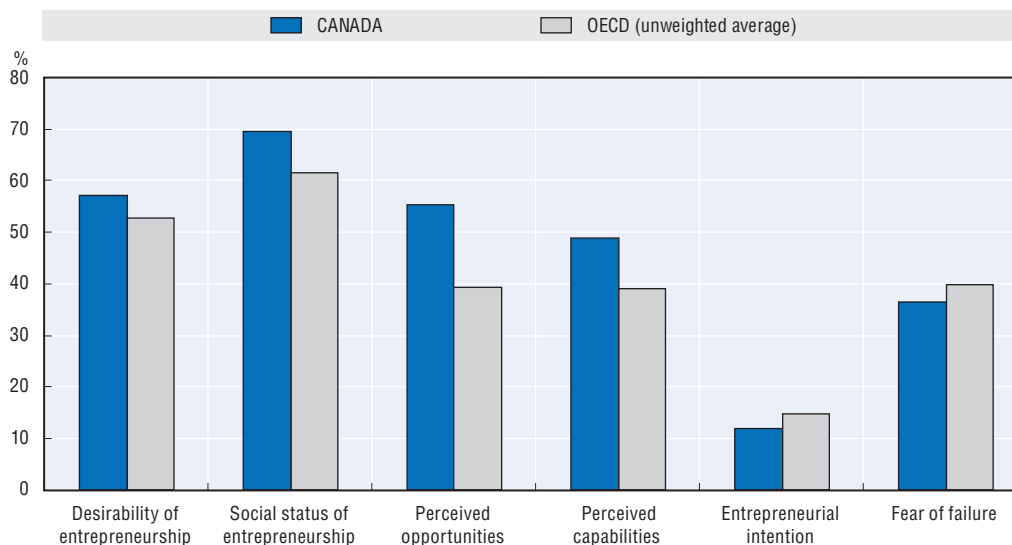
Entrepreneurship performance in Canada

Entrepreneurial attitudes

Positive entrepreneurial attitudes (e.g. self-confidence, risk assessment, team building and strategic thinking) are important drivers of successful entrepreneurship. Adult population survey data from the Global Entrepreneurship Monitor (GEM) research consortium show that entrepreneurial attitudes in the Canadian adult population (aged 18-64) are generally quite strong (Figure 2.15 and Figure 2.16).¹²

Figure 2.15. **Entrepreneurial attitudes in the Canadian adult population, 2014**

Percentage values

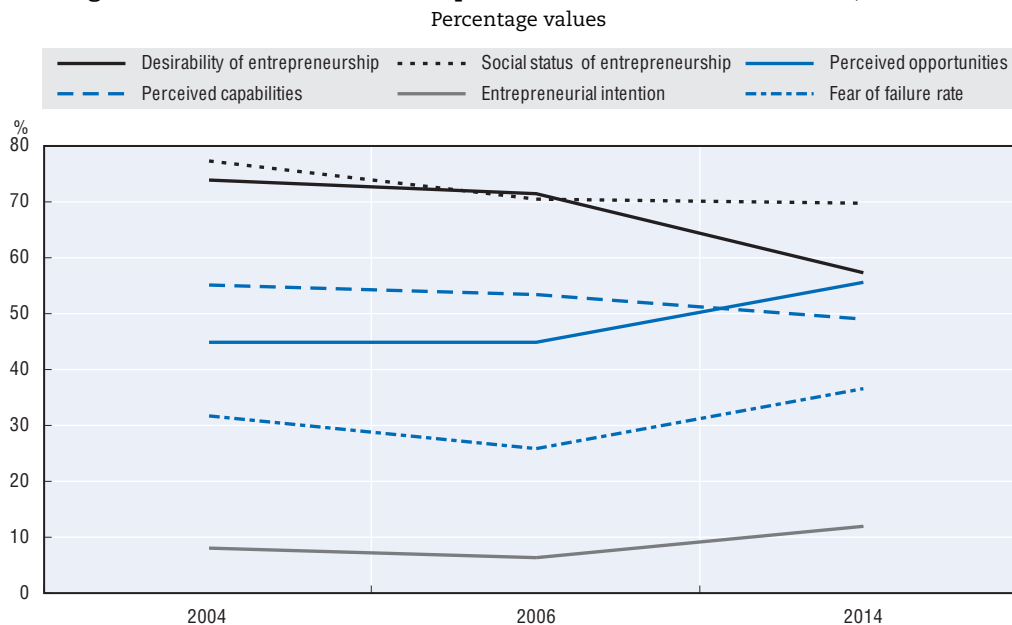


This graph is also proposed as Figure 1.4.

Note: Percentage values are shares of the total adult population (18-64), except for “fear of failure” which expressed as a proportion 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.

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

StatLink  <http://dx.doi.org/10.1787/888933553366>

Figure 2.16. **Evolution of entrepreneurial attitudes in Canada, 2004-14**

Note: Canada did not participate in the GEM survey from 2007 to 2013, so data for these years are not available. Percentage values are shares of the total adult population (18-64), except for “fear of failure” which is expressed as a proportion of those who “perceive a market opportunity”.

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

StatLink  <http://dx.doi.org/10.1787/888933553708>

Some 57% of Canadian adults considered entrepreneurship a desirable career option in 2014 and 70% of them held successful entrepreneurs in high esteem. Some 56% perceived a market opportunity to start a business in the area where they live and 49% of them considered that they had the right set of skills to start a business. These figures are all above the OECD area un-weighted averages. On the other hand, only 12% of Canadian adults expressed the intention to start a business in the coming three years, which was below the OECD average (15%). This is surprising given the large proportions of Canadians who saw a market opportunity and believed they have the right skills set to succeed in business. An explanation could be that a strong labour market has made wage employment more attractive and increased the opportunity cost of entrepreneurship, a hypothesis which seems to be confirmed by declining self-employment rates and business birth-rates (see the business demography section below). Fear of failure was slightly below the OECD average, at 37% of those who perceived a market opportunity.

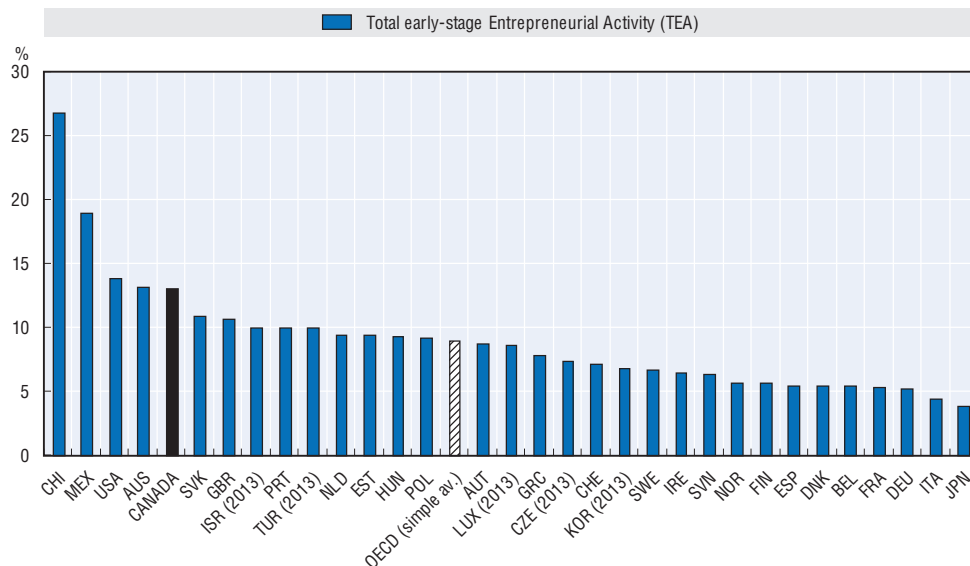
Overall, entrepreneurial attitudes in the Canadian population are generally stronger than in the rest of the OECD area. On the other hand, Canada’s entrepreneurial attitudes worsened with regard to the “desirability of entrepreneurship”, the “social status of entrepreneurship”, “perceived capabilities” and “fear of failure” during the period 2004-14, although they improved with respect to “perceived opportunities” and “entrepreneurial intentions” (Figure 2.16).

Early-stage entrepreneurial activity

There is healthy early-stage entrepreneurial activity in Canada, as measured by the GEM Total early-stage Entrepreneurial Activity (TEA) rate. Canada’s TEA rate was 13% in 2014, the 5th highest rate among the OECD countries for which recent data are available (Figure 2.17).

Figure 2.17. Total early-stage Entrepreneurial Activity (TEA) rate across OECD countries, 2014 or latest available year

Percentage of the adult population (18-64)



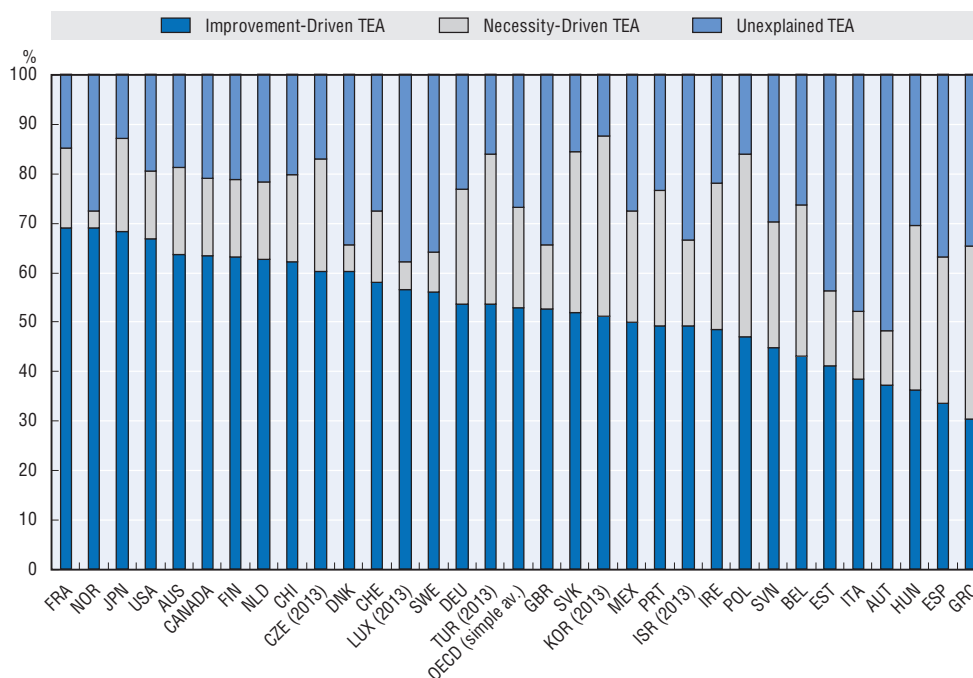
Note: The GEM TEA rate provides estimates of the proportion of the adult population (aged between 18 and 64) who have either been involved in a start-up process for less than three months (i.e. nascent entrepreneurs) or who have been business owners for less than three-and-a-half years (i.e. new business owners).

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

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Figure 2.18. Improvement-driven and necessity-driven prevalence in TEA across OECD countries

Percentage of total population involved in TEA



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

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Most early-stage entrepreneurial activity (63%) in Canada is improvement-driven, i.e. fuelled by perceived opportunities in the market or the desire to improve one's own conditions in terms of income and/or independence. Only 16% is necessity-driven (compared with an OECD un-weighted average of 20%), i.e. motivated by lack of other employment opportunities (Figure 2.18). This is an indication of relatively good quality of entrepreneurial activity in Canada.

TEA rates have been increasing significantly in Canada in recent years. The share of the population involved in total early-stage entrepreneurial activity increased by four percentage points between 2004 and 2014.

Business demography

Business demography indicators – i.e. business entry (birth) and exit (death) rates – offer an overview of entrepreneurial dynamics and are of great relevance for both job creation and productivity growth. The OECD finds, for example, that young firms (5 years old or less) accounted for about 20% of non-financial business sector employment over the past decade, but generated nearly half of all new jobs across a range of OECD countries (OECD, 2013). Moreover, across OECD countries, an increase in the share of young firms (aged 6 years or less) relative to old firms (aged 12 years or more) is associated with an increase in multifactor productivity (MFP) growth, which can be primarily ascribed to start-ups (aged 3 years or less) (OECD, 2015c).

In Canada, the employer enterprise birth rate and death rate both appear to be quite low (Figure 2.19).¹³ As a result, Canada now has one of the lowest employer enterprise churn rates among OECD countries, i.e. the sum of entries and exits, a commonly used proxy for entrepreneurial dynamics. Canada has also experienced a quite strong fall in its churn rate in the period 2006-12 compared with various other OECD countries (Figure 2.19 and Figure 2.20). Furthermore, recent analysis by the Bank of Canada shows that entry and exit rates have declined considerably in Canada over the last thirty years; the firm entry rate falling from 24.5% to 12.7% and the firm exit rate falling from 16.5% to 11.6% between 1984 and 2013 (Cao et al., 2015). While this is a pattern which is common to many OECD countries since 2000 (Criscuolo et al., 2014), the recent decline appears to have been somewhat greater.

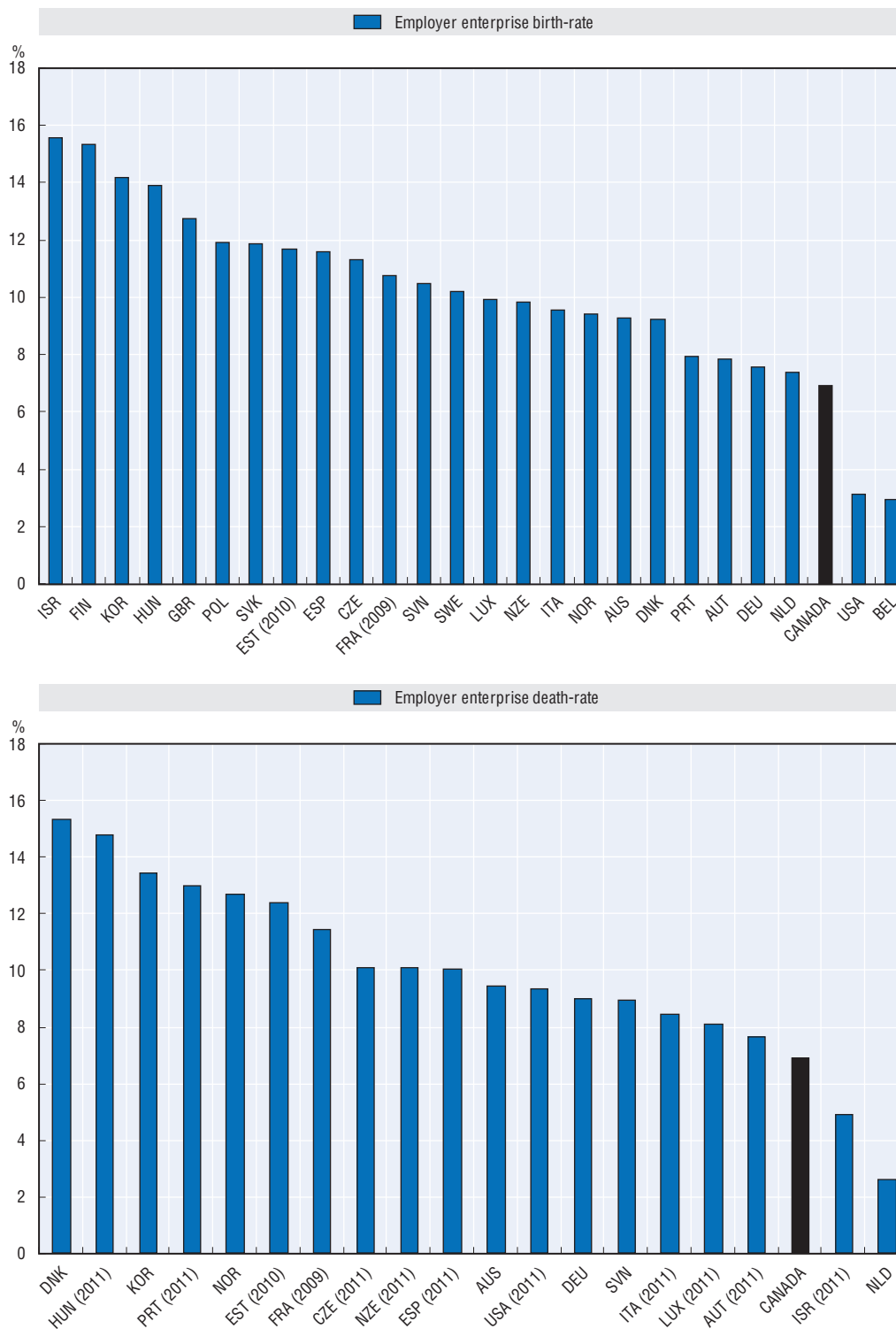
A US-Canada comparison of churn rates additionally reveals that these are constantly higher in the United States than in Canada over time and across sectors, with the gap especially marked in industry (Figure 2.21).

Comparatively weak entrepreneurial dynamics in Canada are also identified in Criscuolo et al. (2014). This study shows that Canada had 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) in the period 2001-11 (Figure 2.22). Moreover, young SMEs (aged 0-5 and with up to 249 employees) accounted for relatively smaller shares of job creation (38%) and job destruction (21%) than in most other OECD countries. This is primarily the result of the lower share of Canadian employment accounted for by young SMEs (14%) (Figure 2.23).

The low enterprise churn is likely to adversely affect productivity growth in the economy, given a more restrained contribution of young SMEs to resource allocation from less productive firms.

Figure 2.19. **Employer enterprise birth and death rates, 2012 or latest available year**

Percentage of active enterprises with at least one employee

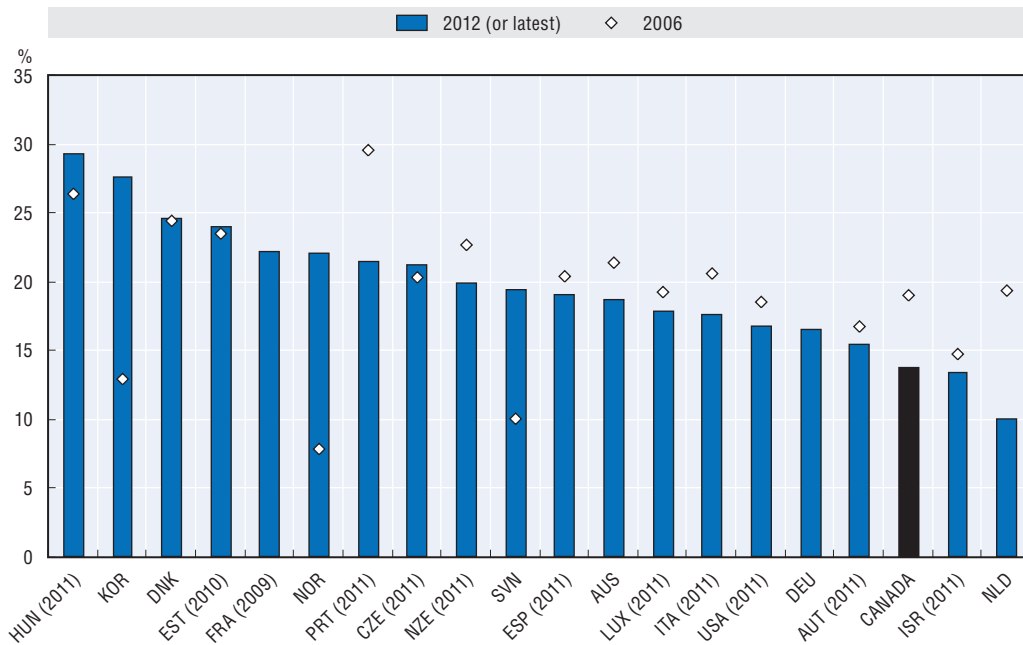


Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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Figure 2.20. **Employer enterprise churn rate, total economy, 2012 (or latest available) and 2006**

Sum of the employer enterprise birth rate and death rate



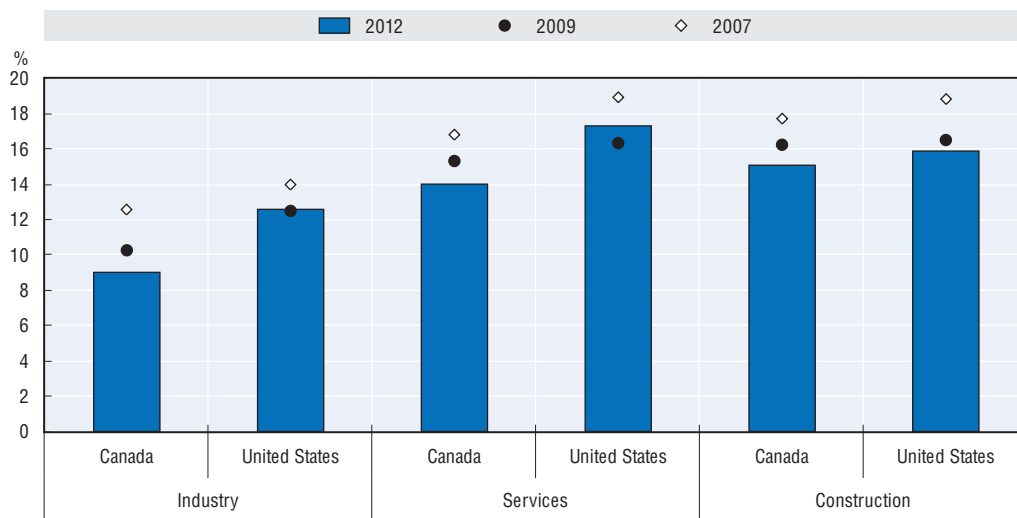
Note: This graph is also shown in Figure 1.5.

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

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Figure 2.21. **Employer enterprise churn rate over time and across sectors in Canada and the United States**

Sum of the employer enterprise birth rate and death rate in each sector

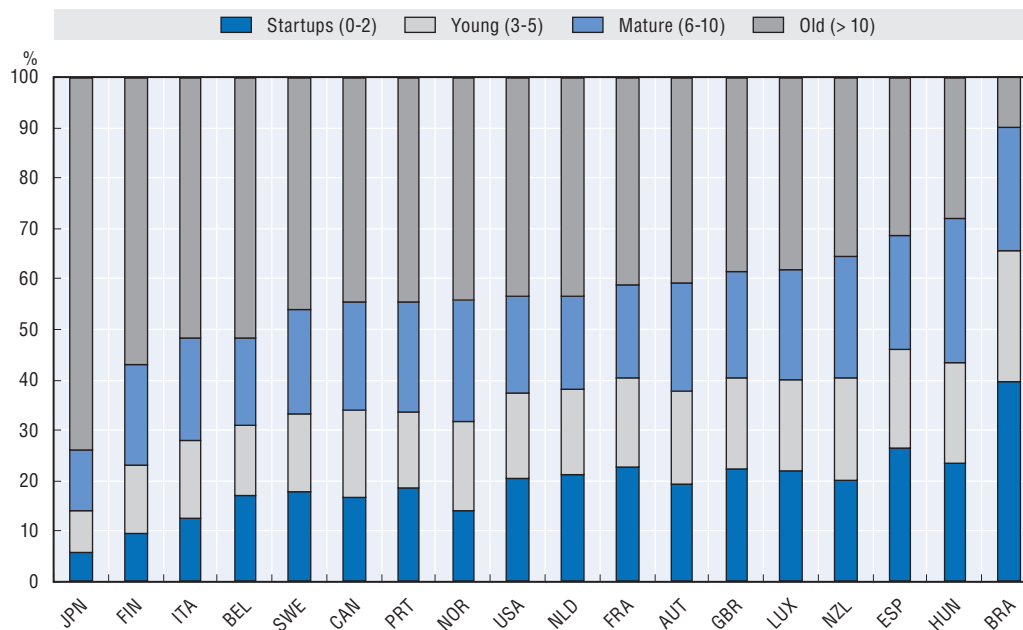


Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

StatLink <http://dx.doi.org/10.1787/888933553803>

Figure 2.22. **Age composition of small businesses in selected OECD and non-OECD economies**

Average over time 2001-11, firms with less than 50 employees

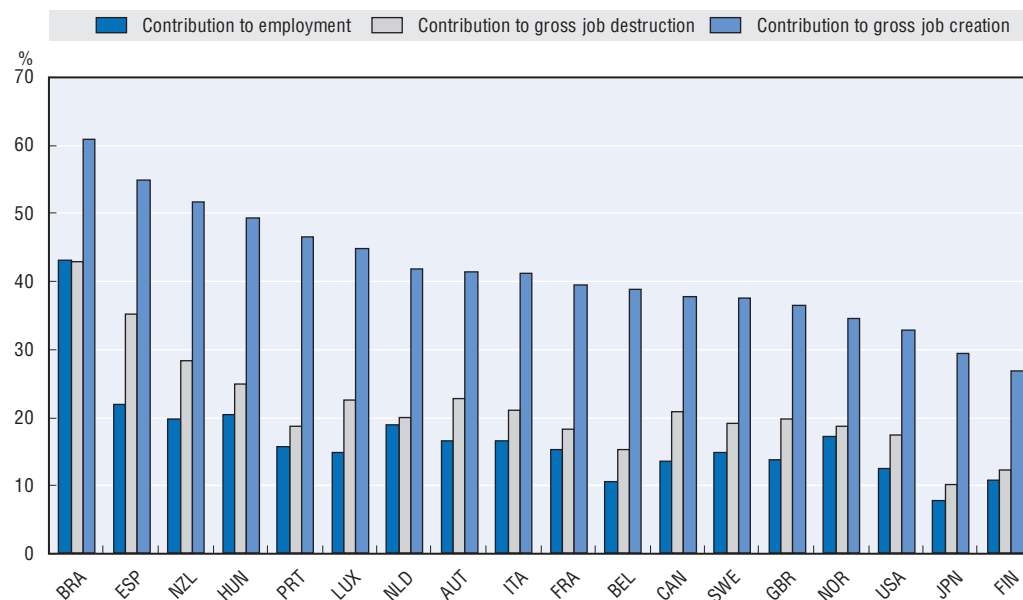


Source: Criscuolo et al. (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", OECD Science, Technology and Industry Policy Papers, No. 14, OECD Publishing, <http://dx.doi.org/10.1787/5jz417hj6hg6-en>.

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Figure 2.23. **Young SME shares of total employment, gross job creation and gross job destruction in selected OECD and non-OECD economies**

Young SMEs (0-5 years old), Average 2001-11



Source: Criscuolo et al. (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", OECD Science, Technology and Industry Policy Papers, No. 14, OECD Publishing, <http://dx.doi.org/10.1787/5jz417hj6hg6-en>.

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Conclusions and policy recommendations

SMEs are important players in the Canadian economy, making up approximately 60% of total employment. SMEs in Canada are somewhat less likely to be micro-enterprises (up to 9 employees) than in most other OECD countries and the proportion of employment that these enterprises generate is also smaller in Canada than in most other OECD countries. Canada's proportions of high-growth firms and gazelles (i.e. young high-growth firms) are in line with the averages for the OECD countries for which data are available, but not up with the levels of the top performing countries.

The productivity performance of Canadian SMEs does not appear to strong, particularly when comparing the relative productivity gap between small businesses and large businesses in Canada with that of the USA. The direct export activity of Canadian small businesses is also rather limited, with only 10% of small businesses (1-99 employees) and 34% of medium-sized businesses (100-499 employees) with direct exports. On the other hand, nearly 70% of Canadian SMEs (with at least 20 employees) engage in innovation-related activities, which is high by international standards.

Entrepreneurial attitudes in the Canadian population are generally positive, although "risk aversion" has increased in the last ten years, and a high share of the adult population is involved in efforts to start a business or run a new business. Positive entrepreneurial attitudes and early-stage entrepreneurial activity, however, do not lead to equally strong entrepreneurial dynamics, as shown by Canada's comparatively low business entry-exit rates, small shares of young firms in the SME population, and small rates of job creation by young SMEs. Weak entrepreneurial dynamics have not had a negative impact on employment creation, but they are a likely cause of slow productivity growth in the country.

Based on this analysis, the following recommendations are advanced to strengthen SME and entrepreneurship structure and performance in Canada.

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.

Notes

1. In this chapter, two different definitions of SMEs are used in order to incorporate statistical information from both OECD and Statistics Canada databases. For OECD data, the breakdown giving the most international comparability classes SMEs as enterprises with 1-249 employees, where micro-enterprises have 1-9 employees, small have 10-49, and medium have 50-249. Unlike most other countries, the OECD data for Canada do not include non-employer enterprises. The official SME definition of Statistics Canada refers to companies with 1-499 employees, where small companies have 1-99 employees and medium have 100-499 employees. Within the Statistics Canada's definition, a further unofficial subcategory for micro-enterprises (1-19 employees) has also sometimes been used to further disaggregate the analysis.
2. Canada also counts about 2.5 million of non-employer enterprises, based on information from Statistics Canada's CANSIM table 553-0001.

3. This analysis is based on a project called Dynemp. This project aggregates firm-level data for employer enterprises from the business registers of 18 countries, including Canada. Its advantage for the specific case of Canada is that comparability with other countries is strengthened through the use of only employer-enterprise information and the same size classes for all 18 countries covered by the project.
4. The OECD defines high-growth enterprises based on employment or turnover. High-growth enterprises are 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.
5. It should be noted that for Canada the estimated proportion of gazelles is reduced relative to other OECD countries by the removal of mergers, acquisitions and reorganisations from the count of new firms.
6. This study does not account for the large variation in labour productivity by industry nor the productivity gap between Canadian and American large businesses.
7. Increasing the employment share of large firms in Canada to United States levels would increase aggregate Canadian labour productivity by a further 6%.
8. Canada's national innovation survey only includes firms with at least 20 employees and CAD 250 000 in annual revenues, while the EU CIS's entry threshold is 10 employees. A higher participation threshold is likely to inflate the estimated proportion of SMEs which undertake innovation by taking out from the SME population smaller companies that are less likely to innovate.
9. Direct government funding refers to grants and payments for R&D contracts for procurement, but not R&D tax incentives, repayable loans or equity investments.
10. Information on direct government funding of BERD is based on CANSIM Tables 358-0207 and 358-0208.
11. Figures in this section reflect only direct export activity and, as a result, may underestimate the real scale of integration of local SMEs within global value chains. For example, some SMEs may produce intermediate products and services for larger exporters, while others (especially small-sized enterprises) may export through intermediary wholesalers (OECD, 2015a).
12. GEM is a research consortium which carries out population surveys across more than 100 countries, including most OECD countries, on entrepreneurial attitudes and entrepreneurial early-stage activity (www.gemconsortium.org/). Data from Iceland (2010) and New Zealand (2005) have not been included because they are considered too old to be compared with 2014 and 2013 data.
13. It should be noted that for Canada business demography indicators (business birth rate, business death rate, and business churn-rate) may be artificially deflated relative to other OECD countries by the removal of mergers, acquisitions and reorganisations from the count of new firms and of ceased firms.

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Chapter 3

The business environment for SMEs and entrepreneurship in Canada

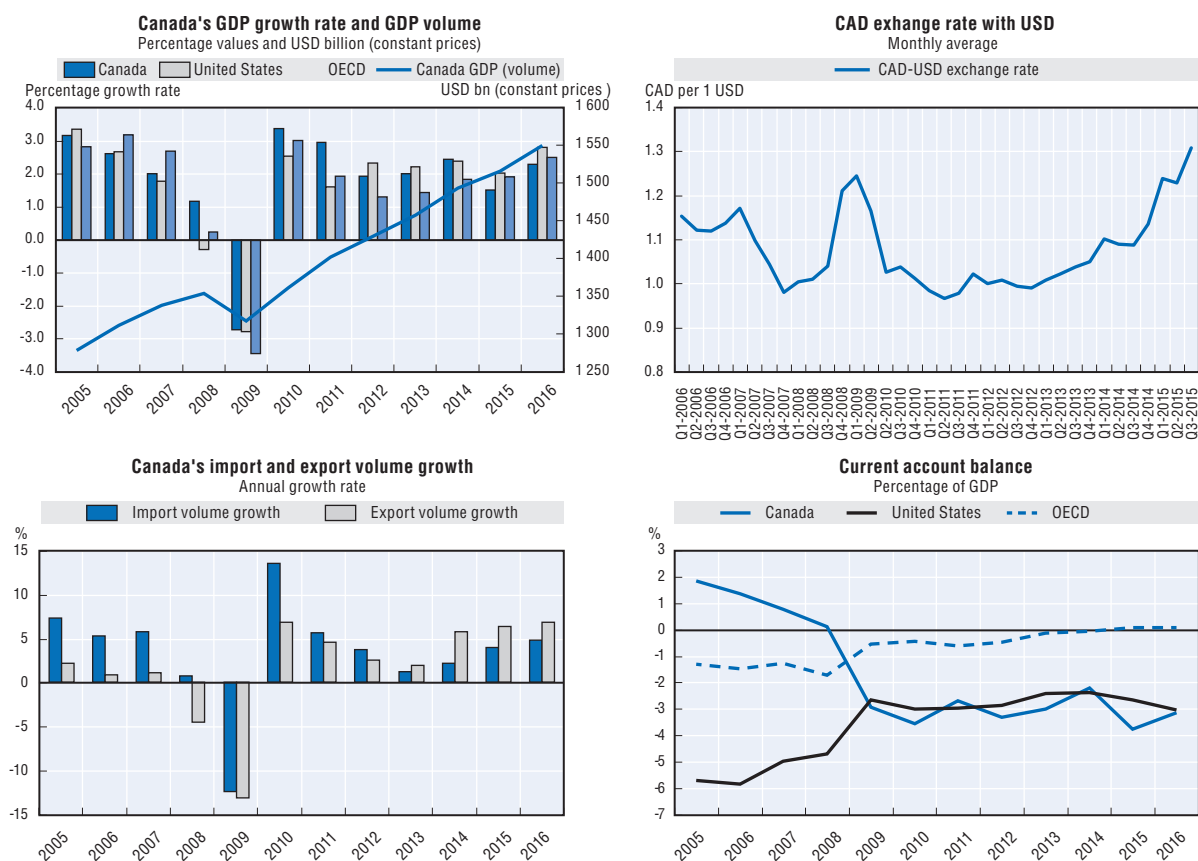
This chapter assesses the business environment for SMEs and entrepreneurship in Canada. It examines relevant macroeconomic conditions, overall productivity conditions, taxation, product-market regulation, access to finance, the R&D system, human resources, the labour market, and foreign direct investment. The chapter points to generally favourable business environment conditions. The macroeconomic framework is solid, the labour market is flexible, business regulations are light, and taxation is friendly to business in general and SMEs in particular. On the other hand, Canada's innovation and R&D system is relatively weighted to higher education and basic research, adult literacy and numeracy skills are below the OECD average and inward foreign direct investment in knowledge-intensive sectors is limited. The banking system is healthy, but SME lending decreased in relation to total bank business lending over the period 2007-14.

Macroeconomic conditions

Canada offers relatively favourable macroeconomic conditions for the development of SMEs and entrepreneurship, although there have been important fluctuations on some key measures associated with the global economic crisis of 2008/09 and its aftermath (Figure 3.1). Canada is one of the Organisation for Economic Co-operation and Development (OECD) countries that better weathered the global economic crisis, reaching gross domestic product (GDP) levels above those of the pre-crisis period as early as 2010. In the aftermath of the crisis, growth was supported by commodity exports, which had responded to a commodity price boom extending until mid-2014. Since then, following a fall in the oil price, Canadian GDP growth is projected to drop to less than 2% on a year-to-year basis and is projected to drop below the OECD average for the first time since 2008.

Commodity-driven growth came with a redistribution of wealth within Canada, with resource-rich provinces such as Alberta and Saskatchewan forging ahead of others such as

Figure 3.1. **A macroeconomic overview of Canada**



Source: OECD based on OECD Economic Outlook No. 97 Database (June 2015).

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Ontario and Quebec. However, more recently, the economy of resource-rich provinces has started to suffer. In Alberta, drilling activity has been severely curtailed and the provincial unemployment rate has increased to above the national average, with the overall decrease in spending on goods and services impacting other sectors of the economy.

The fall in the global oil price and the depreciation of the Canadian dollar vis-à-vis the United States dollar should in principle provide a boost to non-commodity exports, although a recent analysis by Statistics Canada shows that Canadian manufacturers had partially adjusted to a stronger Canadian dollar vis-à-vis the United States dollar by increasing the share of exports bound to destinations other than the United States (e.g. China and the European Union) and by increasing the share of Canadian consumption over foreign consumption (Carrière, 2014). Nonetheless, in 2012 non-commodity exports had not yet recovered to the pre-crisis levels, thus contributing to a deterioration of the national current account balance.¹

In line with other major OECD economies, Canadian monetary policy has been highly accommodating, with the Central Bank keeping the policy interest rate at historic lows (0.5% in July 2015) to encourage consumer demand and business investment. This monetary policy stance is aimed at returning inflation to the middle of the Bank of Canada's 1-3% target band. Unlike the major central banks (i.e. the Federal Reserve, the European Central Bank, the Bank of England and the Bank of Japan), the Bank of Canada has not had to undertake quantitative easing (QE), i.e. increased money creation to purchase assets, primarily government bonds. The Bank of Canada's Monetary Policy Report of January 2016 shows that inflation has been near the bottom of its target band and that the risks to the projected inflation path are roughly balanced due to the interplay of both upside risks (e.g. the depreciation of the Canadian dollar) and downward risks (e.g. the slump in the global oil price).

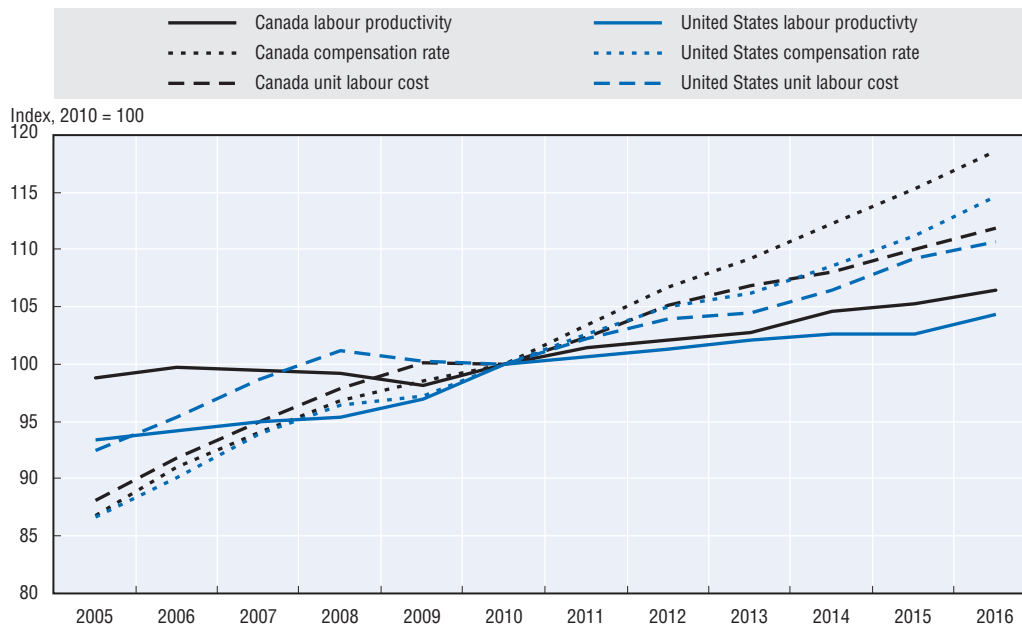
Productivity and competitiveness

In the period 2005-14 Canadian labour productivity increased only 5.5%, whereas United States labour productivity rose nearly 9%. At the same time, the Canadian compensation rate and unit labour cost increased markedly by 21.5% and 18%, compared to 19% and 12.5% in the United States (Figure 3.2). The relatively strong rise in unit labour costs has provided a relatively difficult context for Canadian SME competitiveness. While most of the difference in the rise of the unit labour cost is the result of the long-run appreciation of the Canadian dollar, the rest reflects slower labour productivity growth in Canada (OECD, 2014a).

Growth in multifactor productivity (MFP), a concept which is used to capture technological progress and the efficiency of production, has also been moderate in Canada, in particular compared to the United States over the period 2001-13 (Figure 3.3). This evidence points to a shortfall in innovation and technology adoption by Canadian businesses that could affect Canadian SMEs through the quality of the domestic supply chains they participate in. The difference in MFP growth between Canada and the United States is not the consequence of the different sector composition of the two economies. Gaps in MFP between the two countries exist across most sectors and are particularly wide in sectors which in Canada are protected from competition (e.g. utilities, professional and technical services, and high-tech manufacturing) (OECD, 2012a). Another strong determinant of intra-sector productivity gaps appears to be lower per-worker investments in ICT in Canada than in the United States (Rao et al., 2008), while low business R&D intensity in Canada is also likely to drag on MFP growth rates (OECD 2012a; Jaumotte and Pain, 2005).

Figure 3.2. **Canadian and United States labour productivity, unit labour costs and compensation rates**

Index, 2010 = 100

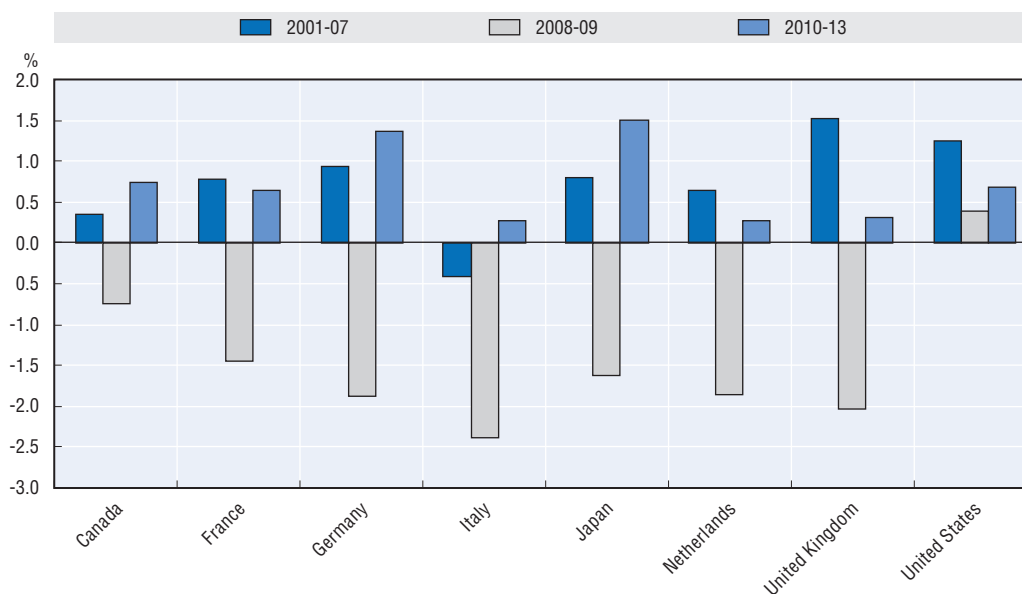


Source: OECD based on OECD Economic Outlook No. 97 Database (June 2015).

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Figure 3.3. **Multifactor productivity growth in G7 countries, 2001-07, 2007-09 and 2009-13**

Annual average growth rates



Note: Growth in multifactor productivity (MFP) is measured as a residual, i.e. that part of GDP growth that cannot be explained by growth in labour and capital inputs. Traditionally, MFP growth is seen as capturing technological progress but, in practice, this interpretation needs some caution because some part of technological change is embodied in capital input such as improvements in design and quality between two vintages of the same capital asset. Thus, MFP only picks up disembodied technical change such as spill-overs from production factors, the effects of better management practices, brand names, organisational change and general knowledge.

Source: OECD Productivity Database.

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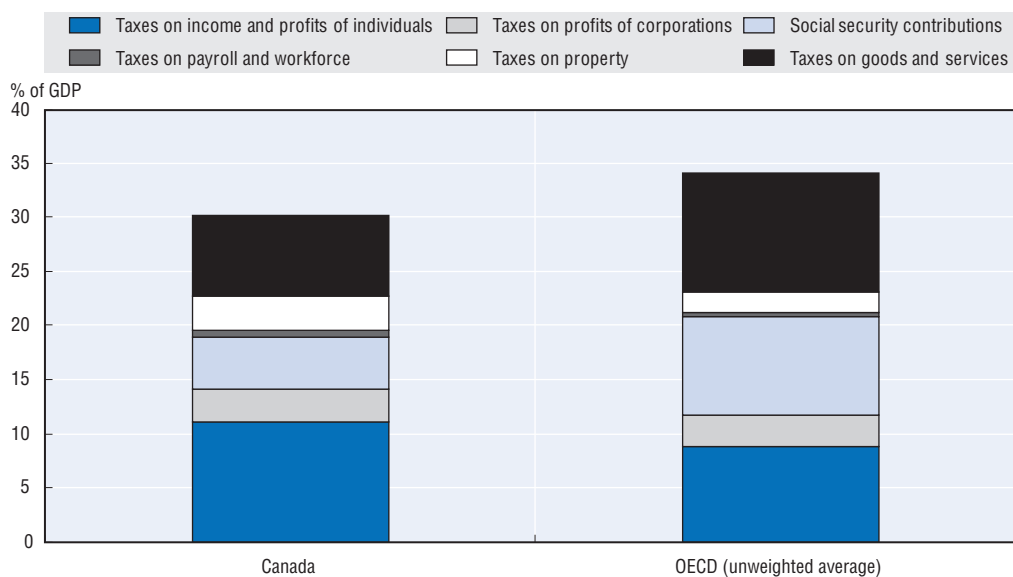
Taxation affecting small business

General provisions

Canada's tax system is generally favourable to business. Its total tax burden – i.e. total tax revenues in relation to GDP – was 30.5% of GDP in 2013, compared with an OECD un-weighted average of 34.2% (Figure 3.4). Compared with the OECD average, Canada raises a greater share of its fiscal revenues from income taxes (the personal income tax and the corporate income tax) and a smaller share from social security contributions and the taxation of goods and services (Table 3.1). The total tax burden in Canada fell by more than four percentage points over the period 2000-13 (Figure 3.5). This is partly the consequence of a series of corporate income tax and goods and service tax reductions introduced during the last 10-15 years by the federal and provincial/territorial governments and partly the result of Canada's sustained growth in this period.

Figure 3.4. **Tax burden of Canada compared to the OECD, 2013**

Fiscal revenues by tax source in percentage of GDP



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Table 3.1. **Tax structure of Canada, 2013**

Percentage contribution to total fiscal revenues by tax source

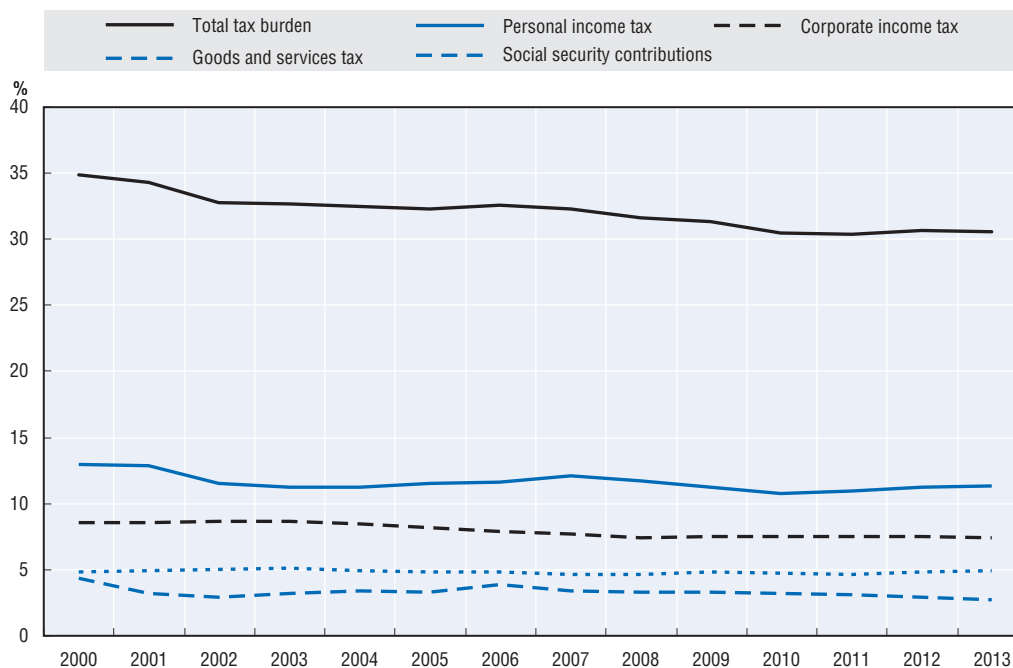
	CAD billions	Canada (%)	OECD unweighted average (%)
Taxes on income, profits and capital gains	277.6	47.5	33.7
<i>Individuals</i>	213.6	36.6	24.8
<i>Corporate</i>	56.7	9.7	8.5
<i>Unallocable</i>	7.3	1.2	0.8
Social security contributions	92.3	15.8	26.1
Taxes on payroll and workforce	12.3	2.1	1.1
Taxes on property	60.6	10.4	5.6
Taxes on goods and services	141.1	24.2	32.7
Other	0.3	0	0.6
Total	584.2	100	100

Source: OECD based on OECD Tax Database.

StatLink <http://dx.doi.org/10.1787/888933554354>

Figure 3.5. **Tax burden by source of taxation in Canada, 2000-13**

Tax revenues as a percentage of GDP



Source: OECD based on OECD Tax Database.

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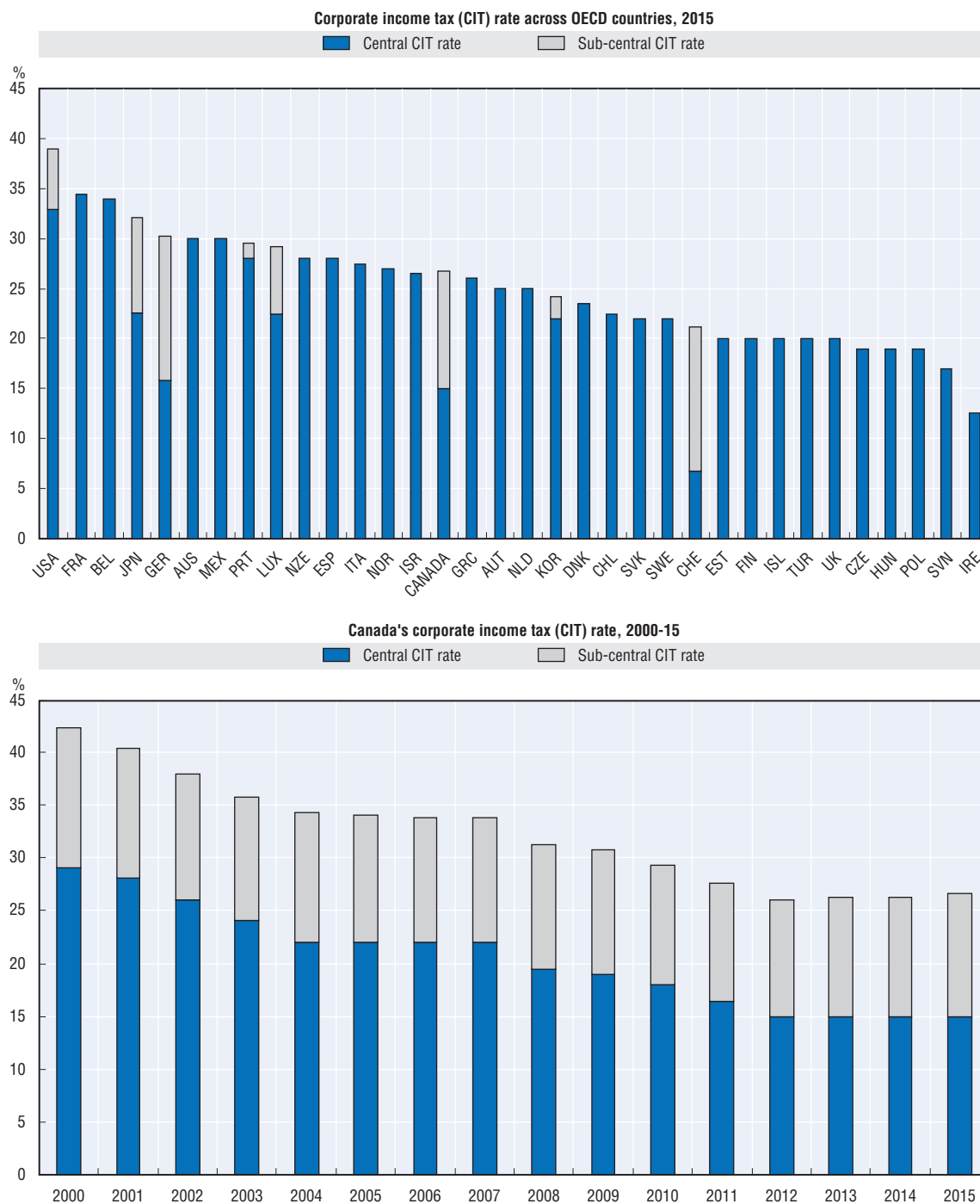
Personal income taxation

The personal income tax is the main source of taxation from the self-employed and unincorporated businesses, which are not subject to corporate taxation on profits. Canadian average income tax rates for singles and two-earner families are in line with the OECD average, while the rate for one-earner families is lower in Canada than in the rest of the OECD. Personal income tax revenues in relation to GDP (i.e. personal income tax burden) have declined in the last 15 years but are still above the OECD average (11.2% vs. 8.9% in 2013). About 60% of these revenues are raised at the federal level, with the remaining 40% levied at the provincial level.

Corporate taxation

Canada's federal corporate income tax stood at 15% in 2016. In addition, each province and territory sets its own general corporate tax rate, which ranged from 11% in British Columbia to 16% in Nova Scotia and Prince Edward Island in 2016, with a weighted average of 11.8%. When federal and provincial rates are combined, Canada's average corporate tax rate is 26.8%. This is above the OECD un-weighted average of 25% in 2015 but lower than the average of other G7 countries at 31.8% (Figure 3.6 Panel A). The corporate tax burden (i.e. corporate tax revenues in relation to GDP) was roughly the same in Canada as the OECD un-weighted average in 2013 (3% vs. 2.9%).

Canada's combined central and sub-central corporate income tax rate declined significantly between 2000 and 2015, from more than 40% to its current level of 26.8% (Figure 3.6, Panel B). This reflects reductions in the federal corporate tax rate over the past 15 years, from some 29% in 2000 to 15% in 2012, with the intention to support investment and job creation.

Figure 3.6. **Canada's corporate income tax rate**

Source: OECD Tax Database and 2015 update from Department of Finance Canada.

StatLink  <http://dx.doi.org/10.1787/888933553955>

Taxation of goods and services

The taxation of goods and services also falls within the remit of both federal and provincial governments in Canada. At the federal level, the Goods and Services Tax (GST) is levied at a rate of 5%. The federal government has lowered the GST rate twice in the last ten

years, from 7% to 6% in 2006 and from 6% to 5% in 2008, in contrast to the trend in most other OECD countries (OECD, 2014b).²

Five provinces have harmonised their provincial sales tax with the federal GST to create the Harmonized Sales Tax (HST) administered by the federal government. The HST includes the 5% federal GST, as well as a provincial component (ranging from 8-10%) that is set by each of the harmonised provinces. The province of Quebec imposes and administers its own VAT, the Quebec Sales Tax (QST), at 9.975%, and the QST base is being harmonised with the GST base on a going forward basis. Other provinces, with the exception of Alberta, impose and levy retail sales taxes.

The average, weighted, combined federal and provincial VAT/sales tax rate in Canada is 11.8%, which is well below the OECD un-weighted average GST/VAT standard rate of 19.1% in 2014 (OECD, 2014b).

Labour taxation

The tax wedge on labour – i.e. the difference between total wage costs (including social security contributions) and the salary (net of family transfer payments) – is lower in Canada than in most other OECD countries. This reflects lower social security contributions combined with payroll taxes, which make up 18% of Canadian tax revenues compared with the OECD unweighted average of 27%. Low labour taxation is expected to foster job creation especially among low-skilled workers and second-earners, whose labour demand and supply is more elastic than that of skilled workers.

Tax compliance

Canada's tax administration is light in comparative terms (Table 3.2). In the 2016 edition of the World Bank Doing Business Survey, Canada ranked 9th worldwide in the ease of paying taxes, with only one OECD country (Ireland, 6th) doing better. There are 8 tax-related payments per year in Canada for the representative business, compared with the OECD and G7 average (excluding Canada) of 11, while it takes 131 hours a year for an incorporated business to deal with tax forms (corporate income tax, VAT and labour taxes), compared with an OECD average of 181 hours and a G7 average (without Canada) of 207 hours.

Table 3.2. The ease of paying taxes in Canada

	Number and hours		
	Canada	OECD	G7 (without Canada)
Tax payments (number)	8	11	11
Time to prepare and pay taxes (hours)	131	181	207

Source: OECD based on World Bank Doing Business database.

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A significant level of harmonisation between federal and provincial taxation has helped make the tax system easier to navigate for businesses. For example, most provinces adhere to the Tax Collection Agreement with the federal government, by which a common federally-defined tax base for personal income tax and corporate income tax is defined (exceptions are Quebec for the personal income tax and Alberta and Quebec for the corporate income tax). Significant convergence has occurred among provinces in the corporate income tax rate, with the four largest provinces all applying a rate between 11-12%, and, as seen earlier, five provinces have harmonised their sales tax with the federal GST to create the HST.

Special tax provisions for SMEs

Besides being affected by the general tax provisions discussed above, small businesses in Canada benefit from special tax provisions which are targeted to or are particularly relevant to them.

The small business tax rate

A Small Business Deduction applies to the first CAD 500 000 of active business income of Canadian-Controlled Private Corporations (CCPC), an increase from CAD 400 000 in 2007.³ This deduction reduces the corporate income tax rate from the general rate of 15% to the small business tax rate of 11% in 2015. Following an announcement in the May 2015 Budget, the small business tax rate was legislated to be reduced by one-half percentage point per year starting in 2016, to reach 9% by 2019. However, in its first Budget (2016), the newly elected federal government deferred any further reductions beyond the one-half percentage point reduction in 2016. To ensure that the small business deduction is targeted at SMEs, this concession starts being phased out when corporate taxable capital reaches CAD 10 million and is eliminated beyond CAD 15 million. The measure had an estimated cost of CAD 3.1 billion in 2014 and CAD 3.2 billion in 2015, which is projected to increase to CAD 3.6 billion in 2016 (Department of Finance Canada, 2016).

Provinces also have their own small business tax rates and small business limits (i.e. the income and capital thresholds below which small business tax rates apply).⁴ In 2016 the weighted average small business tax rate at the provincial level was 4.2% (as against the weighted general corporate tax rate of 11.7%). Altogether, the total (federal and provincial combined) small business tax rate was 14.7% in 2016. This small business tax rate is very favourable to SMEs from an international perspective. The median value for the OECD and non-OECD G20 economies which had small business corporate tax rates was 20% in 2015, while the only OECD countries with a lower tax rate on small business income than Canada in 2015 were Hungary, Ireland and Korea (OECD, 2015b).

The objective of the small business tax rate is to provide incorporated privately-owned small businesses with additional after-tax income that can be used for re-investment and expansion. Thus, the policy acts like an annual tax refund which small businesses can spend on capital investment or hiring, although they are not required to do so. As such, a limit of this policy is that it does not send a strong signal to beneficiaries about the behaviour the government intends to promote. Since small businesses are not obliged to reinvest this income in business growth, the associated public expenditures may deliver smaller impacts than targeted programme measures that support specific growth and development activities in SMEs.

A common criticism levelled at special tax regimes for small businesses is that they favour threshold effects by which a disproportionate number of enterprises are found close to the limit beyond which the preferential tax treatment ceases, thus discouraging growth (Chen and Mintz, 2011). However, a recent study shows that for Canada there is not a significant unusual clustering of firms near the business income and capital asset thresholds beyond which the small business rate is phased out, partly because these thresholds are high enough only to affect a few firms (Dachis and Lester, 2015). For example, only 5% of firms eligible for the small business tax rate had a business income between CAD 350 000 and CAD 500 000 in 2009, and only 0.3% had more than CAD 8 million in capital assets. By comparing the current distribution of companies by income and capital assets with an underlying trend

distribution, Dachis and Lester (2015) find that the number of “excess firms” clustered near the taxable income threshold (between CAD 425 000 and CAD 500 000) exceeded the trend distribution only by 48 000 firms in 2009, representing 8.5% of firms eligible for the small business tax rate, while only very few “excess firms” were found in the cluster near the capital asset threshold, i.e. with between CAD 8 million and CAD 10 million in capital assets.

On the other hand, there is stronger evidence that the small business tax rate may be used for tax planning purposes especially by wealthy families. For example, Finance Canada finds an increased concentration of small companies at or just below the profit limits for the small business deduction (CAD 200 000 in 2000, CAD 400 000 in 2007 and CAD 500 000 in 2011). This would suggest that small business owners have some flexibility over the timing and form of distributions from their company (Department of Finance, 2013; OECD, 2016a).⁵ Similarly, Mintz (2015) finds that 60% of the tax benefits stemming from the small business tax rate go to households earning more than CAD 200 000, which would also partly reflect tax planning opportunities. The Federal Budget 2016 introduced measures which intend to counter such tax planning strategies (OECD, 2016a).

An alternative policy to further reductions in the small business tax rate, as originally announced in Budget 2015, would consist in strengthening direct small business support programmes targeted on supporting growth or upgrading of productivity, for example through increased management advice or workforce training. This would reduce the scope for stronger “threshold effects” to emerge in the future. Dachis and Lester (2015) find that in 2000, when the tax advantage from remaining below the business limit was one-third greater than in 2009 (because of a higher general corporate tax rate), the proportion of “extra firms” in the cluster next to the small business limit (CAD 200 000 at that time) was much higher than in 2009 (i.e. 15% of eligible companies in 2000 vs. 8.5% of eligible companies in 2009). Furthermore, although direct SME programmes tend to feature higher management costs than tax incentives, public resources can be better targeted to addressing market failures affecting particular groups of SMEs. For example, more resources could be spent on young firms, rather than simply on small firms, better addressing the fact that young firms are more likely than small firms to be faced with market failures in capital markets (Mirrlees et al., 2011).

The lifetime capital gains exemption

The personal income tax system provides an individual with a lifetime tax exemption for capital gains realised on the sale of qualified small business corporation shares. The Lifetime Capital Gains Exemption (LCGE) is intended to bolster investment in small businesses, help small business owners save for their retirement, and facilitate the intergenerational transfer of small businesses. To qualify, small business shares must be from a CCPC of any size, although the overwhelming majority are SMEs. The amount of the LCGE was CAD 813 600 in 2015 and is indexed to inflation annually. The measure cost the federal government CAD 715 million of foregone tax revenues in 2014 and is projected to cost CAD 790 million in 2016.

The measure supports investment and risk-taking in small companies by both owners and external equity investors, encourages entrepreneurs to save for their retirement (often compensating for a pension that is lower than for dependent workers) and eases intergenerational business succession. On the downside, Chen and Mintz (2011) report how the LCGE has sometimes been used for tax avoidance, for example through large public companies which have provided additional benefits to specific shareholders through the

creation of CCPCs. In addition, marginal benefits may be rapidly exhausted for external retail investors given the level of the ceiling of the lifetime exemption threshold.

On the whole, the LCGE appears appropriate for small business owners, while for external investors an alternative could be a reduction in the capital gains tax rate for the disposal of shares issued by small businesses, for example in line with a measure available in the United States which offers a 100% reduction in the capital gains tax rate on the disposal of shares of small businesses which become public companies (OECD, 2016a).

Small business capital gains rollover

Through the Small Business Capital Gains Rollover (SBCGR), a taxpayer is allowed to defer the taxation of capital gains realised on the sale of common shares issued by an eligible small business corporation to the extent that the proceeds are reinvested in common shares of another eligible small business corporation. Shares must be issued by a CCPC having under CAD 50 million in assets, less than half of which may be in real estate. The aim of the measure is to overcome the capital lock-in effect of capital gains taxation.

While a welcome measure, the delay within which the new investment needs to occur (120 days) may not provide entrepreneurs and investors with much flexibility in the way they dispose of their capital gains. Chen and Mintz (2011) therefore suggest a self-managed “capital gains deferral account” in which investors and small business owners could place their capital gains without being taxed until the assets are sold for purposes other than general investment. In this proposal, any assets that yield taxable capital gains (e.g. investments in real estate, public corporation securities, etc.) would enable entrepreneurs and other investors to roll over assets on a deferral basis. An alternative option more supportive of small businesses (and less fiscally expensive) would consist in limiting such an account to investments in eligible small business corporations (i.e. CCPCs). This would reduce the pressure to re-invest within the existing 120 days and could be combined with the establishment of preferential capital gains tax rates (once all small business shares are disposed and not reinvested in the small business sector within, for example, one year) linked to the number of investments in eligible companies over the life duration of the “account”, which should be maintained for a minimum number of years.

Changes in the SBCGR along the lines suggested above and a more general reduction in the capital gains tax rates applied to the disposition of non-public small business shares (see above) would be similar in nature, so that one of the two approaches would make the other unnecessary.

Income tax deductions for allowable business investment losses

Capital losses on small business investments can be used to offset ordinary income tax in Canada through what are known as income tax deductions for Allowable Business Investment Losses. In other countries it is more common for capital losses to be eligible to offset tax only on realised capital gains. Under the current rules, 50% (i.e. the allowable portion) of a capital loss incurred from the sale of a share or debt owned by a small business corporation may be deducted against any source of income for that year.⁶ The measure aims to support start-ups, which are more likely to endure capital losses in the first years of the business life which are not offset by capital gains. In 2014, the fiscal cost to the federal government of this measure was CAD 40 million.

The small business job credit

The Small Business Job Credit (SBJC) was introduced in September 2014 and applies to Employment Insurance (EI) premiums paid by small business corporations in 2015 and 2016. Any CCPC that pays employer EI premiums equal to or less than CAD 15 000 is eligible for the credit.⁷ The SBJC is expected to save small employers more than CAD 550 million over 2015 and 2016. Almost 90% of all EI premium-paying businesses in Canada will receive the credit, reducing their EI payroll taxes by nearly 15%.

This measure is intended to reduce social security contributions and thereby favour job creation. As noted earlier, however, social security contributions (and labour taxation) are already low in Canada, which might limit the impact of the measure. Therefore, it is suggested that this temporary measure, which is scheduled to expire at the end of 2016, should not be extended.

Product market regulations and the ease of doing business

Product market regulations (i.e. administrative paperwork, licenses and permits, etc.) affect the degree of competition and openness of the economy. The OECD Product Market Regulation Index, which measures state control of the economy and national barriers to entrepreneurship and to trade and investment, shows that Canada performs in line with the OECD (un-weighted) average, which is a small setback compared with 10 years before (2003) when Canada was ahead of the OECD average by a larger margin (Figure 3.7).

A disaggregation of the index (Figure 3.8) brings out that Canada has a more favourable regulatory climate for product market competition than most OECD countries with respect to both the level of “state control of the economy” and “barriers to entrepreneurship”. On the other hand, it does better than only four other OECD countries in “barriers to trade and investment”. This is mainly the result of existing restrictions linked to FDI screening and prior approval requirements (see also last section of this chapter).⁸

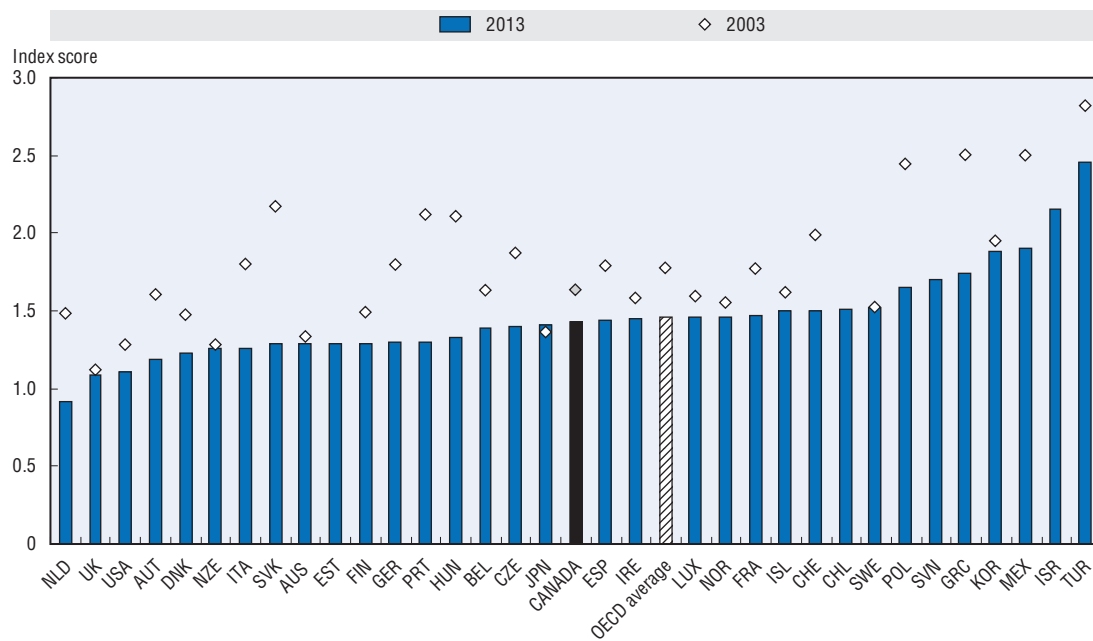
The World Bank Doing Business survey provides further evidence of the strength of Canadian business regulations (Table 3.3). Canada is among the world leaders in the ease of starting a business, as measured by the time and cost it takes to establish a limited company. Canada is also a top performer in other “Doing Business” categories such as the administrative and fiscal burden of the tax system (see previous section), the soundness of the insolvency regime, and the comprehensiveness of credit market information. On the other hand, areas where there is still room for improvement involve receiving an electricity contract and dealing with construction permits, both falling under the responsibility of provincial and municipal governments.

Canada has placed great emphasis on the regulatory simplification agenda in recent years, first through the Paperwork Burden Reduction Initiative (PBRI), which has been in place since 2004 (annual budget of CAD 1 million), and more recently through the Red Tape Reduction Action Plan, launched in 2012, and the Canada-United States Regulatory Cooperation Council, launched in 2011.

One of the main objectives of the PBRI was to measure the cost of regulatory compliance for small businesses. The three surveys carried out between 2005 and 2011 concluded that in this period compliance costs had dropped by 0.3% per year. In particular, in 2011, the average “regulatory bill” was CAD 3 500 per business and CAD 370 per employee, corresponding to 0.29% of business sector revenues. The surveys also emphasised that costs are proportionally

Figure 3.7. **The OECD Product Market Regulation Index, 2003 and 2013**

From 0 (least restrictive) to 6 (most restrictive)



Note: The OECD Indicators of Product Market Regulation (PMR) are a comprehensive and internationally-comparable set of indicators that measure the degree to which policies promote or inhibit competition in areas of the product market where competition is viable. They measure the economy-wide regulatory and market environments in 34 OECD countries in (or around) 1998, 2003, 2008 and 2013. They are consistent across time and countries. The indicators cover formal regulations in the following areas: state control of the economy; legal and administrative barriers to entrepreneurship; barriers to international trade and investment. For further information, www.oecd.org/eco/growth/indicatorsofproductmarketregulationhomepage.htm#indicators.

Source: OECD Product Market Regulation (PMR) Database.

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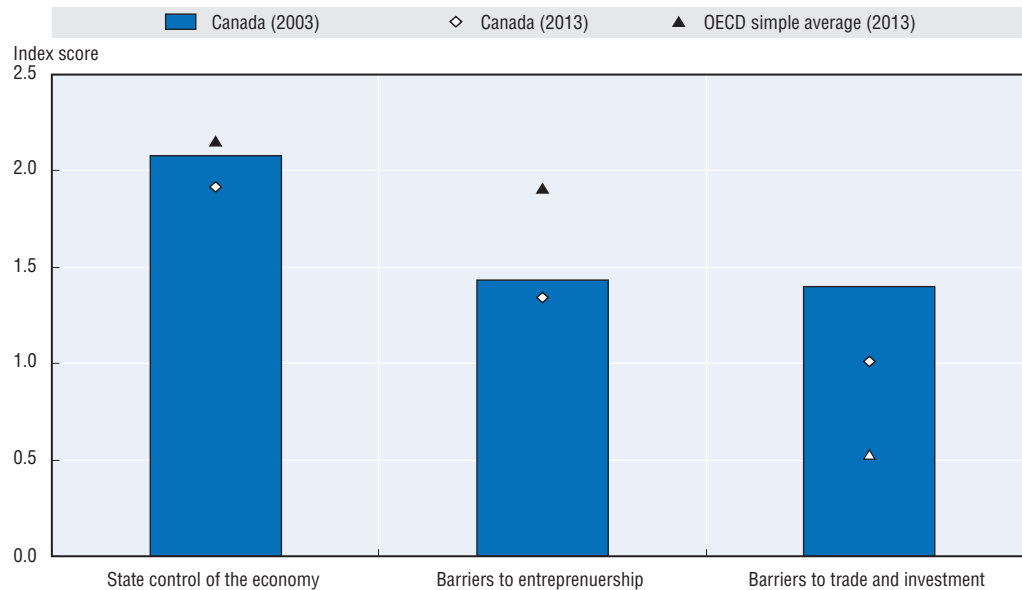
higher for small employer firms up to a certain threshold, after which regulatory costs decrease (ISED, 2013a).

The aim of the Red Tape Reduction Action Plan was to reduce administrative burdens and improve the services and predictability of Canadian public administration for small business owners. As part of this Plan, Canada introduced the “one-for-one rule” and “forward regulatory plans”. The first requires regulators whose new or amended regulations increase the administrative cost of doing business to take remedial action by withdrawing an equal amount of administrative burden on business from past regulations. The second is a description of future regulatory changes and proposals that a government department or agency intends to bring forward, the objective being to help entrepreneurs plan for future changes in regulations.

Finally, the goal of the Canada-United States Regulatory Cooperation Council (RCC) is to facilitate closer regulatory co-operation and alignment between Canada and the United States. The RCC was launched in 2011 recognising that regulatory differences and duplicative procedures impose unnecessary costs on citizens and businesses. This led to a Joint Forward Plan in 2014, which established the means of co-operation between United States and Canadian government departments, and to 12 Regulatory Partnership Statements between 16 similarly mandated Canadian and United States government departments and agencies in 2015. The RCC is expected to smooth regulatory differences not only between Canada and the United States, but also across Canadian provinces.

Figure 3.8. **Disaggregation of the OECD Product Market Regulation Index in Canada, 2003 and 2013**

From 0 (least restrictive) to 6 (most restrictive)



Note: "State control" refers to public ownership (e.g. scope and governance of state-owned enterprises, government involvement in network sectors, etc.) and involvement in business operations (e.g. price controls); "barriers to entrepreneurship" include complexity of rules and procedures (e.g. the license and permit system), administrative burdens on start-ups (i.e. for both corporation and sole proprietor firms) and regulatory protection of incumbents (e.g. legal barriers to entry and anti-trust exemptions); "barriers to trade and investment" encompass explicit barriers (e.g. tariffs) and non-explicit barriers (e.g. different treatment of foreign suppliers).

Source: : OECD Product Market Regulation (PMR) Database.

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Table 3.3. **Canada's World Bank Doing Business performance, 2015**

	Ranking	Distance to frontier (% points)
Starting a Business	3	98.2
Protecting Minority Investors	6	76.7
Getting Credit	7	85.0
Paying Taxes	9	93.0
Resolving Insolvency	16	81.4
Registering Property	42	75.1
Trading Across Borders	44	88.4
Enforcing Contracts	49	65.5
Dealing with Construction Permits	53	73.7
Getting Electricity	105	63.8

Source: World Bank Doing Business survey, www.doingbusiness.org/data/exploreeconomies/canada/.

StatLink <http://dx.doi.org/10.1787/888933554392>

Access to finance

Credit market conditions

Sound underwriting practices and portfolio diversification in Canadian banks together with prudential regulation of the banking sector have helped the Canadian banking system to weather the 2008/09 financial crisis well, with no banks having to be bailed out by the government. Market players in Canada's small business lending include federally-regulated chartered banks (consisting of six major nationwide banks and smaller banks operating at

the national and regional levels), 655 provincially regulated credit unions (*Caisses populaires* in Quebec) (Credit Union Central of Canada, 2015), crown finance corporations (e.g. Business Development Bank of Canada, Export Development Canada and Farm Credit Canada), leasing companies, and non-bank mortgage lenders (e.g. First National). Chartered banks are the major source of small business lending (55% of financing requests), followed at a distance by credit unions (17%) and government institutions (7%) (ISED, 2013b). Direct government lending, at CAD 6.5 billion in 2014, is high in Canada compared to other OECD countries.

SME loan approval rates are high in Canada (between 88-97%, depending on the SME size class), which compares for example with approval rates in the range of 60-70% in the United Kingdom (OECD, 2015c).⁹ However, larger SMEs in Canada are much more likely than smaller SMEs to request a loan; only one in five Canadian micro-enterprises (1-4 employees) request a loan, but one in two medium-sized enterprises (100-499 employees) does so (ISED, 2013). ISED's survey data also show that firms with less than 20 employees have loan approval and authorisation rates 10% lower than SMEs in larger size bands, which might reflect weaker structural conditions in smaller SMEs (Table 3.4).

Table 3.4. **Debt request and approval rates by size of business, 2011**

Percentage values

	Employees	Request rate	Approval rate	Amount authorised/ requested
All SMEs	1-499	25.5	89.9	94
	1-4	19.9	88.4	90.4
	5-19	29.9	88.5	88.6
Size classes	20-99	36.9	97.1	97.2
	100-499	47.6	97.7	99

Source: ISED (2013), Summary of the Survey on Financing and Growth of Small and Medium Enterprises 2011, www.ic.gc.ca/surveys.

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As shown in Table 3.5, in nominal terms, SME lending volumes increased from CAD 83 billion to CAD 94 billion in the period 2007-14. Loans to large firms, however, expanded faster, resulting in a decline in the proportion of SME lending in total bank business lending from 17.4% in 2007 to 14.2% in 2014. This placed Canada in the middle of G7 countries on changes in small business lending, behind countries such as France, where the stock of SME loans increased more (+20%) and others such as the United Kingdom (-16%) and the United States (-14%) that experienced negative growth rates (OECD, 2016b; OECD, 2015c).¹⁰ Lending volumes are affected by the overall level of confidence of business owners in the economy, which has recently been reported to be low in Canada (BDC, 2016).

Table 3.5 also shows that loan terms and conditions for Canadian SMEs are on the whole good. However, they are not as good as in other G7 economies (OECD, 2016b). Short-term loans (i.e. loans whose maturity is 12 months or less, lines of credit and credit cards) were more than half of the total authorised small business loans in 2014, which limits the opportunities for Canadian SMEs to use debt finance for investment. The average interest rate applied to SMEs ranged between 6.2% and 5.1% in the period 2009-2014, which is higher than the United States, the United Kingdom and other major European Union economies that share with Canada historically low policy interest rates. The risk premium (i.e. the difference between the interest rate paid by small businesses and the interest rate charged to the most creditworthy borrowers) dropped from 3% in the aftermath of the financial crisis

Table 3.5. **Main debt financing indicators of Canada, 2007-14**

	2007	2008	2009	2010	2011	2012	2013	2014
SME business loans (CAD billion)	83.4	83.4	86.4	85.7	90.1	87.8	92.2	93.7
Total business loans (CAD billion)	479.8	533.9	482.3	489.5	514.5	557.4	602.3	658.5
Perc. SME loans of total business loans (%)	17.4	15.6	17.9	17.5	17.5	15.8	15.3	14.2
Government guaranteed loans, SMEs (CAD billion)	1.2	1.3	1.2	1.3	1.3	1.1	1.1	1.5
Direct government loans, SMEs (CAD billion)	4.4	4.1	5.5	4.7	6	5.8	4.6	6.5
Perc. of short-term loans of total small business loans	41.6	..	43.4	36.3	35.1	39	46	55.6
Interest rate, average (%)	7.5	..	6.2	5.8	5.3	5.4	5.6	5.1
Risk premium for small businesses (%)	1.4	..	3.1	3.2	2.3	2.4	2.6	2.1
Perc. of small businesses required to provide collateral (%)	47.7	..	56.1	66.7	64.8	76	56	66.6

Note: SME loans are outstanding commercial loans under the authorised value of CAD 1 million (it excludes non-employer firms). Small businesses are defined as enterprises with 1-99 employees. Thus, small business loans are loans to these firms.

Source: OECD based on OECD (2016b), *Financing SMEs and Entrepreneurs 2016: An OECD Scoreboard*, OECD Publishing, Paris.

StatLink  <http://dx.doi.org/10.1787/888933554430>

in 2009 and 2010 to 2% in 2014, but this is nonetheless higher than the interest rate spread (i.e. the difference between the average interest rates applied to SMEs and large firms) in United Kingdom and France, respectively 1% and 0.75% (OECD, 2016b).¹¹ Finally, the percentage of collateralised loans is higher in Canada than in other G7 countries – roughly 50-75% compared with 30% in the United Kingdom and 50% in Italy. The need for collateral constrains access to finance for those SMEs that do not have strong tangible assets.

The G20/OECD High-Level Principles on SME Financing (G20/OECD, 2015) highlight the important potential role that can be played by credit guarantees in improving loan volumes and terms for SMEs lacking fixed collateral. Government-guaranteed loans in Canada amounted 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 2016b, OECD 2015c). An option to strengthen bank lending in Canada could therefore be to expand federal and/or provincial loan guarantee programmes. Direct government lending (which amounted to CAD 6.5 billion in 2014) could also be further enhanced, although its focus should remain on filling credit market gaps unlikely to be served by commercial banks, such as small business loans for socially disadvantaged entrepreneurs or for innovative projects.

Equity market conditions

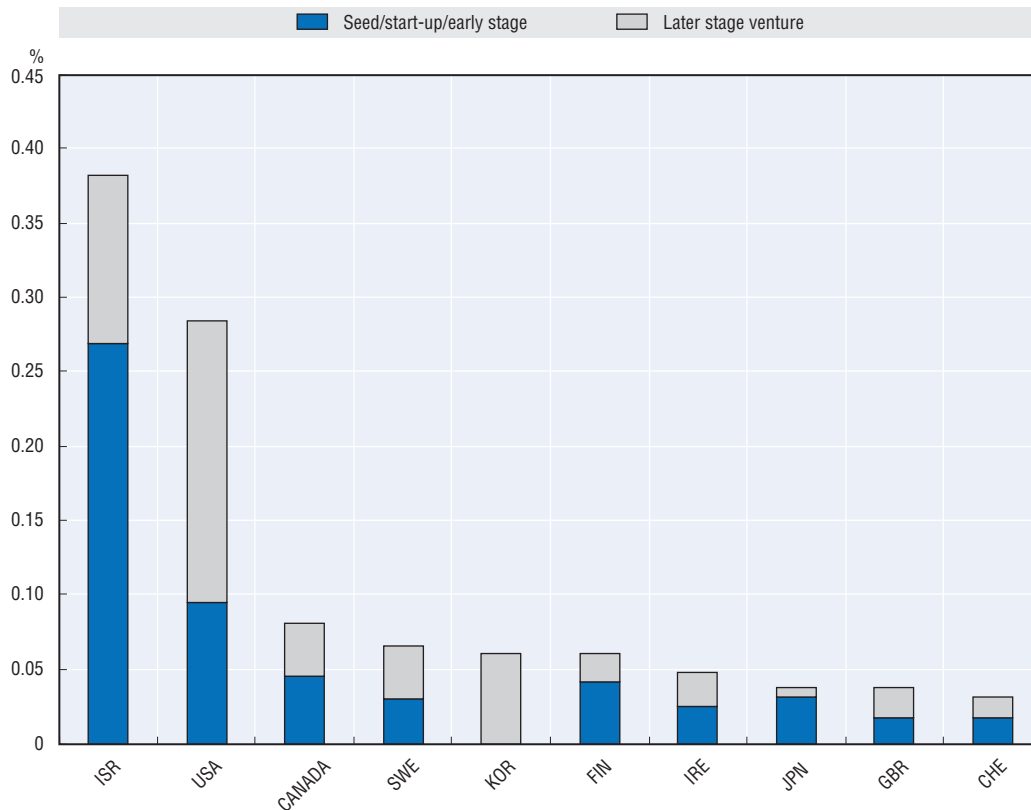
The venture capital industry

Canada's aggregate performance in venture capital is good in international comparative terms; in relation to GDP, the volume of Canada's venture capital investments is third among OECD countries, behind only Israel and the United States (Figure 3.9). The proportion of seed, start-up and early-stage investment in total venture capital investment is 56% in Canada, higher than in the United States (33%) and the United Kingdom (48%), but lower than in Israel (70%) and Finland (69%). The Canadian venture capital industry also came out of the 2008 global recession well, growing at an average annual rate of nearly 20% in the period 2009-14 (Figure 3.10).

The public sector plays an important role in the Canadian venture capital industry. In 2014, government direct commitments were 15% of the total (i.e. CAD 183 million). However, government-backed sources also included retail funds supported by government tax credits (CAD 400 million, 33%) and funds of funds involving government participation (CAD 250 million, 20.5%). Altogether, government-backed sources represented more than two-thirds of new commitments to the venture capital industry in 2014 (i.e. CAD 833 million). By contrast, there

Figure 3.9. **Venture capital investments in top 10 OECD venture capital markets by stage of investment, 2014**

Percentage of national GDP



Note: This graph is also shown in Figure 1.6.

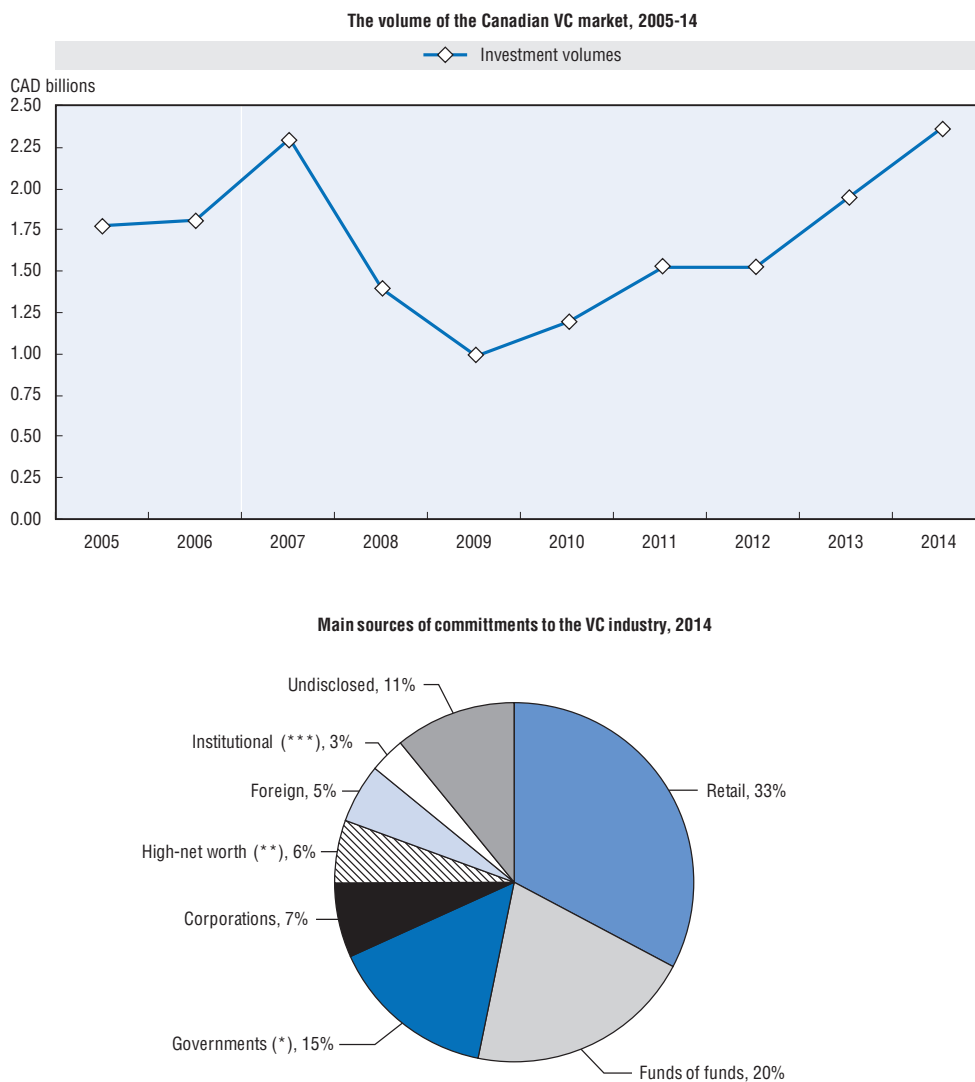
Source: OECD (2015d), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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is a relatively limited involvement of large domestic institutional investors such as pension funds, insurance companies, corporations and banks, although the recent Venture Capital Action Plan (VCAP) is partly changing this trend (see Chapter 5 for more details).

In 2014, the deal flow of the Canadian venture capital market was CAD 2.36 billion. This surpassed pre-2008 recession investment levels, but was still between 20-40 times smaller than the annual deal flow in the United States venture capital market. Canadian deal sizes, which averaged CAD 4.53 million in 2014, were also relatively small compared with those in the United States. Moreover, Canadian venture capital is stronger on late-stage financing than on earlier, A-round financing and follow-on deals are more common than new deals, with the former increasing by 33% between 2013 and 2014 and the latter decreasing by 14% over this period (ISED, 2014).

Investments in Canada by US venture capital funds have accounted for a substantial part of the increased fundraising over the last five years. The majority of these investments are in late-stage deals, suggesting that large United States venture capital investors are cherry-picking the successful firms. One potential reason for this is the lack of large funds in Canada capable of large late-stage investments. In turn, this could drive down returns to the typically smaller Canadian funds that have taken on the early-stage risk. Other factors in the Canadian venture capital industry are also at play. Canada has a much smaller domestic

Figure 3.10. **The Canadian venture capital market, size and sources of capital**

(*) Government sources include the BDC, EDC, Farm Credit Canada, and several provincial government organisations.

(**) High-net worth refers to wealthy individuals who invest in venture capital funds.

(***) Institutional investors include public and private pension funds, insurance companies, and endowment funds.

Source: ISED (2014), "The Venture Capital Monitor: A Quarterly Update on the Canadian Venture Capital Industry, Q4 2014", based on Thomson Reuters Canada 2015 data, www.ic.gc.ca/eic/site/061.nsf/eng/h_02940.html.

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market than the United States, making it harder for venture capital-backed growth companies to scale quickly and generate the returns needed by venture capital investors, while Canada's Initial Public Offering (IPO) market is dwarfed in size by New York. Many Canadian entrepreneurs with promising start-ups have therefore sought and obtained funding from United States investors. While some of these entrepreneurs remain in Canada, others move their operations south.

Business angel financing

Business angels are high net worth individuals, often cashed-out entrepreneurs or investors, who invest their own wealth in small numbers of ventures, either alone or in conjunction with other angels. Business angels tend to make much smaller investments in

start-ups than venture capitalists do, but they have a substantial impact on high-growth entrepreneurship and SME development in many countries.

The Canadian business angel investment market is difficult to quantify but is believed to be disproportionately small compared with its United States counterpart. Nevertheless, the Canadian business angel market is developing and growing in size. Like venture capital, it is concentrated in a few cities, with strong regional variations. It is most prevalent in Ontario, British Columbia and Quebec, although it is growing throughout all the western provinces as well. For example, a recent CAD 1.5 million investment by the RDA Western Diversification in the National Angel Capital Organization (NACO) is expected to triple the number of visible angel investors in Western Canada. In British Columbia, business angels benefit from a sizeable income tax credit on their investment (30% of the investment up to a ceiling of CAD 60 000) which has been in place since 2003.

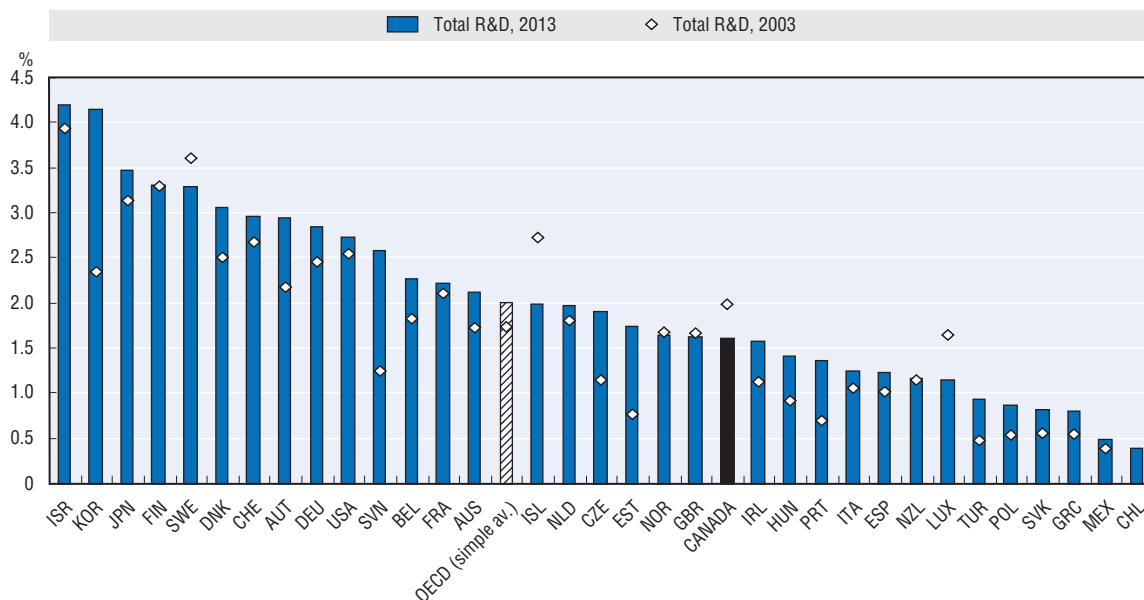
The Canadian business angel market appears to be sophisticated in terms of its deployment of value-adding practices, company selection and due diligence. The market spans most industry sectors, with an emphasis on technology, in line with countries like the United States and the United Kingdom. Typically, an individual level investment is around CAD 25 000-50 000, whereas syndicated angel investments average CAD 1 million. As in most other countries, there is a gap in deal sizes between the point where business angel finance dries up and venture capital starts. According to the NACO, the VCAP has increased the size of venture capital deals, leaving an equity gap in the range of CAD 2-5 million.

The R&D system

Canada's gross domestic expenditure on research and development (R&D) in relation to GDP was below the OECD average in 2013 (Figure 3.11). This covers R&D carried on a national territory from all sources. Figure 3.12 breaks down the relative contribution made by different performing sectors. Within the G7 group, Canada has the largest proportion of total R&D accounted for by higher education institutions (39.8%) and the smallest proportion undertaken by business enterprises (50.5%), the share of which has fallen by 6.6 percentage points since 2003.¹² This breakdown suggests that basic research is relatively more important compared with applied research in Canada's R&D system than in other G7 countries' systems, given that basic research remains highly concentrated in universities and government research organisations across OECD countries (although university research is not only basic in nature) (OECD, 2015d). This basic research weighting is only partly mitigated by Canada's comparatively high share of higher education R&D that is funded by businesses (8.1%) or private non-profit organisations (9.4%) (Figure 3.13). While basic research (i.e. work undertaken for the advancement of scientific knowledge without a specific practical application in view) is instrumental to achieving breakthrough innovations with multiple industrial applications in the long-run, applied research (i.e. R&D undertaken with a specific practical application in view) tends to have the most immediate commercialisation potential.

Business investment in R&D was only 0.82% of GDP in 2013. This puts Canada's business R&D back to the levels of the early 1990s after having climbed to 1.26% of GDP in 2001. It is below the OECD median value and only one-half of the business expenditure on R&D adjusted by GDP of the United States. The decline can only partly be ascribed to a shift in the industrial structure of the Canadian economy in which extractive industries (which

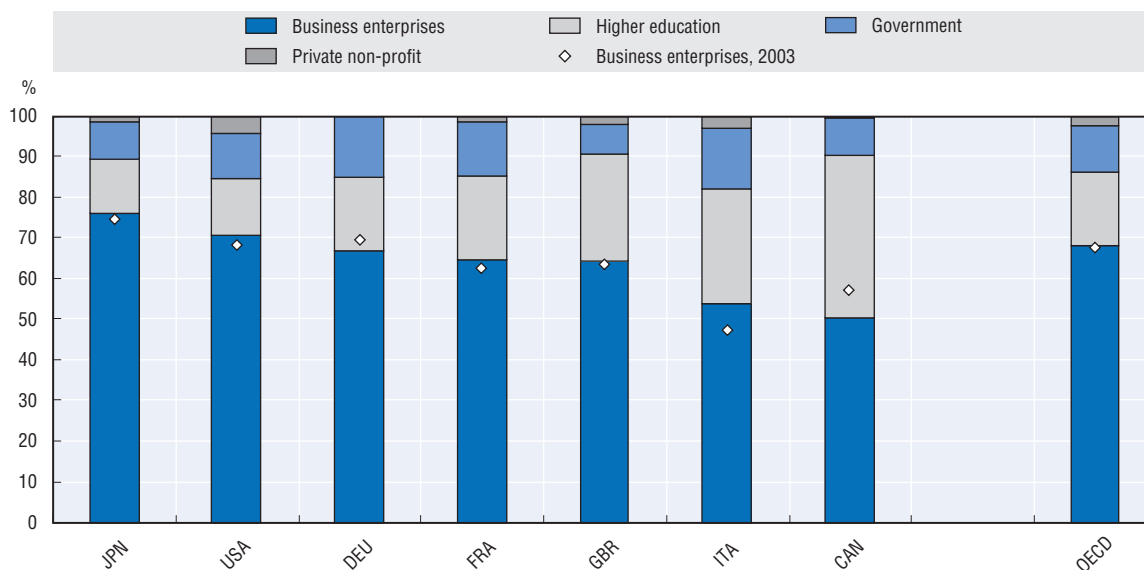
Figure 3.11. **Gross domestic expenditure on R&D across OECD countries, 2013 and 2003**
Percentage of GDP



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

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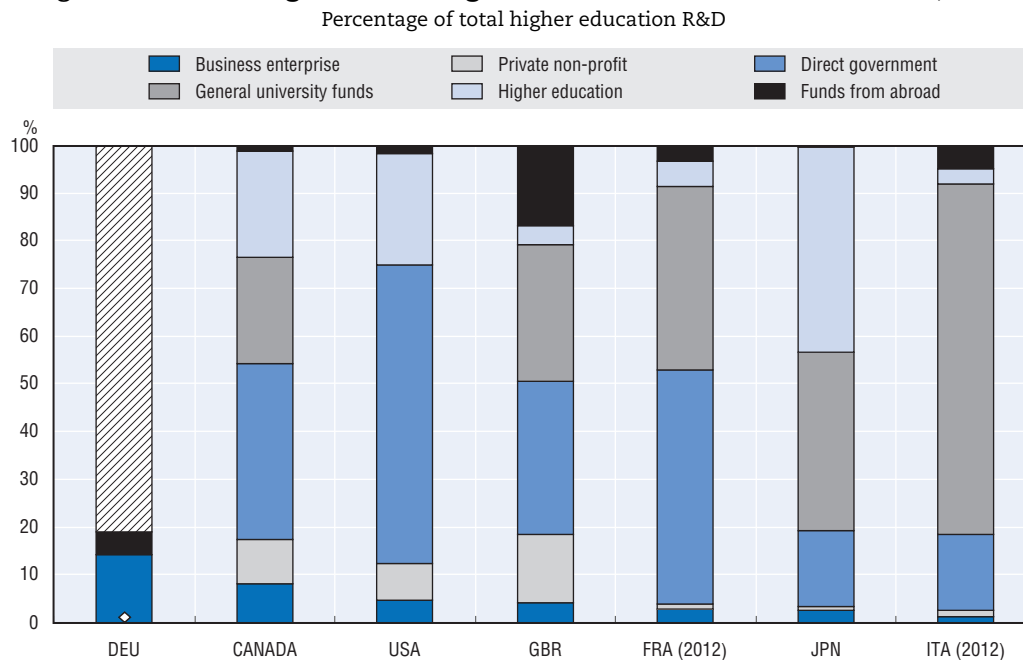
Figure 3.12. **R&D expenditure by performing sectors in the G7 economies and OECD, 2013**
Percentage of gross domestic expenditures on R&D



Note: This graph is also shown in Figure 1.7.

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

StatLink <http://dx.doi.org/10.1787/888933554069>

Figure 3.13. **Funding of R&D in higher education in the G7 economies, 2013**

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

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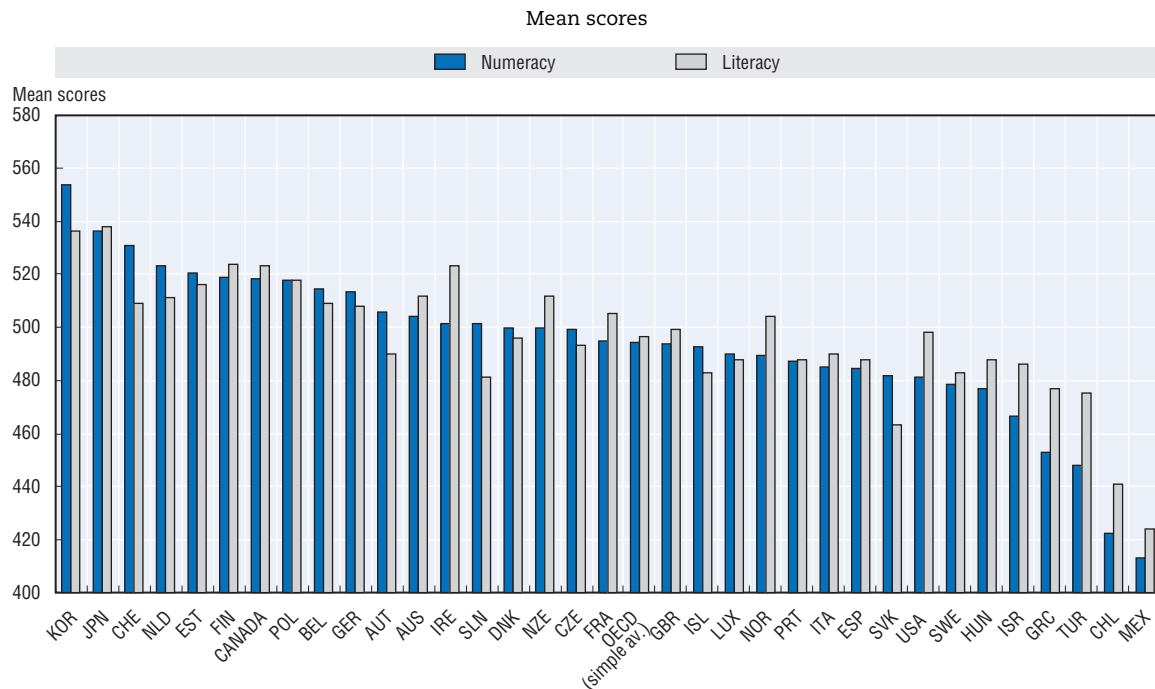
are not R&D intensive) have contributed a growing share of GDP compared to manufacturing industries (which are more R&D intensive). Canadian investment in information and communications technologies (ICT) is also low by international standards at around 2.5% of national GDP. This has prompted some to advocate for tax breaks not only for investments in R&D but also for the purchase of ICT hardware and software (Deloitte, 2013).

Human resources

Education outcomes

The OECD Programme for International Student Assessment (PISA) survey – which assesses 15-year-old students' performance in literacy, numeracy and science – shows positive results for Canada. This augurs well for the supply of an educated labour force in the future. The mean scores of Canadian secondary-school were 7th in numeracy proficiency and 4th in literacy proficiency across OECD countries in 2012, well above the OECD un-weighted average (Figure 3.14). The percentage of weak performers (i.e. those who are ranked at level 2 or below in the six-grade scale of proficiency) was also low in Canada, which suggests a national school system which does not leave behind large groups of the student population (Figure 3.15).

On the other hand, the OECD Programme for the International Assessment of Adult Competencies (PIAAC) survey found that the mean scores of Canadian adults aged 16-24 years were below the OECD average for literacy and numeracy skills (Figure 3.16), although Canada did well in “problem solving in technology rich environments”. Furthermore, Canada's proportions of adults aged 15-29 and 30-54 with low numeracy and literacy skills (i.e. proficiency level of 2 or below out of 6) were above the OECD average (Figure 3.17). The relatively low adult literacy scores are the result of the share of immigrants in the population

Figure 3.14. **Performance of secondary students in numeracy and literacy skills across OECD countries, 2012**

Note: The OECD average is the unweighted average of the mean scores of the 34 countries.

Source: OECD based on OECD (2012b), PISA 2012 Results: What Students Know and Can Do, OECD Publishing.

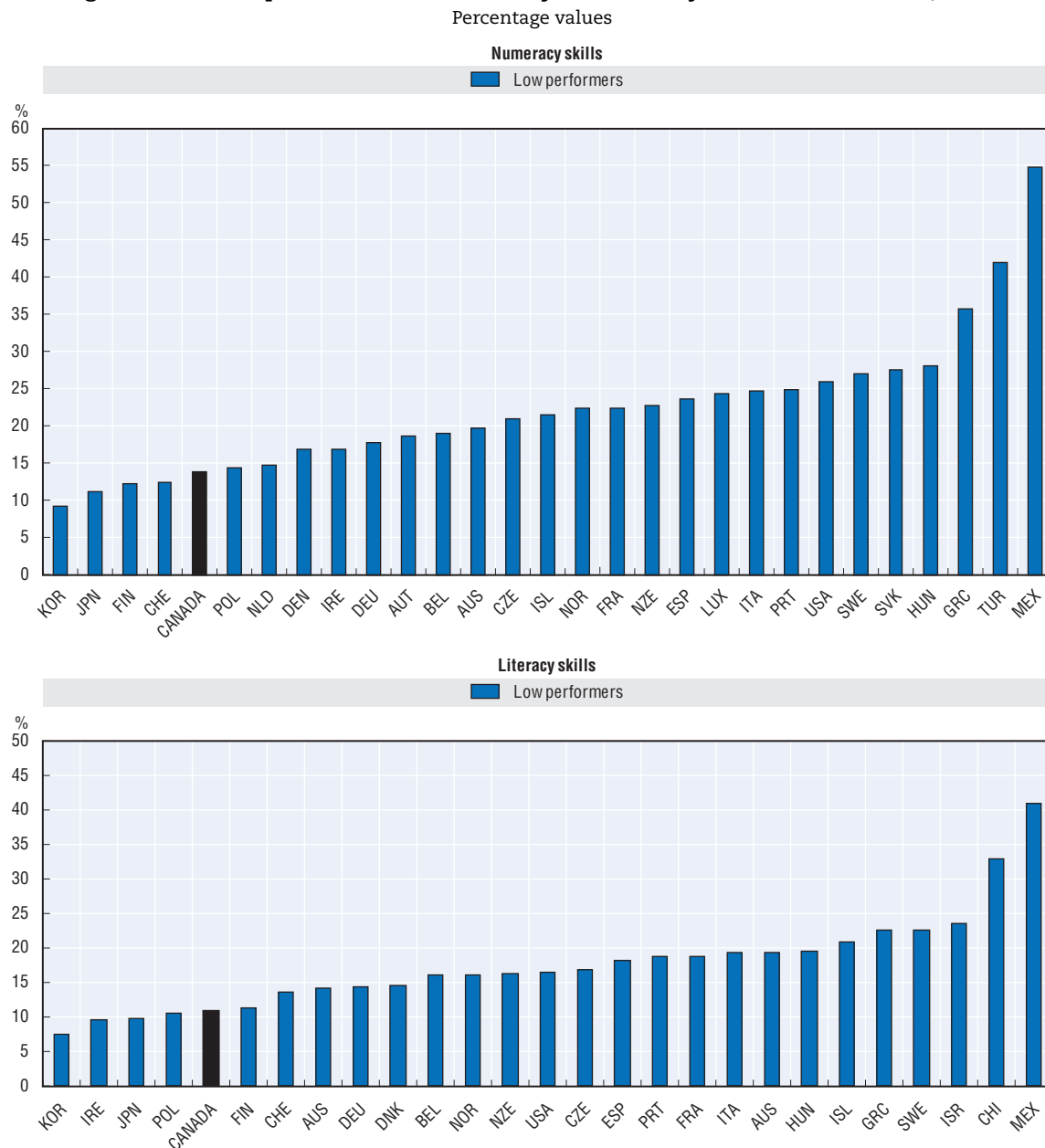
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of Canada (26% compared with 12% of the OECD average), rather than poor scores of immigrants or non-immigrants relative to the same groups in other countries (Parkin, 2015).

Apprenticeship training programmes

Apprenticeship training programmes in Canada typically last between two and five years, depending on the specific trade and jurisdiction, and comprise 80-85% on-the-job training under the supervision of a certified journey person and 15-20% technical in-class training. The in-class training usually takes place in a block of 8-10 weeks once a year in a specialised community college, union or private training institution. Apprentices are paid by the employer only for the on-the-job component of the training. The apprentices have to pay the costs of their technical training. In order to move through the programme, apprentices must pass an exam each year, with a final exam leading to a trade certification validated by the province or territory where it is taken.

Based on data from the Canadian National Apprenticeship Survey (NAS), 16% of apprentices have less than secondary-level education, about 47% have completed secondary-level education, and around 37% have post-secondary education. Moreover, almost two-thirds of the apprentices surveyed by the NAS reported that they had work experience related to their trade prior to registering in their programme, which suggests that a significant proportion of those who enrol in apprenticeship training programmes do so to strengthen their skills profile and wage prospects after having worked for some time as unskilled or semi-skilled workers in the same job (O' Grady, 2007; Lehman, 2012). Unsurprisingly, the average age of Canadian apprentices is high by international standards,

Figure 3.15. **Low performers in numeracy and literacy skills in PISA tests, 2012**

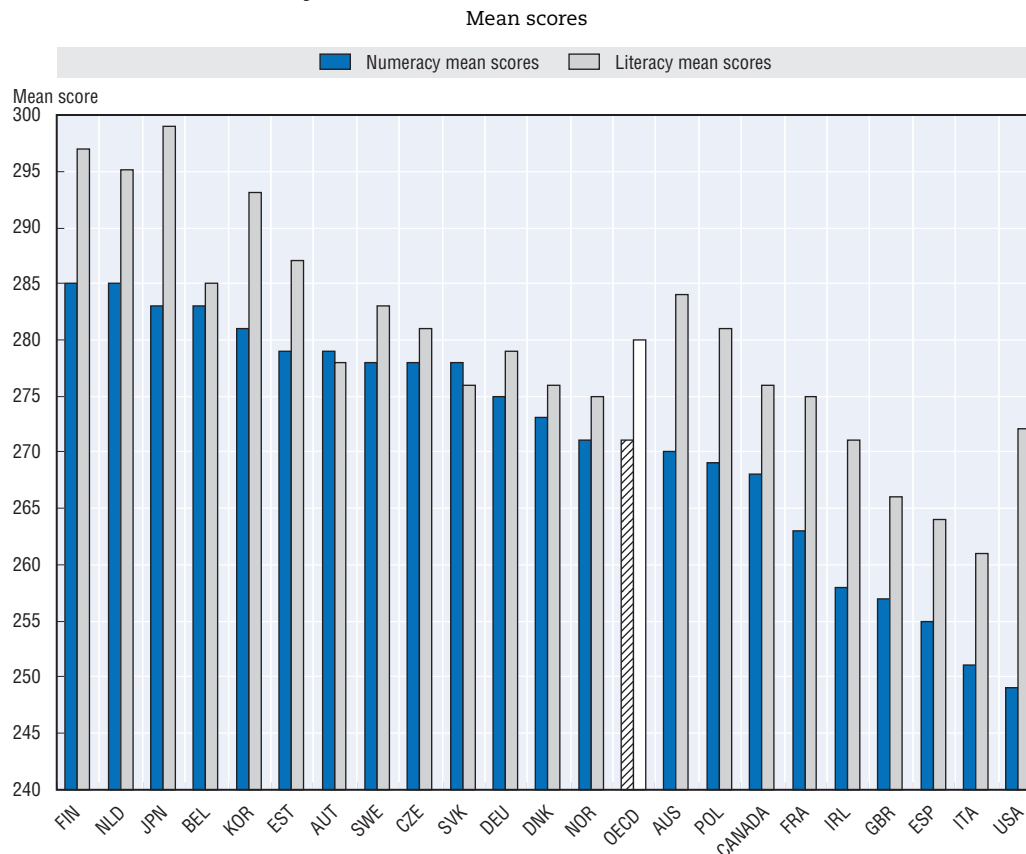
Source: OECD based on OECD (2012b), PISA 2012 Results: What Students Know and Can Do, OECD Publishing.

StatLink  <http://dx.doi.org/10.1787/888933554126>

with more than two-thirds of registered apprentices aged above 25 and 44% aged above 30 in 2013,¹³ while only 1-2% of students completing secondary education move into apprenticeship programmes directly from school (Lehman, 2012).

The number of registered apprentices has grown considerably in Canada over the last decade, from 200 000 in 2000 to 445 000 in 2012, as has the number of apprenticeship training completions, from 20 500 in 2005 to 41 500 in 2012 (CCDA, 2014). This is linked to trends such as lack of job opportunities for unskilled workers, a growing demand for skilled trades in

Figure 3.16. **Performance of adults (16-24) in PIAAC numeracy and literacy skills across selected OECD countries, 2012**



This graph is also shown in Figure 1.8.

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.

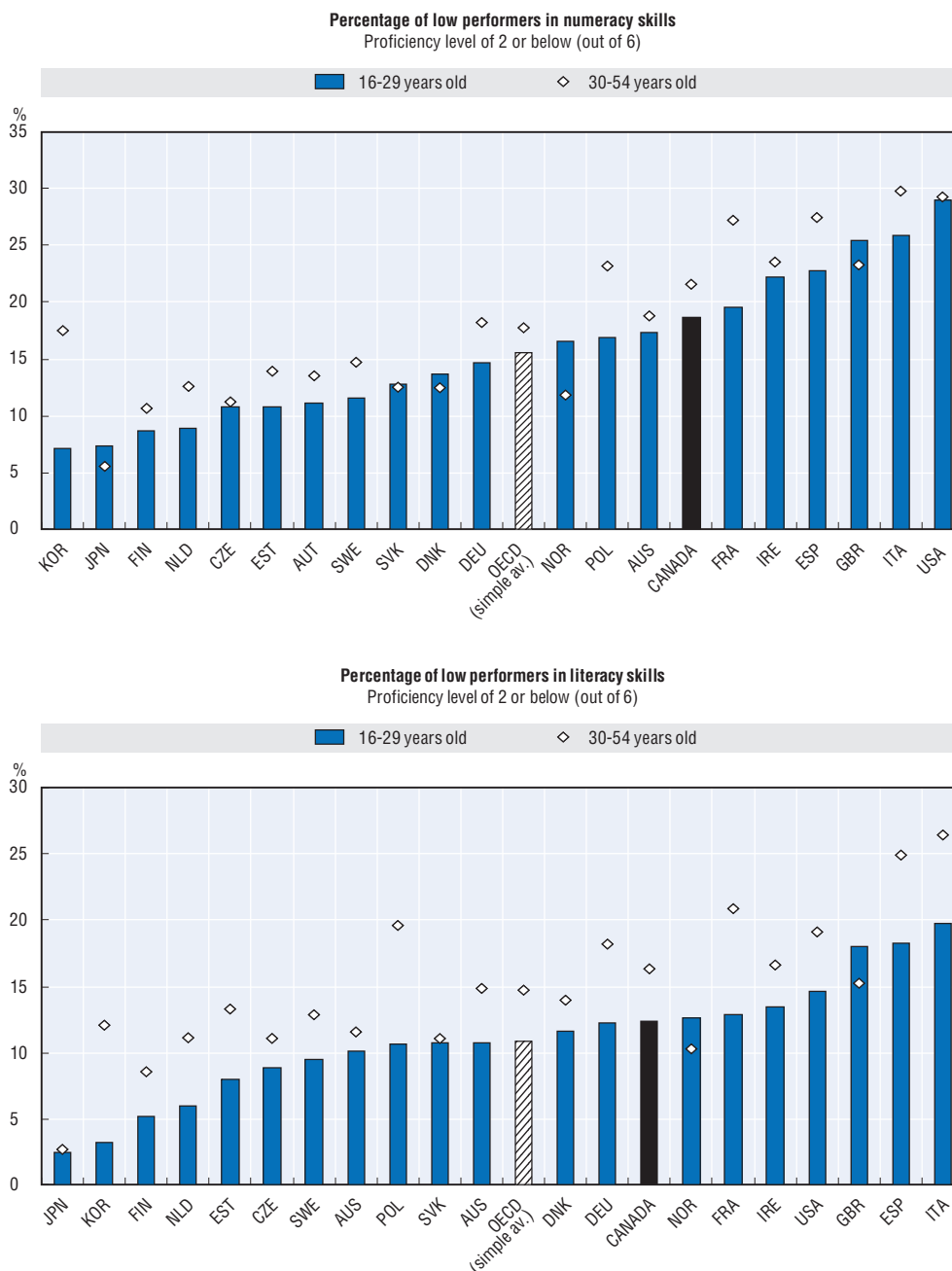
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certain regions and sectors, and the introduction by some provinces of secondary-school-based youth apprenticeship programmes (e.g. the Ontario Youth Apprenticeship Programme).

Nonetheless, completion rates are still low, at around 50% nationwide. A frequently reported reason for this is the cost of the technical training component of apprenticeship programmes, both the actual costs (i.e. tuition fees, living costs and sometimes relocation expenses) and the opportunity cost of having to quit a job for 8-10 weeks. To help students complete their training, the federal government has set up a number of financial aid measures (see Box 3.1). Other common explanations are the high average age of apprentices, which means that most of them start their programmes while they already have family obligations, and the duration of apprenticeship programmes, which is longer in Canada than in most other OECD countries. Most apprenticeship programmes last four years in Canada – though the average time to complete a programme is in fact five years – while the official duration of apprenticeship programmes in Germany and Austria is between two and three years and in the United Kingdom, France, Finland and Spain between one and three years (European Commission, 2013).

There are a number of reforms which could be considered to improve the provision of apprenticeship training in Canada. First, the overall cost of Canadian apprenticeship

Figure 3.17. **Percentage of low performers in numeracy and literacy skills in PIAAC tests in the 16-29 and 30-54 age groups, 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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programmes could be reduced, either by expanding existing federal financial support measures or shortening the duration of the training.

Second, the block training component could be reformed. It is likely to be beneficial to integrate the block training component more closely with the on-the-job training component. In countries with a tradition of “dual apprenticeship training”, for example,

Box 3.1. Federal financial support for apprenticeship training in Canada

- The *Apprenticeship Job Creation Tax Credit* encourages employers to hire new apprentices in eligible trades by providing a tax credit of 10% of the wages payable to apprentices in the first two years of their apprenticeship programme (up to a maximum credit of CAD 2 000 per apprentice, per year). More than 11 700 businesses benefitted from the credit in 2013.
- The *Apprenticeship Incentive Grant* is a taxable grant of CAD 1 000 per year, up to a maximum of 2 000 CAD per person, available to registered apprentices once they have successfully finished their first or second year/level of an apprenticeship programme. More than 387 000 grants have been disbursed since 2006.
- The *Apprenticeship Completion Grant* is a taxable grant of a maximum of CAD 2 000 available to apprentices who have successfully completed their apprenticeship training and obtained their journey person certification in a designated Red Seal trade. Since 2009, approximately 137 000 grants have been disbursed.
- The *Canada Apprentice Loan* is an interest-free loan of up to CAD 4 000 per period of technical training to help registered apprentices in Red Seal trades with the costs of training. Introduced in 2014, it is estimated that at least 26 000 apprentices will apply every year.
- In addition, the federal government grants registered apprentices some tax credits which can be deducted from federal income tax, notably: i) the *Tradesperson's Tools Deduction* referring to the cost of eligible tools which must be acquired as a condition of employment; ii) the *Tuition Tax Credit* relating to tuition and examination fees.

technical training usually takes place one or two days per week, with the remaining days of the week spent in the business. Rather than spending longer blocks of time in the college or the business, this arrangement tends to produce stronger learning outcomes, as students can immediately apply on the job what they have learned in classrooms. In addition, the block training component could be made more flexible by making part of it available online. Valuable insights for the development of new approaches can be expected from the government's three-year pilot project Flexibility and Innovation in Apprenticeship Technical Training, started in 2014. The programme is administered by the government department Economic and Social Development Canada (ESDC) and provides selected training providers with funding for the development of alternative approaches to block training, including through the use of new technologies.

Third, collaborative training arrangements could be supported in order to increase participation by small businesses in apprenticeship training. For example, two or more companies, using a common training provider, could share the cost of the training and the time of the apprentice based on a contract which sets out tasks and responsibilities of each party.

Fourth, successful provincial models that integrate apprenticeship training into secondary education – e.g. the Registered Apprenticeship Program in Alberta and the Ontario Youth Apprenticeship Program – could be expanded nationally or to other provinces and territories. These models typically hinge on very flexible work arrangements between schools, students and employers, ranging from co-operative placements to full apprenticeship contracts (Lehmann et al., 2014). They offer secondary students a seamless

transition into post-secondary apprenticeship training, valuable work experience, employability skills and an understanding of employer expectations. At the same time, employers are given the opportunity to assess students before committing to a full apprenticeship. To raise awareness and interest for these programmes, enhanced labour market information should also be provided to secondary students to offer career guidance that does not focus only on university education.

Work-integrated learning

Work-integrated learning (internships, co-operative education, work placements, summer jobs, etc.) helps students understand better their professional interests and acquire useful work experience. However, at least in Ontario, more than half of university students and almost one-third of college students complete their studies without any such experiences (Peters et al., 2014).

Canada's main federal youth employment policy consists of the Youth Employment Strategy (YES). Through this strategy, the federal government invests CAD 330 million annually to help young people between 15 and 30 years old to develop the skills and work experience needed to succeed in the school to work transition. The federal government department ESDC leads the YES, which consists of three main activity streams:¹⁴

- “Skills Link”: primarily targeted at youth who face barriers to employment, this offers funding for employers and business organisations who commit to developing the skills of this target group.
- “Career Focus”: this helps post-secondary graduates make a transition to the labour market through paid internship and career advice.
- “Summer Work Experience”: this offers financial incentives for employers to create summer job opportunities for students.

ESDC also has initiatives focused specifically on small businesses. It allocates CAD 15 million annually to fund up to 1 000 internships for post-secondary graduates in SMEs. Small businesses are also the main target of the Mitacs Accelerate Programme, which is run by a not-for-profit organisation (i.e. Mitacs) whose mission is to build industry-university linkages and which is co-financed by the federal government. The Mitacs Accelerate programme allows graduate students and post-doctoral fellows to use their specialised academic expertise for applied industry projects. Students receive a stipend of at least CAD 10 000 during the Accelerate internships which last four-to-six months, with 50% of work time spent at the host company. Through its Accelerate programme, Mitacs supports more than 2 000 internships every year in every sector and academic discipline across Canada. Participating enterprises, most of which are SMEs, often create new positions for the graduates following completion of participation in the programme.

Something which could further enhance the school-to-work transition in Canada, especially towards small businesses, is the establishment of dual-study programmes which combine tertiary studies at specialised colleges or universities with paid on-the-job training in companies. In this type of programme, SMEs benefit from new staff members who can quickly perform in their existing workforces and students benefit from a good mix of academic qualifications and company-specific job experience. Germany has been a leading country in this area and could provide inspiration for policy development in Canada in this area (see Box 3.2).

Box 3.2. Dual-study programmes, Germany

By combining academic studies with practical on-the-job-training, dual study programmes develop considerable benefits both for employers looking for university graduates with work experience and for young people in search of tertiary education with promising career prospects.

Dual study programmes have become ever more popular in Germany. In 2014 there were a total of 1 505 dual study programmes in the whole of Germany, the majority in business administration (487), mechanical engineering (232), ICT (182), social work/education/health/nursing care (158) and electrical engineering (127). Almost 95 000 students and 42 000 companies participated in these programmes.

Description of the approach

A dual study programme refers to a system that combines academic studies leading to a Bachelor or Master degree at a University of Applied Sciences (UAS) with practical paid on-the-job training in a company. As jurisdiction for education policies in Germany lies with the 16 federal regions (i.e. *länder*), a variety of different dual study models exist in Germany. The dual study programme of the federal state of Bavaria is, therefore, described in more detail. In 2006, all 19 Bavarian UASs created the initiative “Hochschule Dual” (dual higher education) in order to pool their dual study programmes under one common brand name. “Hochschule Dual” is supported by the Bavarian State Ministry of Education, Science and the Arts und funded by the Association of Bavarian Industry.

The Bavarian “Hochschule Dual” offers three different models of study:

- Combination of academic studies for a Bachelor degree (e.g. in mechanical engineering) with apprenticeship training (e.g. in the recognized training profession of an industrial mechanic): The programme lasts for 4.5 years, thereof 27.5 months of practical on the job-training. Graduates earn an academic degree and an official, Germany-wide recognized apprenticeship degree.
- Combination of academic studies for a Bachelor degree with a series of intense on-the-job training periods: The programme lasts for 3.5 years, thereof 16 months of practical on the job-training. Graduates earn only an academic degree.
- Combination of academic studies for a Master degree with a series of intense on-the-job training periods: The programme normally lasts for 1.5 years, thereof 9.5 months with practical job experience.

In all three models, on-the-job training usually takes place during the holidays between the university semesters, in a practical internship semester, and while writing the bachelor/master thesis. Moreover, in all three models, the training company concludes a training or work contract with the dual student. Companies have to provide their dual students with financial remuneration at least equal to the period of on-the-job training (in 80% of cases ranging between EUR 500 and 1 000 per month). Students who want to engage in the dual study programme must first apply to a training company which co-operates with “Hochschule Dual” and sign with them a training or work contract. As a final step, students apply for a place at the chosen UAS.

Factors for success

The dual study programme develops considerable benefits for all involved parties. Participating enterprises are able to secure early access to highly-qualified and performance-oriented young professionals, while students acquire valuable social skills and non-cognitive competencies. Moreover, companies and students have enough time to get to

Box 3.2. Dual-study programmes, Germany (cont.)

know each other and find out in which area the young students can contribute best. Companies also benefit from a strong sense of loyalty and identification which dual students develop during their dual studies, which leads to very high retention rates (between 80% and 100%). In addition, the companies' close ties and good co-operation with the respective UAS facilitates and encourages collaboration in other fields, such as technology transfer or joint research projects.

Obstacles and responses

Although a large variety of dual study programmes exist in the 16 German federal states, they are often not coordinated in terms of contents, quality control and branding. Due to this lack of coordination and transparency, interested companies and students may experience difficulties in accessing the programmes. These problems were the main driver for the 19 Bavarian UASs to pool, coordinate and promote their dual study programmes under the common umbrella brand "Hochschule Dual". In order to develop the three different models of study, "Hochschule Dual" carried out extensive consultations among business, student and policy stakeholder groups.

In order to coordinate the dual study programmes of the 19 UASs, "Hochschule Dual" has established two permanent institutional bodies. First, a specific working group composed of senior representatives from the participating UASs elaborates the framework conditions for the dual study models. Second, the working group is supported by an advisory board with members from enterprises and business chambers where their representatives bring in their suggestions to improve the dual study programme from a business perspective.

Relevance for Canada

Canadian businesses often complain that many university graduates do not have sufficient work experience and social skills. Graduates of dual study programmes, by contrast, can immediately start working and take over positions of responsibility. Dual study programmes also have a high relevance for Canadian youth who want to safeguard a smooth school-to-work transition thanks to the extensive company-specific on-the-job training which a dual study programme provides.

Further information

www.hochschule-dual.de.

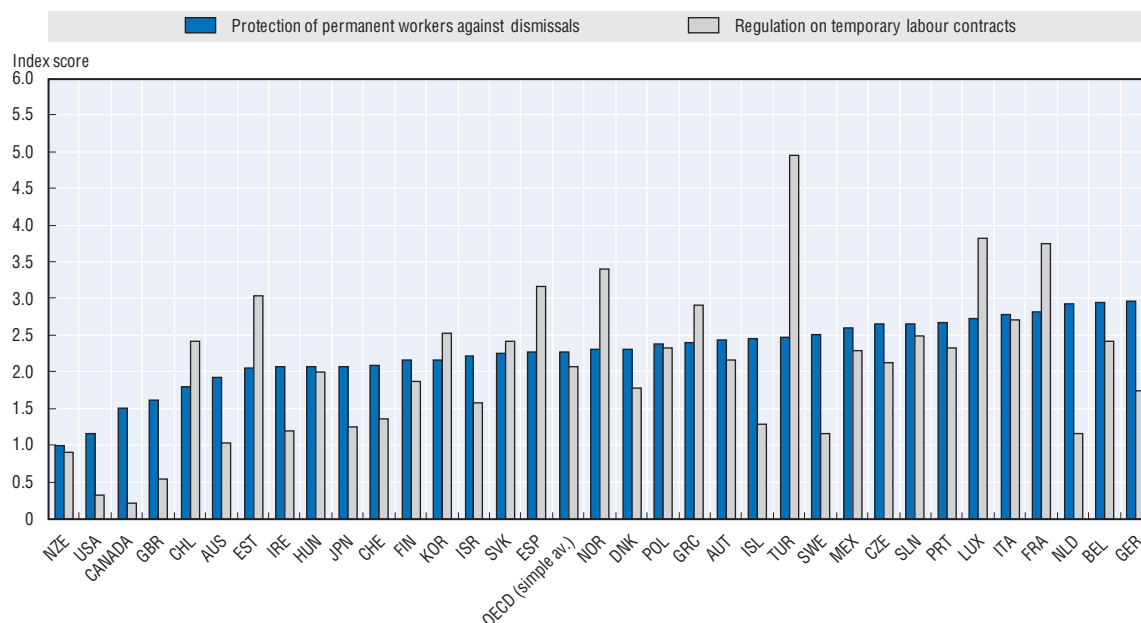
The labour market

Canadian SMEs benefit from a flexible labour market. The OECD employment protection legislation (EPL) indicators measure "procedures and costs involved in dismissing individuals or groups of workers" and "procedures involved in hiring workers on fixed-term or temporary work contracts". Canada's regulations are relatively favourable to labour market flexibility on both indicators compared with other OECD countries, ranking third in the flexibility of dismissal regulations and first in the flexibility of temporary work regulations (Figure 3.18).

A risk of flexible regulations in hiring temporary workers is that they could lead to a segmentation of the labour market where permanent workers benefit from much greater protection and benefits than fixed-term workers. However, this does not appear to be a major issue in Canada, which may partly reflect the flexibility of dismissal rules as well as hiring rules. In Canada, there are higher than average job reallocation rates among existing

Figure 3.18. **OECD Employment Protection Legislation (EPL) indicators across OECD countries, 2013**

From 0 (least restrictive) to 6 (most restrictive)



Source: OECD Employment Protection Legislation (EPL) Database.

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firms, which suggests a flexible labour market where workers can easily move between jobs in existing companies (OECD, 2016a).

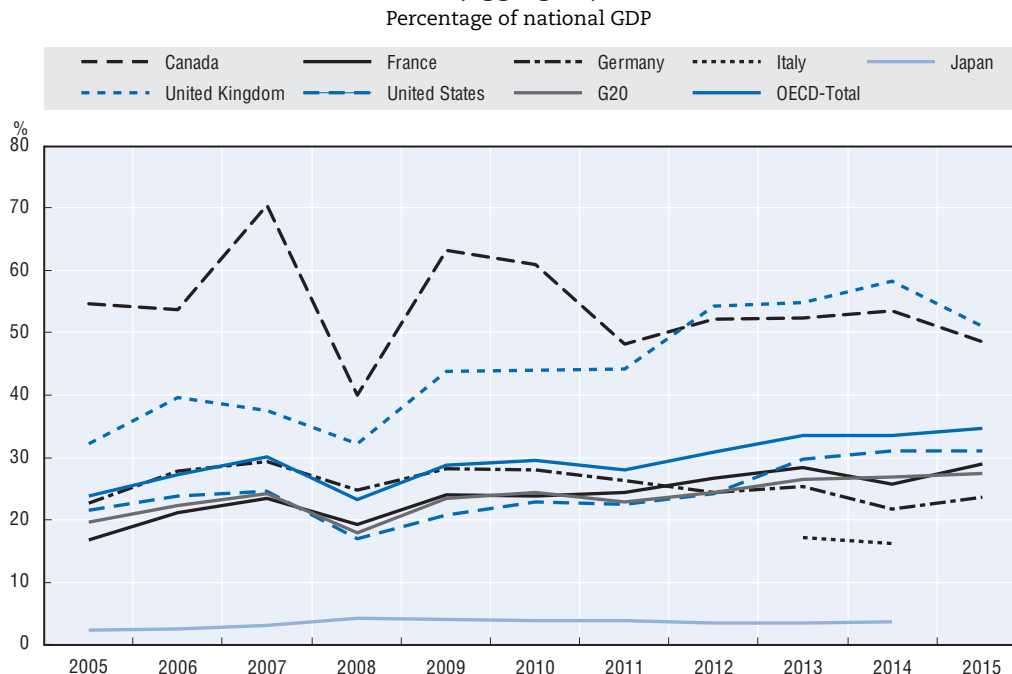
In addition, OECD PIAAC data suggest that Canada does not have major skills mismatches nationwide. In particular, only a relatively small proportion of Canadians are over-skilled in their current job and a near-average proportion of Canadians are under-skilled in their current job compared with other OECD countries (OECD, 2014a). Stable post-secondary education earnings premiums also indicate that Canada does not have major skills shortages. Localised skills shortages had occurred in certain industries (e.g. construction related to the energy sector) and regions of the country (e.g. the Atlantic Provinces and in the territories) during the last boom in the oil and gas industry, but they have vanished following the sharp fall in oil prices since mid-2014.

Foreign direct investment

Foreign direct investment (FDI) can support SME and entrepreneurship development in multiple ways. First, multinationals are an important source of knowledge spill-overs for the local economy, particularly through buyer-supplier relationships. Second, local suppliers of FDI affiliates gain exposure to international markets, which can lead to exporting to other parties. Third, especially in knowledge-based industries, FDI affiliates may spin out new start-ups whose growth potential is typically higher than the average new business.

In the period 2010-14, the stock of FDI in Canada grew steadily from CAD 592.5 billion to CAD 732 billion. Canada's inward FDI stock is high in relation to GDP compared with other G7 economies and the OECD and G20 areas, although it dropped by 5% in 2015 following a sharp fall in oil price since 2014 (Figure 3.19). Major FDI attractors in Canada are vast natural

Figure 3.19. **Inward FDI positions in G7 economies, G20 (aggregate) and OECD (aggregate), 2005-15**



Note: FDI positions represent the value of the stock of direct investments held at the end of the reference period.

Source: OECD based on OECD Globalisation Database.

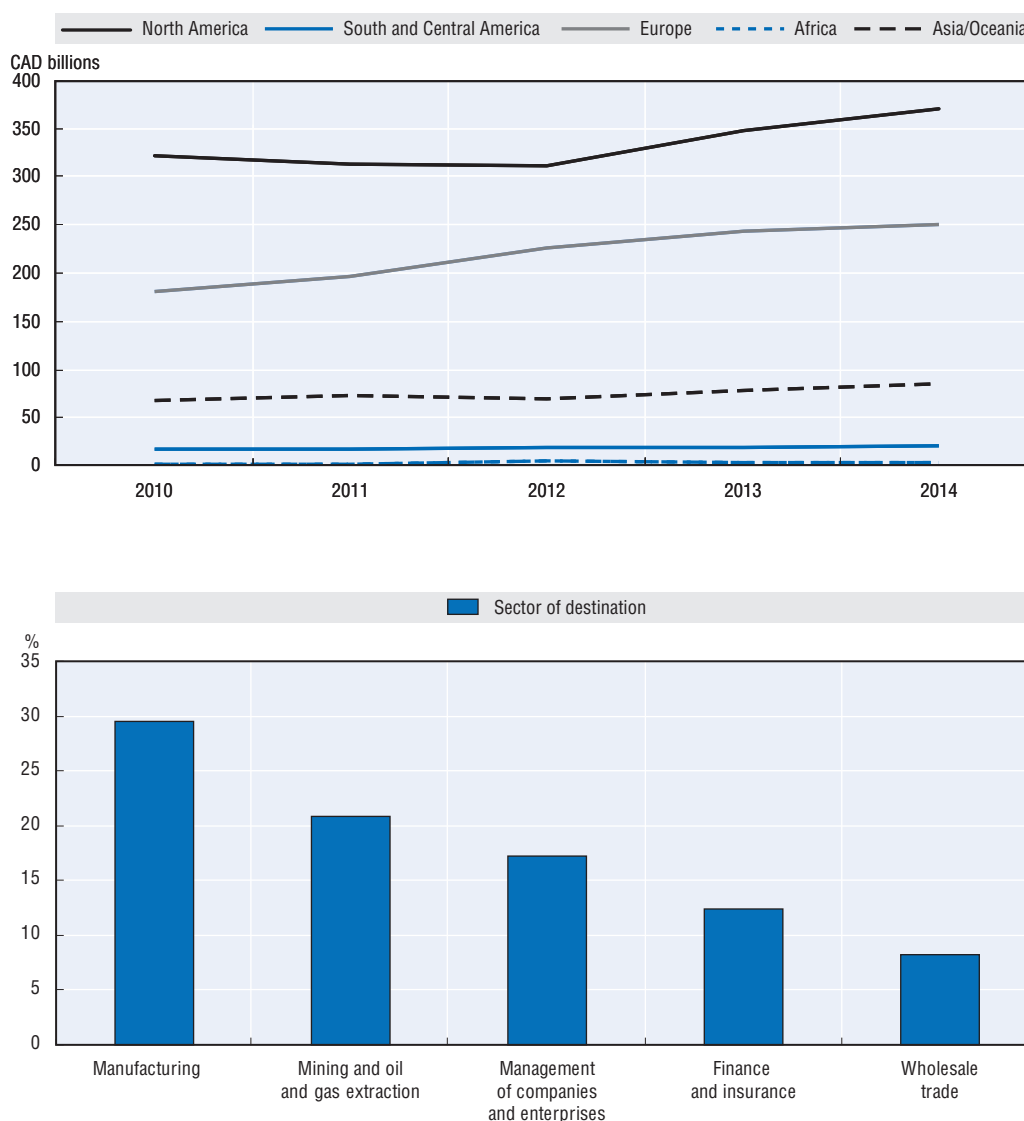
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resources, sound legal framework conditions, and the geographical advantage of neighbouring the United States and being part of the North America Free Trade Agreement.

A geographical disaggregation of the origins of FDI (Figure 3.20) shows that the United States takes the lion's share of Canada's inward FDI stocks (49% in 2014), followed by Europe (34%) and Asia/Oceania (12%). However, the weight of the United States in Canada's total FDI stocks has steadily declined in the last six years, from 58% in 2008 to 49% in 2014, while the share of emerging economies has grown, especially China and Brazil.

As a result of the commodity price hike over 2009-2014, inward FDI has increasingly shifted towards oil and mining, which represented 21% of Canada's inward FDI stocks in 2014. Manufacturing remains the main sector destination of FDI, with a total proportional weight which has hovered around 30% since 2010. However, the three manufacturing sectors most favoured by foreign investors are linked to natural resources, i.e. petroleum and coal, primary metals and chemicals. Following the collapse of global oil prices since mid-2014 and the associated depreciation of the Canadian dollar, FDI in natural resource exploitation can be expected to fall and other FDI to rise. However, there is still a need to diversify inward FDI flows more towards knowledge based sectors with strategic opportunities for the development of domestic economic activity, including supply chains involving domestic SMEs.

The OECD measures regulatory restrictions on FDI through the FDI Regulatory Restrictiveness Index, based on an assessment of: i) foreign equity limitations; ii) screening and prior approval requirements; iii) restrictions on the employment of foreign staff; and iv) other operational restrictions (e.g. restrictions on branching, capital repatriation or land ownership by foreign-owned enterprises).¹⁵ With respect to this index, Canada scores higher than the OECD average overall (Figure 3.21). Of the four areas covered by the Index, Canada

Figure 3.20. **Inward FDI stocks by regional origins and destination sector**

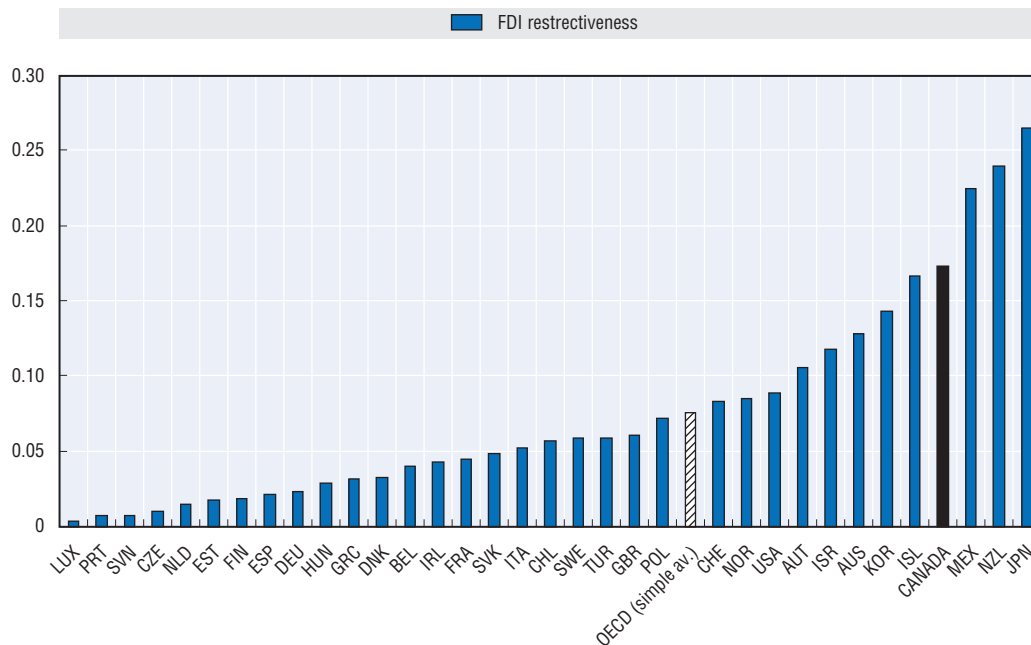
Source: Statistics Canada.

StatLink  <http://dx.doi.org/10.1787/888933554221>

is relatively more restrictive than the OECD average with respect to screening and prior approval requirements, which involve the presence of thresholds on the amount of the investment and share of foreign equity above which FDI prospects are reviewed. Sector-level data additionally show that restrictions to FDI are higher in the media, fishing, telecommunications and transport sectors (Kalinova et al., 2010).

The main piece of legislation affecting FDI to Canada is the Investment Canada Act (ICA). This requires that investments by non-Canadians to acquire control of a Canadian business that exceeds CAD 600 million in enterprise value be reviewed, under what is known as the net benefit test, to determine whether or not they will be approved. There are some exceptions to this threshold value. For foreign state-owned enterprise investors, the threshold for the Canadian business to be acquired is CAD 375 million in asset value. These large investments are reviewed for their likely net benefit to Canada, in accordance with factors set out in the Act, for

Figure 3.21. **FDI regulatory restrictiveness index across OECD countries, 2012**
From 0 (least restrictive) to 1 (most restrictive)



Source: OECD based on OECD (2014c), OECD Factbook 2014, OECD Publishing.

StatLink  <http://dx.doi.org/10.1787/888933554240>

example, relating to the impact of the investment on employment, innovation, productivity and market competition in the economy. Different thresholds apply to cultural sector investments.

It is important to keep review criteria flexible enough so as not to discourage FDI which can indirectly benefit SMEs. In particular, it is important to encourage inward FDI in knowledge-based sectors with potential to stimulate domestic SME supply chains. It is also important that the reviews are undertaken efficiently and rapidly so as not to discourage potential investors. The thresholds should also be consistent with the national interest and not overly hinder smaller investments that could have benefits for SME development. In this regard, the Government's recent announcement of its intention to raise the review threshold to CAD 1 billion for World Trade Organisation private investors in 2017, two years ahead of schedule, is a positive development that should reduce the number of "reviewable" FDI prospects.

Conclusions and policy recommendations

Canada enjoys a solid macroeconomic framework that is supportive of investments by small businesses. The labour market is flexible, which enables small businesses to expand and contract employment according to their needs. The tax system is also friendly to business in general and small businesses in particular. Business regulations are light, partly reflecting a series of recent regulatory simplification reforms. Furthermore, the banking system has proven solid even at the peak of the last global financial crisis.

At the same time, there are aspects of the business environment for SMEs and entrepreneurship that could be improved. Although Canada has one of the most generous R&D tax credits among OECD countries, its business R&D intensity is relatively low. Furthermore, compared to other G7 countries, Canada's R&D system is relatively weighted to

higher education institutions and basic research. SME tax preferences are relatively generous and some tax incentives could be fine-tuned and possibly downsized. Conversely, more resources could be spent on targeted SME programmes. In terms of human resources, OECD PIAAC data bring out that numeracy and literacy skills in adult workers could be stronger in Canada. Furthermore, apprenticeship training in Canada is affected by very low completion rates. Finally, Canada's banking system is solid but its loan terms and conditions are not always as favourable to SMEs as in other G7 countries.

Based on this analysis, the following policy recommendations are offered to strengthen Canada's business environment for SMEs and entrepreneurship:

Key recommendations on 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.

Notes

1. Based on the Remarks to the House of Commons Standing Committee on Finance by Jayson Myers, President and CEO of the Canadian Manufacturers & Exporters (The Impact of the Oil Price Plunge on Canadian Manufacturing), three-quarters of Canadian manufacturers were sanguine that lower oil prices, stronger US demand and a cheaper Canadian dollar would boost sales, profits, and employment in 2015.
2. The GST is a broad-based value added tax levied on a comprehensive base with limited exceptions, such as basic groceries and prescription drugs. As it is a tax on consumption in Canada, the GST does not apply to exports, and exporters can claim input tax credits for tax paid on their inputs.

3. A CCPC is a special type of Private Corporation that is not controlled, directly or indirectly in any manner whatever, by public corporations, non-residents or a combination of the two.
4. The provincial small business tax rate ranges from 0% in Manitoba (on the first CAD 450 000) to 8% in Quebec.
5. For example, in 2000, it would have been more profitable for a small business owner facing a personal income marginal tax rate of less than 45% to increase his/her wages instead of accruing profits beyond the CAD 200 000 thresholds, which would have been taxed at 45% (Department of Finance, 2013; OECD, 2016a).
6. If the Allowance on Business Investment Losses exceeds net income for the year, any excess will be treated as a non-capital loss, which may be carried back three years and then forward twenty years, after which it is again treated as a net capital loss which can be carried forward indefinitely to be applied against future capital gains.
7. The credit is calculated as the difference between premiums paid at the legislated rate of CAD 1.88 per CAD 100 of insurable earnings and the reduced small business rate of CAD 1.60 per CAD 100 of insurable earnings in each of those years. Since employers pay 1.4 times the legislated rate, the 28-cent reduction is equivalent to a reduction of 39 cents per CAD 100 of insurable earnings in EI premiums.
8. Screening and prior approval requirements involve the thresholds for the amount of the investment and share of foreign equity above which foreign investments are reviewed by the receiving government.
9. Data are not strictly comparable because they refer to two different national surveys that do not have harmonised methodologies.
10. The definition of SME loans vary country by country, so that figures are not strictly comparable. In Canada, SME loans are authorised loans up to CAD 5 million.
11. The two indicators – i.e. SME risk premium and SME-large firm interest rate spread – are slightly different. Central Banks in OECD countries do not all collect the same type of information on enterprise finance.
12. In 2015, higher education accounted for 39.8% and business enterprises for 50.1% of total R&D expenditure.
13. Information retrieved from: www.statcan.gc.ca/pub/81-582-x/2015001/tbl/tbld1.2-eng.htm.
14. Since 2006, YES has involved more than 450 000 students through 75 000 internships and 390 000 summer jobs.
15. Restrictions are evaluated on a 0 (open) to 1 (closed) scale, based on the statutory elements of the law, i.e. implementation issues are not addressed. Further information on this index is available at: www.oecd.org/investment/fdiindex.htm.

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Chapter 4

The strategic framework and delivery system for SME and entrepreneurship policy in Canada

This chapter assesses the formulation and delivery of SME and entrepreneurship policies and programmes in Canada. It presents the main federal government organisations involved and assesses the process of policy design and delivery. It also offers a simple assessment of the distribution of the SME and entrepreneurship policy portfolio across different types of programmes. The chapter highlights the major roles played by federal government departments, the federal Regional Development Agencies and the Crown Corporations, such as the Business Development Bank of Canada. It points to the lack of a comprehensive SME and entrepreneurship strategy document for Canada, although other mechanisms support policy formulation, including government consultative bodies, independent advisory panels and formal programme consultations. It identifies important cross-government co-operations in policy delivery such as the Canada Business Network's one-stop business centres and web portal. It also shows that a large share of federal support is provided through tax incentives rather than targeted programmes.

Main federal government institutions in SME and entrepreneurship policies

The design and implementation of small and medium-sized enterprise (SME) and entrepreneurship policies in Canada is not concentrated in a particular flagship policy initiative or a sole government organisation. Instead more than twenty government departments and bodies are involved, with relevant ministries and departments regularly consulted in the development of programmes as part of the federal Cabinet process. This reflects the nature of SME and entrepreneurship policy, which cuts across various domains (e.g. finance, innovation, internationalisation, skills, etc.).

The Department of Industry Act of 1995 states that the powers, duties and functions of the Minister of Industry extend to matters relating to small businesses. A key player has therefore long been the government department Industry Canada, renamed Innovation, Science and Economic Development Canada (ISED) following federal elections in October 2015. Twelve departments and agencies operate under the responsibility of ISED, including the National Research Council (NRC) and the Business Development Bank of Canada (BDC).

Another key group of players is the five federal Regional Development Agencies (RDAs) and FedNor, the federal government department for Northern Ontario, whose annual budgets total up to CAD 1 billion. RDAs and FedNor are part of the federal government, which established them to promote economic development and economic diversification at the regional level. Three were set up in the late 1980s and early 1990s, namely Western Economic Diversification Canada (WD), Atlantic Canada Opportunities Agency (ACOA) and Canada Economic Development Agency for the Regions of Quebec (CED). The Federal Economic Development Initiative for Northern Ontario (FedNor) was also established in this period. The remaining two RDAs, the Federal Economic Development Agency for Southern Ontario (FedDev Ontario) and the Canadian Northern Economic Development Agency (CanNor), were launched in response to the recession of 2009. An important objective of the RDAs and FedNor is to support innovation and commercialisation in SMEs by improving access to capital, markets and productivity-enhancing technologies. To achieve this objective, the RDAs and FedNor work in collaboration with other federal government departments and agencies, the provinces, the private sector and post-secondary institutions to leverage resources and ensure that federal policies and programmes are aligned and complementary. RDAs and FedNor manage and deliver programmes on behalf of the federal government, but they also have their own regular programmes and a set of bespoke initiatives targeted at specific contingency problems. For example, the RDAs and FedNor manage the federally-funded Community Futures Program (CFP) and respond to issues such as industrial restructuring or natural disasters through targeted pro-tempore interventions.

Other federal government departments with significant involvement in SME and entrepreneurship policies include Global Affairs Canada (GAC), Employment and Social Development Canada (ESDC), and Public Services and Procurement Canada (PSPC). GAC, through the Trade Commissioner Service (TCS), as well as two crown corporations, Export Development Canada (EDC) and the Canadian Commercial Corporation, offers a wide range of

Box 4.1. The role of Innovation, Science and Economic Development Canada (ISED) in federal SME and entrepreneurship policy making

Overall functions relevant to small business

ISED (formerly Industry Canada) has the mandate of helping make Canadian industry more productive and competitive within the global economy. With regard to SMEs and entrepreneurship, ISED has three main strategic objectives and areas of activity:

a) Setting an efficient and competitive Canadian market place

ISED is responsible for the oversight and regulation of a number of aspects of market regulation including bankruptcy legislation, foreign direct investment, intellectual property protection and trade measurement. It administers framework policies that promote competition, innovation, investment and entrepreneurial activity.

b) Strengthening the Canadian economy through advancements in science and technology, knowledge and innovation

ISED invests in science and technology to generate knowledge and equip Canadians with the skills and training they need to compete and prosper in the global, knowledge-based economy. It works with the private sector, industry associations, academia and all levels of government to foster an environment that is conducive to innovation, scientific excellence and industrial competitiveness.

c) Building competitive Canadian business and communities

ISED encourages business innovation and productivity growth and collaborates with businesses, governments and industry to enhance the recognition of Canadian industrial capabilities and to identify and address opportunities and risks affecting industry competitiveness within the global marketplace.

Specific small business development functions

ISED's Small Business Policy Branch has the mandate to encourage entrepreneurship and the competitiveness and growth of SMEs. It is organised into three directorates: i) Research and Analysis/BDC; ii) Small Business Financing; and iii) Policy and Liaison. It chairs the Interdepartmental SME Working Group which shares information across government that relates to small business policy and provides functional guidance to BDC. However, ISED's Small Business Policy Branch does not have a mandate for overall small business policy coordination. Thus, any national SME and entrepreneurship strategy requires high-level buy in across the federal government and strong consultation with relevant stakeholders.

services for small business exporting and internationalisation, including expert advice and counselling, export credits, soft loans, loans to strategic foreign buyers, promotional exposure, brokering assistance with potential overseas partners, and government-to-government contracting. ESDC manages a number of programmes affecting skills and training for small businesses, including the Canada Job Grant, which provides funding for companies to undertake training programmes both for the unemployed and current workers, and the SME internship programme. PSPC works to enable access to public procurement opportunities for SMEs through its Office of Small and Medium Enterprise (OSME) and runs the Build in Canada Innovation Programme (BCIP), a small-scale programme which helps Canadian companies to test their innovative goods and services through procurement within the federal government before selling them into the market.

The Department of Finance Canada is also a major player in SME and entrepreneurship policy through the special tax preferences accorded to small businesses, primarily the small business tax rate and the SR&ED enhanced investment tax credit rate for SMEs.

Finally, some of the federal crown corporations are key implementers of SME and entrepreneurship policies. Crown corporations are entities owned by the government but operating at arm's length from it. They pursue a specific policy objective but they must also operate in a business capacity, notably by generating revenues from the sale of their services. In 2015 there were 46 federal crown corporations. The two most relevant to entrepreneurs are the BDC, which brands itself as the only bank dedicated exclusively to entrepreneurs, and EDC, Canada's trade finance and insurance bank.

Table 4.1 summarises the main federal government departments and crown corporations involved in the design and implementation of SME and entrepreneurship policy in Canada.

Table 4.1. Main federal government departments and agencies involved in SME and entrepreneurship policy in Canada

Government departments	Policy responsibilities
Innovation, Science and Economic Development Canada (ISED)	ISED has the main responsibility for SME and entrepreneurship policy. Its portfolio consists of twelve federal departments and agencies, among which the NRC, the BDC, Destination Canada, the Natural Sciences and Engineering Research Council of Canada (NSERC), and the Social Sciences and Humanities Research Council of Canada (SSHRC).
Regional Development Agencies (RDAs) and FedNor	RDAs and FedNor provide regionally-tailored programmes, services, knowledge and expertise that build on regional and local economic assets and strengths. They support business growth, productivity and innovation; help SMEs compete in the global marketplace; provide adjustment assistance in response to economic downturns; enhance business management skills; and support local communities. There are five RDAs: WD, ACOA, CED, FedDev Ontario, CanNor. FedNor plays a similar function as a government department. They are all under the responsibility of ISED.
Global Affairs Canada (GAC)	GAC encourages international trade, with an emphasis on expanding and diversifying commercial relationships with emerging and high-growth markets. Within GAC, the TCS supports the international commerce efforts of Canadian companies, especially SMEs; EDC provides Canadian exporters with export financing solutions; and the Canadian Commercial Corporation is Canada's international contracting agency.
Employment and Social Development Canada (ESDC)	ESDC manages the Canada Job Grant (workforce training) and a small-scale SME internship programme. It also provides training for social entrepreneurs and operates the Aboriginal Skills and Employment Training Strategy.
Public Services and Procurement Canada (PSPC)	Within PSPC, OSME advocates on behalf of SMEs and encourages their participation in federal government procurement. OSME also manages BCIP, made permanent in 2012 to help innovative businesses move their cutting-edge products and services from the lab to the marketplace.
Department of Finance Canada	The Department of Finance Canada manages tax policy. Key tax policies affecting small business are the small business tax rate in the federal corporate tax rate; the Scientific Research and Experimental Development (SR&ED) tax credit, including the enhanced investment tax credit rate for SMEs; and the Small Business Job Credit regarding employment insurance premiums.
Status of Women Canada (SWC)	SWC promotes equality for women and women's full participation in the economic, social and democratic life of Canada. In 2015 an Action Plan for Women Entrepreneurs had been announced, which was to be implemented by SWC in collaboration with BDC, ISED, GAC and other agencies.
Indigenous and Northern Affairs Canada (INAC)	INAC oversees the Aboriginal Entrepreneurship Program, which provides support for business planning, access to developmental equity and debt capital for Aboriginal-owned SMEs when required, and the Procurement Strategy for Aboriginal Business, which supports Aboriginal owned businesses, including SMEs, in acquiring contracts under federal government procurement activities.
Immigration, Refugees and Citizenship Canada (IRCC)	IRCC runs the "Start-Up Visa", a niche programme offering permanent resident status to start-up entrepreneurs who secure a minimum equity investment from a designated venture capital fund or angel investor group or have been accepted into a designated incubator or accelerator programme. The intention is to attract entrepreneurs who have the potential to build innovative companies in Canada that can compete on a global scale.
Crown Corporations	Policy responsibilities
Business Development Bank of Canada (BDC)	BDC offers business loans, securitisation and consulting services to help Canadian businesses grow. BDC Capital (a subsidiary) offers specialised financing, including venture capital, equity as well as growth and business transition capital. BDC reports to Parliament through the Minister of Innovation, Science and Economic Development.
Export Development Corporation (EDC)	EDC reports to Parliament through the Minister of International Trade. Its mandate is to support and develop, directly or indirectly, Canada's export trade, and Canadian capacity to engage in international trade. EDC provides a comprehensive range of trade finance and risk management solutions, including short-term credit insurance, direct loans, loan guarantees, bonding support, and political risk insurance. EDC also provides advisory services, matchmaking and introduction services for Canadian companies of all sizes.
Canadian Commercial Corporation	The Canadian Commercial Corporation helps Canadian exporters to access foreign government procurement markets through government-to-government contracting. It reports to Parliament through the Minister of International Trade.
Farm Credit Canada (FCC)	FCC reports to Parliament through the Minister of Agriculture and Agri-food. Its purpose is to enhance rural Canada by providing specialised and personalised business and financial services to farming operations, including SMEs related to farming. It is Canada's leading agriculture lender.

Arrangements for co-ordination of policy design

Many government departments and bodies are involved in support for new and small businesses in Canada. This brings with it the challenge of co-ordinating policy across government in order to ensure that interventions meet overall priorities, that they support each other and that there are not important gaps. The Small Business Policy Branch of ISED chairs the Interdepartmental SME Working Group which shares information across government departments that relates to small business policy and provides functional guidance to BDC. However, it does not have a mandate for overall small business policy coordination.

Several countries choose to co-ordinate small business policy and support small business policy design by creating and following a national SME and entrepreneurship policy strategy that cuts across government departments and assigns clear objectives and responsibilities for meeting these objectives. In the case of Canada, there is not an overarching SME and entrepreneurship strategy document. Canada's SME and entrepreneurship policy follows the priorities of individual government departments and crown corporations. This can lead to some degree of fragmentation in policy design and policy implementation although it can also help adapt policy interventions to specific needs (e.g. as RDAs and FedNor adapt programmes to local conditions).

The prioritisation and co-ordination of policy would benefit from establishing a clear leadership in SME and entrepreneurship policies within the federal government. For example, a government department could be assigned with a clear mandate and resources to undertake the co-ordination, with collaboration and support from other government departments. This role could include the development of a comprehensive and integrated SME and entrepreneurship strategy document, the co-ordination of government departments and agencies in the implementation of the strategy, and the development of stronger monitoring and evaluation evidence to guide decisions on which programmes to phase in and which ones to phase out.

Policy consultation processes and evidence base

In Canada, the design of small business policy by the concerned government departments and crown corporations benefits from several key consultation mechanisms with small businesses and experts, and from the use of statistical data on SMEs and entrepreneurship and monitoring and evaluation evidence on small business programmes. The key arrangements are presented below.

Independent advisory reports

The federal government commissions reports from independent advisory committees so as to receive advice on future policies and strategies. These reports generally reflect long processes of consultation with government and non-government stakeholders. Three relatively recent examples include the Advisory Committee on Paperwork Burden Reduction (ACPBR), the Advisory Committee on Small Business and Entrepreneurship (ACSB), and the Independent Panel on the Review of Federal Support to Research and Development (i.e. so-called Jenkins Panel).

- The ACPBR involved 13 federal departments and agencies. It was co-chaired by the Canadian Federation of Independent Business (CFIB) and ISED. Its mandate evolved around the

Paperwork Burden Reduction Initiative (PBRI), which was approved in 2004, launched in 2005 and ended in 2009.

- The ACSBE was created to provide the government with private-sector advice on how to improve business access to federal programmes and information. Its most recent mandate ended in 2014. In 2013, the ACSBE produced the report “Towards a National Entrepreneurship Strategy”. It found that small businesses receive significant support in Canada but that “it is difficult to identify specific policies and programmes or budget allocations targeted at growing entrepreneurialism in Canada”. It concluded that Canada should develop a National Entrepreneurship Strategy and that this should support the development of entrepreneurs, start-ups and innovation, high growth firms, growth through expansion and retention of Canadian firms and talent.
- The Independent Panel on the Review of Federal Support to Research and Development (the so-called “Jenkins Panel”) was created in 2010 when the Prime Minister appointed Tom Jenkins to lead an independent, external review of federal support to R&D, and advise on how to improve support for business innovation. In October 2011 the Expert Panel submitted a report (*Innovation Canada: A Call to Action to the Government*) with findings and recommendations on how to improve support for innovative businesses. In the process, the Panel met with more than 160 stakeholders across Canada, received 228 written opinions, surveyed over 1 000 businesses, and consulted with numerous experts in Canada, Europe, Australia, Asia and the United States. The Jenkins report has had a major influence on innovation policy development, such as a change in the eligible R&D costs of SR&ED, an increase in the support of the National Research Council’s Industrial Research Assistance Program (IRAP), the establishment of a new concierge service within IRAP, and the creation of the BCIP to encourage innovative public procurement.

Government consultative bodies with the private sector

Another common approach to inform federal policy making is the creation within government departments of consultative bodies with the private sector. Some examples include:

- The Minister of Trade’s SME Advisory board: this board is composed of 18 members who are private-sector business owners involved in global commerce and who represent various industrial sectors and regions of Canada. The Board provides advice to the Minister on trade priorities and policies and inform the Minister of challenges to SMEs in the area of international trade.
- The Supplier Advisory Committee (SAC): this committee is located in the OSME of PSPC. It consults with a wide range of organisations, including the Canadian Federation of Independent Business (CFIB) and the Canadian Chamber of Commerce, and facilitates feedback from approximately 400 000 firms. SAC’s objectives are to: i) obtain information and experience pertaining to procurement issues within the responsibility of PSPC; ii) complement and supplement the government’s expertise through external perspectives and knowledge; iii) capitalise on best procurement practices by giving voice to industry-wide issues; iv) identify emerging procurement issues and recommend improvements to procurement tools and processes; and v) improve government-supplier relations. SAC is co-chaired by the Assistant Deputy Minister of Acquisitions Branch in PSPC and a private sector co-chair.

- The Private Sector Advisory Board (PSAB) is a body of respected industry leaders which was established by the Networks of Centres of Excellence (NCE) at the request of the federal government in 2007. PSAB provides expert advice to the NCE Steering Committee (see Chapters 5 and 6 for more details on the NCE).

The government also has a regular dialogue with intermediaries that deliver programmes on behalf of the government, business associations such as the CFIB and the Canadian Council of Chief Executive, and entrepreneur communities such as Startup Canada (see Box 4.2).

Box 4.2. The Startup Canada task force

Startup Canada is a community of entrepreneurs that plays an advocacy role in federal entrepreneurship policy. It has been active in soliciting government engagement in creating the conditions for entrepreneur success, in part through the Startup Canada Task Force. This is Startup Canada's flagship government relations activity and has been created as a platform to advance entrepreneurship policy in Canada. The Task Force identifies priorities on a bi-annual basis, responding to what it perceives as the most pressing issues and imminent opportunities for Canada to advance its standing in entrepreneurship support. In doing so, it appoints committees to undertake research and initiatives necessary to advance the priorities. Startup Canada appoints the Members of the Task Force on a 2-year term with the possibility of renewal, with the requirement that an entrepreneur must chair the Task Force. The members of the Task Force are selected for their role in leading associations pertinent to the success of Canada's entrepreneurs.

Source: www.startupcan.ca/ourwork/startup-canada-task-force/.

Formal programme consultations

Formal programme consultations, such as the 5-year comprehensive reviews of main federal programmes or the 10-year legislative reviews of crown corporations, are also key vehicles of policy analysis and policy formulation. For example, EDC was subject to its latest Legislative Review in 2008 to ensure that the Export Development Act and the EDC's mandate continued to meet the needs of Canada's exporters and investors. The review found that the EDC's operations were still consistent with its mandate and the government priorities of the time, including expanding its services into key emerging markets. In 2010, the BDC underwent the 10-year legislative review of its policies and operations (see Box 4.3).

Reports by national industry and professional bodies

Other reports are produced by national industry and professional bodies. These reports often reflect the interests of the organisations which produce them, but also contain hints to major challenges facing SME owners that can affect policy making. Some examples are reported below:

- The Canadian Chamber of Commerce's report *A Path Forward for Entrepreneurship in Canada* (2014) was informed by consultation with about 70 entrepreneurs. Several themes emerged that the Chamber believed warrant action: i) streamlining federal programmes, ii) communicating the nature, criteria and benefits of the programmes effectively; iii) streamlining the number and focus of programmes offered, making it easier for entrepreneurs to access, report on and manage them; iv) introducing a number of

Box 4.3. The 2010 legislative review of BDC

As part of the BDC legislative review of 2010, the Standing Senate Committee on Banking, Trade and Commerce (SBTC) agreed to study the BDC Act and hear from the BDC and other key stakeholders. In December 2010, the SBTC issued a report containing a range of recommendations.

The highlights were that: the BDC had served approximately 57 000 clients over the review period 2001-2010; it had extended its reach to SMEs in specific regions and underserved markets; it had been the cornerstone of the government's assistance to SMEs during the recent financial crisis, including delivering CAD 2.75 billion in financing and purchasing CAD 3.65 billion of asset-backed securities; it had met its financial sustainability requirement and paid CAD 164.5 million in dividends to the Government of Canada; and it had increased its assets under management from CAD 6.2 billion to nearly CAD 17.7 billion.

The report concluded that the BDC's key objectives should be reaffirmed. However, four areas for improvement emerged during the review: extending even greater support to underserved markets; increasing accessibility and enhancing client service for SMEs; focusing on complementarity (vis-à-vis commercial banks); and enhancing performance measurement. In addition, it argued that changes to the BDC Act should be considered to position the BDC to respond to the changing needs of SMEs. Such changes could include diversifying the BDC's financial tools and adjusting its role in helping SMEs grow beyond the domestic market. It recommended that consideration should also be given to modernising the scope of the consulting services BDC can offer and modifying a number of governance practices. The legislative review was completed in December 2014 with a few amendments made to the Act.

Source: [www.ic.gc.ca/eic/site/061.nsf/vwapj/BDC_2013_eng.pdf/\\$file/BDC_2013_eng.pdf](http://www.ic.gc.ca/eic/site/061.nsf/vwapj/BDC_2013_eng.pdf/$file/BDC_2013_eng.pdf); www.bdc.ca/EN/about/corporate_governance/Pages/legal_page.aspx; www.ic.gc.ca/eic/site/061.nsf/eng/02863.html.

programmes for early start-ups and innovation, for example to address the issue of a lack of management expertise and v) developing programmes to support commercialisation. The report also contended that the government should direct financial incentives specifically at smaller entrepreneurial firms that are proving successful in fast-growing sectors and that, as a result, are more likely than others to create jobs and keep them in Canada.

- The Certified General Accountants (CGA) Association of Canada produced a report in 2010 which argued that the key challenges facing Canadian entrepreneurs included access to skilled labour, education and training as well as lack of innovation in businesses. Heralding the ACSBE report, the CGA report also recommended that the federal government should establish an expert panel in charge with developing a national entrepreneurship strategy. The report also stressed the burdensome cumulative effect of compliance measures and the duplicative and uncoordinated nature of federal, provincial and sometimes municipal regulations.
- Action Canada, which is in the private sector but receives support from Canada Heritage, published a report called a *National Strategy for High Growth Entrepreneurship* in 2011. This report is based on the results of a task force that connected with leading entrepreneurs, venture capitalists, angel investors, academics and policymakers to investigate why Canada is not among the world leaders in the rate of fast-growing entrepreneurial firms.

Consistent with other reports, Action Canada found that while the rate of creation of new firms in Canada is not disappointing, a small proportion reaches the scale of a gazelle. Notably, Canada's high-technology companies underperform despite strong public investment in R&D. The report concluded that Canada is lacking in two key inputs to a successful gazelle ecosystem: technology-savvy investors or "smart money" and business-savvy technologists or "smart management".

Statistical evidence for policy formulation

A further fundamental support for small business policy design and policy implementation is access to monitoring and evaluation data on programmes and statistical information on SME and entrepreneurship development and factors affecting it (such as structural and demographic business statistics, labour market information, and training and education outcome data).

Canada has a very strong system of programme monitoring and evaluation. However, there are some weaknesses with respect to the broader statistics available for policy development. Many Canadian specialised surveys have been discontinued in recent years and even when useful data are collected by the national statistical office, they can be difficult for government officers and external researchers to access because of high charges and restrictive rules on privacy.

For example, the Canadian official statistical database in the field of workforce skills and training appears relatively weak. Many specialised data series routinely collected in other OECD countries are not available or are out of date in Canada, such as data on SME participation in apprenticeship and continuous training by enterprise size, economic sector, region and type of training, or data on demand and supply of apprenticeship places by occupation and region. Some specialised surveys, such as the Workplace and Employee Survey and the Youth in Transition Survey, have also been discontinued in recent years. As recommended by the 2009 report by the Advisory Panel on Labour Market Information (i.e. the so-called "Drummond report"), priority should be given in particular to reinstating the "Workplace and Employee" and the "Youth in Transition" surveys. Information from these surveys and other sources could be collected in an annual report that portrays the state of health of workforce skills development in Canada.

More generally, an improved statistical database and easier access to this database for researchers and policy-makers in SME and entrepreneurship conditions could lay the foundation for better-informed SME and entrepreneurship policy design.

Policy delivery

Channels for delivering programmes to beneficiaries

A common challenge facing the implementation of SME and entrepreneurship policies is making the intended beneficiaries aware of the policy offer and ensuring that access to programmes is simple and inexpensive. This is especially important in the case of small business policies because access to programmes features fixed costs that are proportionally larger for smaller enterprises. SME policy delivery in Canada is further complicated by the large number of government organisations involved and the geographical extension of the country, which also includes extremely remote areas.

SME policy delivery in Canada follows a three-pronged approach. First, federal government departments have in some cases a key role not only in policy formulation but also

in policy implementation. For example, ISED directly manages the Canada Small Business Finance Program (CSBFP) and PSPC/OSME directly manages the BCIP. Direct administration is facilitated by that fact that both CSBFP and BCIP are relatively small programmes.

Second, a more common case is when federal programmes are delivered by crown corporations or the RDAs and FedNor. Among the crown corporations, for example, BDC implements the Venture Capital Action Plan (VCAP) through its subsidiary BDC Capital, offers management advice through the BDC Advantage Programme, and backs accelerators and incubators through the Venture Capital Strategic Initiatives Plan (VCSIP). By the same token, EDC delivers financing, insurance and bonding services to Canadian exporters. RDAs and FedNor are also major developers and implementers of federal programmes. For example, the RDAs and FedNor develop and implement their regular programmes in order to implement national priorities with a place-based approach through the regions. Also, the RDAs and FedNor were responsible for the implementation of the Community Adjustment Fund, which was part of the stimulus programme of the federal government following the 2008-09 global recession, and manage the Community Futures Program, a federal initiative supporting local economic development in rural regions of Canada.

Third, it is not uncommon for federal departments, crown corporations or RDAs and FedNor to use external organisations (i.e. intermediaries) for the delivery of specific interventions and services linked to the public programmes they manage. This is especially common for programmes that seek to reach remote areas or for programmes that require specialised knowledge unavailable within the government. The first case is exemplified by the Community Futures Program. This programme is funded by the federal government and administered by the RDAs and FedNor, who provide funding to a network of 269 community-based, not-for-profit organisations across Canada that support SMEs and social enterprises and undertake appropriate community development initiatives. The second case is epitomised by the Operational Efficiency Programme of BDC. This helps small businesses to streamline production processes, reduce costs and improve business productivity. Given the technical expertise involved in this intervention, some of its activities are implemented by external consultants and consultancy organisations selected, trained and accredited by the BDC.

Cross-government interventions supporting policy delivery

Delivery of policy to beneficiary small businesses and entrepreneurs is also supported by a number of cross-government initiatives run by the federal government in partnership with provincial and territorial governments, other local authorities and, in some cases, not-for-profit organisations. The most notable of these are BizPaL, the Canadian Business Network (CBN), and the Common Business Identifier.

BizPaL

BizPaL is a collaborative partnership between the federal, provincial/territorial, and municipal governments launched in 2005 that provides online information on the permits and licences required to start or expand a business. Over 34 federal departments and agencies, the 13 provincial and territorial governments and more than 750 municipalities participate in BizPaL. This project receives an annual budget of CAD 3 million, which enables an ongoing improvement of the service. Access to BizPaL is also possible through the CBN website.

Through BizPaL, entrepreneurs and small business owners can identify which permits and licences they need and how to obtain them by selecting the business activities and

geographical location of choice. BizPaL automatically generates a list of all required permits and licences from all levels of government (federal, provincial/territorial and municipal); along with basic information on each with links to the specific government sites where the entrepreneur can learn more and, in some cases, apply online.

In developing the BizPaL service, ISED has been responsible for securing the participation of provincial/territorial governments, and provinces/territories have been responsible for securing the participation of municipal governments. ISED manages the project centrally, but each jurisdiction is responsible for maintaining its own data within the system.

The Canada Business Network

The Canada Business Network (CBN) is a network of one-stop business centres (Western Provinces and Quebec), call-centres (Atlantic Provinces and Ontario) and a web portal. The stated objective of CBN is to reduce the complexity that entrepreneurs experience in dealing with multiple levels of government and consolidating business-relevant information in one service. In particular, the CBN provides information on what an entrepreneur needs to know about starting, planning, financing, managing and growing a business; information on business registration, regulations, taxation, public procurement and bankruptcy; and information on government financing and non-financing programmes. The CBN therefore shares with BizPaL the objective of making access to information and advice easier for entrepreneurs.

As with BizPaL, the CBN is the result of collaboration among federal departments and agencies, provincial and territorial governments and not-for-profit organisations. At the federal level, the CBN is managed by ISED, which hosts the national office, while the RDAs (ACOA, CED-Q, WD, FedDev and CanNor) and FedNor are responsible for the management and implementation of the CBN in the jurisdictions under their mandate.

There is low awareness of CBN among small business owners, partly because of the various different names used to identify the CBN network across the country and limited resources spent on marketing. Despite these limits the original rationale behind CBN is still valid, as small businesses often require assistance to navigate the offering of government programmes and benefit from easily accessible market research and strategic business information (ISED, 2014). A recent ISED evaluation report recommended a number of actions for further development of the CBN, such as using standardised performance measures, ensuring that a proper procedure is in place so that changes in government activities are reflected in the different components of the CBN network (i.e. one-stop centres, call-centres and the website), and developing better promotional tools (ISED, 2014).

The common business identifier

There is an ongoing effort to use the Canada Revenue Agency's (CRA) Business Number as a fully-fledged common business identifier that identifies each business through a single number used for business-government transactions across federal departments and provincial governments. Initially introduced as a tax identifier by the CRA, this identification number has already been adopted by three federal programmes (two by ISED and one by PSPC), six provinces and one municipality with the aim to simplify relationships with business clients (World Bank, 2016).

If adopted across more federal departments and provincial/territorial governments, the CRA's business number could assist in keeping track of which programmes companies

have applied for and from which they have received support. This could assist in identifying further support that businesses would benefit from. It could also facilitate programme evaluation by making it possible to compare the performance of government-assisted companies with a control group that has not received similar support.

Small business policy expenditure portfolio and mix

Table 4.2 provides estimates of federal government spending on targeted programmes that are relevant to or primarily used by small business and projected fiscal costs of tax incentives targeted at or relevant for small business. Spending estimates on targeted programmes are based on information collected during meetings with government officers or have been directly provided by government departments and bodies. When programmes have multi-year budgets, an assumption has been made that the budget has been spent equally in

Table 4.2. **Canada's federal small business policy expenditure portfolio, 2014**
Estimates of annual costs of federal government programmes and projected fiscal costs (tax incentives), CAD millions

PROGRAMMES (spending estimates)		FISCAL INCENTIVES (projected costs)	
General scope		General scope	
Community Futures Programme	76.0	Small Business Tax Rate	3 200
CED's Quebec Economic Development Program (QEDP)	150.0	Lifetime Capital Gains Exemptions (LCGE) on small firm shares	715
ACOA Business Development Program	133.0	Deduction of Allowable Business Investment losses (ABILs)	40
WD's Western Diversification Programme (WDP)	65.5	Small Business Capital Gains Rollovers (SBCGR)	5
CanNor NAEOP Entrepreneurship and Business Development Stream	10.8	Subtotal (general scope)	3 960
FedNor's Northern Ontario Development Programme	31.8		
Subtotal (general scope)	467.1		
Simplification and policy delivery			
BizPal	3.0		
Canada Business Network (CBN)	12.0		
Common Business Identifier	1.3		
Subtotal (simplification and policy delivery)	16.3		
Innovation		Innovation/Investments	
NRC-Industrial Research Assistance Programme (IRAP)	225.0	SR&ED enhanced-ITC rate for small businesses	1 500
NRC-IRAP Business Innovation Access Programme	6.6	Labour-Sponsored VC corporations (LSVCCs)	140
Build in Canada Innovation Programme (BCIP)	31.5	Subtotal (innovation/investment)	1 640
Canada Accelerator and Incubator Programme (CAIP)	20.0		
Sustainable Development Technology Canada	40.5		
Business-led Network of Centres of Excellence	12.0		
Venture Capital Strategic Investment Plans (VCSIP)	20.0		
ACOA Atlantic Innovation Fund	42.0		
Western Diversification's Western Innovation Initiative (WINN)	20.0		
CanNor Strategic Investments in Northern Economic Development	20.0		
Subtotal (innovation)	437.6		
Skills development		Employment	
Canada Job Grant (not SME specific)	500.0	Apprenticeship Job Creation Tax Credit	105
MITACS	30.0	Small Business Job Credit (2015)	275
Futurpreneur Canada (ie. Govt. contribution)	9.0	Subtotal (employment)	380
ESDC SME internships (under Youth Employment Strategy)	15.0		
WD's Western Canada Business Service Network (WCBSN)	35.0		
Subtotal (skills development)	589.0		
Total spending on programmes (CAD million)	1 510	Total projected costs of tax incentives (CAD million)	5 980
Total spending on programmes (% of total)	20.2	Total projected costs of tax incentives (% of total)	79.8

Source: OECD based on: Department of Finance Canada (2016), Report on Federal Tax Expenditures 2016, Ottawa. Canada's Annual Budgets; OECD (2016), *OECD Economic Surveys: Canada 2016*, OECD Publishing, Paris; and information provided by government agencies and programmes (e.g. RDAs, FedNor and BDC).

StatLink  <http://dx.doi.org/10.1787/888933554449>

each year covered by the budget. Projected fiscal costs of tax incentives are primarily drawn from Finance Canada's 2016 edition of the Report on Federal Tax Expenditures.

The Table suggests that fiscal incentives (i.e. foregone tax revenues) accounted for about 80% of government direct expenditure for SMEs and entrepreneurship, whereas targeted programmes accounted for only 20%. The small business tax rate represents annual fiscal expenditures of approximately CAD 3.2 billion. By itself the small business tax rate constitutes more than half (53%) of fiscal resources spent on incentives benefitting more or less directly SMEs. The second largest federal fiscal incentive available to SMEs is the Scientific Research and Experimental Development (SR&ED) tax credit, which represents approximately CAD 1.5 billion of annual expenditure, approximately one-quarter of total fiscal incentives being channelled in high proportions to SMEs. Within direct programmes, general scope and innovation programmes absorb roughly similar amounts of federal annual government spending (CAD 467 million and CAD 437 million). Skills development absorbs nearly CAD 600 million. However, in this last category, the lion's share is taken by the Canada Job Grant (CAD 500 million) that mostly helps companies, both large and SMEs, to train unemployed people, while there is little emphasis on other skills development activities such as on-the-job training and entrepreneur mentoring programmes.

Consideration should be given to whether the share of small business support expenditure that comes in the form of tax incentives is too large relative to direct targeted programmes. Whereas the tax incentive approach has relatively low administration costs and can reach large numbers of small businesses, there is also a case for increasing resources aimed directly at overcoming market failures in areas currently be underserved by programme intervention at the federal level. Comparative evaluation evidence across the portfolio on the relative efficiency and effectiveness of interventions in meeting key policy objectives should be a key tool to guide these decisions on the relative balance and mix of federal expenditures across the small business support portfolio.

Conclusions and policy recommendations

There are more than 20 federal government departments and organisations which, to different degrees and in different ways, support SMEs and entrepreneurs in Canada. There are several mechanisms of co-ordination and consultation in place to support the design of policy in this system. However, there is no formal overarching strategy document setting out main responsibilities for each of the government actors involved in SME and entrepreneurship policy.

The implementation of SME and entrepreneurship programmes is also multifaceted. Key implementing agencies are federal crown corporations, such as BDC and EDC, and the RDAs and FedNor, which are tasked with adapting federal priorities to the local economic context. The use of intermediary organisations is also common, especially for programmes that need to reach peripheral areas or that require specialised knowledge and expertise unavailable within the government. Policy delivery is also supported by government-wide initiatives such as BizPaL, the CBN, and the Common Business Identifier.

Finally, a simple policy portfolio analysis of small business-related programmes and tax incentives shows the prominent role that tax breaks play in the SME and entrepreneurship policy landscape of Canada. Within targeted programme measures, which comprise about 20% of government spending on SMEs and entrepreneurship, resources are shared roughly

equally between programmes supporting business development in general and programmes fostering business innovation activities.

Based on this analysis, the following recommendations are offered to strengthen the strategic policy framework and policy delivery system for SMEs and entrepreneurs in Canada.

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.

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Chapter 5

Federal programmes for SMEs and entrepreneurship in Canada

This chapter assesses federal small business and entrepreneurship programmes. It covers financing, innovation, exporting and internationalisation, entrepreneurship education, management consultancy, workforce training, access to public procurement and social and inclusive entrepreneurship. The chapter points to a strong overall package of support, but also to the existence of niche areas in which the scale of support is small compared to the scale of the target population and where potentially beneficial actions are not fully in place.

Financing programmes

Traditional bank financing

Various government programmes are in place to assist Canadian SMEs to obtain more and better access to credit. The lending programmes of the Business Development Bank of Canada (BDC) are the most prominent, but ISED is also actively involved through the Canada Small Business Financing Program (CSBFP) and the Regional Development Agencies (RDAs) and FedNor are actively involved through their regular programmes and specific nationwide interventions they deliver on behalf of the federal government in the field.

Business Development Bank of Canada Credit Market Activities

The BDC is a federal crown finance corporation that is wholly owned by the Government of Canada and that adopts professional risk assessment practices, pricing its services at or above market rate. The BDC is required to maintain a return on equity at least equal to the government's average long-term cost of capital, a task which it regularly fulfils.

The BDC was founded in 1944 and has more than 100 business centres across Canada. It counts more than 40 000 direct and indirect clients, and has a total loan portfolio of over CAD 21 billion. It earns a return from its financing activities while extending financing into areas that would otherwise be underserved. In particular, the BDC steps into the credit market to serve riskier customers, such as those with less collateral to offer or with less of a track record in entrepreneurship, pricing for the higher risk it takes.

The BDC is mandated to work in a complementary way to private-sector banks. This often means acting as a long-term lender and investor that takes higher risks and offers greater flexibility than commercial banks. For example, the BDC offers services that traditional commercial banks do not generally offer, such as fee-based consultancy services, and its loans are non-callable, i.e. they cannot be claimed before maturity. The full set of the credit market products offered by the BDC includes secured and unsecured term loans, securitisation, subordinate financing and business consulting services. The BDC does not offer grants or subsidies, nor does it take deposits.

The role of the BDC in the Canadian credit market proved particularly valuable during the financial crisis of 2009, when approval rates of private sector financial institutions for firms with less than 100 employees stood at 79%, a full 15 percentage points lower than in 2007. BDC compensated for this withdrawal of bank credit by extending a record amount of credit in fiscal year 2010, increasing loan volumes from CAD 2.8 billion to CAD 4.3 billion, thus helping to smooth the financial downturn (ISED, 2010a). On request of the federal government, BDC also worked with the private sector during the economic crisis to offer securitisation to increase liquidity in the market and augment investor confidence in asset-backed securities (ISED, 2010a). The G20/OECD High Level Principles on SME Financing (G20/OECD, 2015) point to expanded securitisation of small and medium-sized enterprise (SME) loans as a method of strengthening SME access to bank financing more generally, and BDC is active in this area.

Credit guarantees

Many governments in Organisation for Economic Co-operation and Development (OECD) countries run schemes where a government agency underwrites a percentage of loans made by private banks to marginal small business borrowers that banks would not otherwise finance. Canada is no exception and several bodies guarantee small business loans in the country. For example, the Department of Agriculture operates the Canadian Agriculture Loan Debt Program and the Advanced Payments Program; BDC offers indirect support to entrepreneurs through portfolio guarantees; the RDAs and FedNor run some loan guarantee schemes at the regional level, including within the framework of the Community Futures Program serving remote and rural Canada; and several provinces offer loan guarantees to SMEs within their own jurisdictions.

The most prominent loan guarantee scheme at the federal level is Innovation Science and Economic Development Canada (ISED)'s Canada Small Business Financing Program (CSBFP). CSBFP support is limited to small businesses or start-ups operating for profit in Canada with gross annual revenues of CAD 10 million or less. Compared with schemes operating in other countries (OECD, 2013), many of which underwrite loans which can be used for general purposes, the CSBFP is narrowly focused on asset financing, while financing working capital or inventory is not permitted.¹

In June 2015, the maximum loan amount guaranteed under the CSBFP increased from CAD 500 000 to CAD 1 million. The coverage ratio is 85%, i.e. the government reimburses 85% of the net eligible loss of the lender. Under the CSBFP, lenders need to pay a registration fee of 2% of the loan amount at the time of the guarantee registration, which can be charged to the borrower and be financed by the loan. Lenders are also required to pay a yearly administration fee of 1.25% on the outstanding loan amount, which may be included in the interest rate on the loan. For CSBFP loans, the maximum interest rate of the loans is capped at the lender's prime rate plus 3% for floating rate loans, or the lender's single-family residential mortgage rate plus 3% for fixed rate loans.

The CSBFP is a small programme; only about 6 000 SMEs use it per annum. Moreover, during the last five years, use of the programme has declined further. A possible issue is that CSBFP relies heavily on lenders for credit evaluation and collection, while restricting the interest rate of loans. Based on these conditions, lenders may be discouraged from using the programme (ISED, 2014). Lenders also tend to complain about the amount of paperwork involved in the credit guarantee extension, while pointing to limited SME awareness of the programme.

To deal with these issues, efforts have recently been made to reduce the administrative burden on users, for example by reducing the number of receipts required to support expenditures made under the programme. There have also been efforts to communicate the improvements to clients, and to promote the programme to borrowers via trade shows and through third-party intermediaries who work with small businesses.

To make the CSBFP more attractive in the future, it may be advisable for ISED to review some further aspects of its operation, such as the costs to lenders and the interest rates they can charge on CSBFP-backed loans. Moreover, the current ineligibility of loans for working capital also limits the scale of the programme. National data reveal that working capital is identified by over one-half of SME survey respondents as the intended use of debt financing (ISED, 2013). Thus, it would be advisable to broaden the eligibility criteria of CSBFP to allow for working capital financing, in line with other credit guarantee schemes elsewhere, including the US Small Business Administration's 7(a) Programme.

The Italian Central Guarantee Fund, which operates at a much larger scale than CSBFP, is also a relevant international policy example from which Canada may draw inspiration if it were to review its federal loan guarantee programme (see Box 5.1).

Box 5.1. The Central Guarantee Fund, Italy

Description of the approach

The Italian Central Guarantee Fund provides guarantees for short, medium and long-term loans of up to EUR 1.5 million. These guarantees are available both to SMEs and start-ups, but are mainly used for loans to established SMEs looking to expand or invest in new projects. The major operational parameters of Italy's credit guarantee fund are similar to other loan guarantee programmes in the OECD area. For example, the fund's direct guarantee is granted up to a maximum of 80% of the financial operations. The maximum amount that can be offered is equal to EUR 1.5 million per enterprise, which can reach EUR 2.5 million for shorter-term projects.

There are two particular distinguishing features of the Italian approach. First, the Italian Credit Guarantee Fund channels a relatively high proportion of its funding through counter-guarantees to local mutual guarantee associations (*Confidi*) as opposed to direct guarantees to banks for their SME loan portfolios. This counter guarantee proportion has increased since the crisis. In other words, the fund often acts as a lender of last resort to local guarantee associations. This has the advantages of exploiting additional screening of loan applicants by the *Confidi* and of strengthening the capital base of the *Confidi*. Second, the Italian scheme is relatively sophisticated in providing different guarantee rates tailored to the risk profiles of the borrowers and the types of loans.

During the global crisis, the need to mitigate the sharp rise in borrowers' credit risk led to a significant increase in the activity of the fund: between the beginning of 2009 and September 2015 new loans amounting to some EUR 65 billion were guaranteed, compared with EUR 11 billion in the period 2000-08. More than half of fund's guaranteed loans went to firms with fewer than 20 workers: the share of loans on total bank loans granted to such firms rose to about 8%, from less than 2% in 2008.

Factors for success

Important factors for success include:

- By providing different guarantee rates tailored to the risk profiles of the borrowers and the types of loans, the Italian Credit Guarantee Fund enables risk to be priced more precisely for each loan application.
- Data on Italian SMEs that obtained a guarantee between 2005 and 2010 indicates that the Credit Guarantee Fund's intervention had a positive impact on credit volumes but insignificant effects on the average level of interest rates charged by the banks.
- The Credit Guarantee Fund-backed loans are used mainly to finance working capital, which helps liquidity-constrained SMEs.

Obstacles and responses

One limitation of the Italian model is that the loans guaranteed by the Credit Guarantee Fund have a higher probability of being classified as bad debts than do unguaranteed loans to firms with similar characteristics. While the presence of a public guarantor fosters the flow of credit to the economy, it can also induce banks to be quicker to report as bad debts loans to borrowers for which a refund is readily available.

Box 5.1. The Central Guarantee Fund, Italy (cont.)

Second, by making funds available to *Confidi*, there is a potential moral hazard issue for some financially vulnerable *Confidi* which know that they can rely on a public bailout if they become insolvent. With a view to reducing insolvencies, it could be useful to strengthen the instruments available for the assessment of credit risk by the Credit Guarantee Fund itself.

Relevance for Canada

Two particular features of the approach of the Italian Credit Guarantee Fund offer potential inspiration for Canada in expanding the numbers of small businesses able to access government credit guarantees:

- The Italian Credit Guarantee Fund is attractive to banks, owing to modest paperwork burdens and flexibility in the guarantee rates and interest rates charged.
- By making loans available for working capital, the loans backed by the Italian Credit Guarantee Fund are attractive to entrepreneurs as well.

Changes to the Canadian scheme along these lines might help reverse the decline in usage of the CSBFP.

Sources for further information

www.fondidigaranzia.it/.

Regional Development Agency loans

The RDAs and FedNor are also actively engaged in enhancing access to finance by SMEs through the provision of repayable contributions (loans) and non-repayable contributions (grants) to SMEs and non-government organisations that actively support small business owners and entrepreneurs, including from social target groups such as women, Indigenous people and youth. Small business loans, for example, are routinely issued under the regular programmes of the RDAs and FedNor and the Community Futures Program, a federal intervention delivered by the RDAs and FedNor that promotes small business creation and small business growth in rural regions of Canada.

Equity finance**The Venture Capital Action Plan**

The most recent venture capital policy intervention at the federal level is the Venture Capital Action Plan (VCAP), which was announced in January 2013 and is implemented by the BDC on behalf of the government. The decision to give this mandate to the BDC reflected its already extensive footprint in the Canadian venture capital industry. In this respect, the BDC is a limited partner in funds representing 71% of the venture capital actively invested in Canada and invests directly in companies through three internal funds focused on information technology, healthcare, and industrial, clean and energy technologies. Moreover, the BDC collaborates with a large number of stakeholders in the venture capital ecosystem, primarily through the Venture Capital Strategic Investment Plan (VCSIP) and the Canada Accelerator and Incubator Program (CAIP) (see section on innovation programmes).

The VCAP is a comprehensive strategy for deploying CAD 400 million in new capital over the next 7-10 years to revitalise the Canadian venture capital sector. Of this sum, CAD 350 million

is dedicated to establishing or recapitalising up to four large scale private sector-led funds of funds and CAD 50 million for investment in a few high-performing venture capital funds in Canada.²

The four supported funds of funds – Northleaf Venture Catalyst Fund (CAD 300 million in total commitments), Teralys Capital Innovation Fund (CAD 375 million in total commitments), Kensington Venture Fund (CAD 306 million in total commitments) and HarbourVest Canada Growth Fund (CAD 375 million in total commitments) – invest primarily in Canada-focused early-stage and mid-stage venture capital funds, with an emphasis on investment opportunities in the ICT, life sciences, clean-tech and energy sectors. In these funds of funds, the government invests in partnership with institutional investors, corporate strategic investors and interested provinces. Where the federal government has partnered with provinces, such as in the Northleaf Venture Catalyst Fund (with the Ontario government) and the Teralys Capital Innovation Fund (with the Quebec government), federal and provincial governments have made a combined capital commitment of CAD 1 dollar for every CAD 2 dollar from private investors (up to a maximum of CAD 50 million and CAD 62.5 million in each of the two funds respectively). All four funds of funds achieved the targeted capital investment between July 2015 and April 2016.

The VCAP seems to have attracted private investors back to the venture capital asset class, including the big five Canadian banks (as well as the National Bank and the Desjardins Group), the Canada Pension Plan, Investment Board and some large insurers and corporations. VCAP is playing an important ‘pump priming’ role in view of Canada’s need to expand venture capital in order to build a critical mass of high-growth companies, and associated management talent and know-how, by generating finance to structure deals that would not otherwise have been available.

In the near future, the federal government should consider an evaluation of VCAP to assess the extent to which it has generated profitable fast-growing firms in the short-to-medium term. Based on venture capital research in Canada (Hellman and Schure, 2010), a 5-10 year period from the time of the investment appears a reasonable timeline to establish the impacts of the programme on recipient companies in terms of new job creation, sales and profit growth, paid wages, etc. If possible, this should be done by comparing supported companies to a control group of similar companies (by size, sector, etc.) which did not receive government-backed venture capital. If positive results are found, direct funding should be continued, as public support to the venture capital industry is common to most other OECD countries, but also progressively reduced to help make the industry more self-sustainable, as shown by the experience of the United States and Israel where the venture capital industry has become increasingly less reliant on public support.

Provincial funds of funds

In addition to the federal VCAP programme, some of the provinces operate their own fund of funds programmes. For example, the Ontario Capital Growth Corporation is a venture capital vehicle for the Ontario provincial government. Through this mechanism the province has invested CAD 90 million alongside private-sector investors in the Ontario Venture Capital Fund, which is worth CAD 205 million. The province of British Columbia launched its Renaissance Capital Fund in 2007 to address limited growth capital. However, to date this programme has not catalysed as much investment as was desired, and few of the funded ventures are located in British Columbia, contrary to the development objectives of the initiative.

Part of the reason for the limited success of provincial funds like Renaissance Capital is that investors who benefit from it direct their finance to ventures located in other, more promising locations. Evidence from a range of countries suggests that a geographically-based fund of funds is unlikely to be effective in achieving local economic development goals unless a range of supporting networks, expertise, institutions and entrepreneurial infrastructure are in place (Lerner, 2009). In fact, venture capital tends to be geographically concentrated in entrepreneurial clusters. Therefore, a national fund of funds might be more effective than provincial versions, letting investors decide where in Canada they invest and (re)locate the ventures that they back.

Business angel support

Federal RDAs, FedNor and provincial governments have given pump-priming money to establish the necessary infrastructure to run business angel groups. For example, the FedDev Ontario RDA operates an Investing in Business Innovation programme, while the Government of Ontario runs an Angel Network Programme. The former provides mentorship, entrepreneurial support and financing to new entrepreneurs based in southern Ontario, seeks to strengthen angel networks, and encourages the development of partnerships between early-stage businesses and investors. The latter has the purpose of creating new business angel groups in Ontario where none existed before, and generating initiatives and information to transfer best practices from successful business angels.

An enduring challenge in Canada is a lack of angel investment for gazelles and other high-growth firms, especially those lacking cash flow and with business models that leverage intangible assets, such as intellectual property. Some provinces have offered investment tax credits to stimulate angel investment in risky, early-stage ventures; for example, in British Columbia, business angel investments have been supported since 2003 by a provincial income tax credit of 30% (up to a ceiling of CAD 60 000). At the federal level, the Lifetime Capital Gains Exemption (LCGE) and the Small Business Capital Gains Rollover (SBCGR) provide tax breaks and tax deferrals on capital gains from small business equity investments (see Chapter 3). However, they have relatively restrictive rules (in the case of the SBCGR) or are primarily meant to help small business owners save for their retirement (in the case of the LCGE).

The Government of Canada may, therefore, want to consider launching its own programme to stimulate private investment in growth companies. This could provide investment incentives to individuals not only via income tax credits, but also via more favorable capital gains taxation to encourage investments in the most promising ventures. The United Kingdom's Enterprise Investment Scheme (EIS), described in Box 5.2, provides a relevant policy example.

Box 5.2. The Enterprise Investment Scheme, United Kingdom

Description of the approach

The Enterprise Investment Scheme (EIS) was introduced by the British government in 1995 to encourage outside investors to make investments in small unquoted SMEs. It is regarded as a well-functioning angel-investor tax incentive programme which has generated positive results for the supported companies. Cowling et al. (2008), for example, find that investments were associated with stronger growth in fixed assets and employment, large expansion in sales, and higher labour productivity among EIS recipients compared with non-recipients.

Box 5.2. The Enterprise Investment Scheme, United Kingdom (cont.)

The EIS provides various tax reliefs to potential investors, up to a maximum of GBP 500 000 per year. An investment can be carried back to the previous tax year, in addition to the current tax year at the time the investment was made.

There are two broad categories of EIS investment opportunities for potential angel investors:

- **Companies:** An EIS company must have a maximum capitalisation of no more than GBP 2 million at the time of inception.
- **Funds:** An EIS fund must have a maximum capitalisation of no more than GBP 7 million at the time of inception. An EIS fund invests in a number of EIS “Qualifying Companies” on behalf of the investor.

Investment into an EIS company must be in a “small company”, defined as having assets of no more than GBP 15 million, and no more than 250 full-time equivalent employees. In general, an individual who is or has been connected with the company or its trade will not qualify for relief, but business angels may receive a reasonable remuneration as a director. Investors receive income tax relief on 30% of the amount invested, which can be offset against their income tax liabilities in the current or previous tax year. Tax relief is conditional on investors holding their shares in an EIS company for at least three years, while the target company must continue a “qualifying trade” for at least three years from the date of investment. The funds must be used within 12 months of the commencement of the trade, and this must take place within two years of the share issue. The trades which qualify are restricted so as to exclude trades where the investors’ capital is at little or no risk.

In addition, investors are not subject to capital gains tax on their returns from investments in EIS companies, and can claim “loss relief” if the share value of their EIS companies drop. The EIS also entitles investors to inheritance tax relief, provided they have held their shares for a minimum of two years prior to death.

Factors for success

Important factors for success include:

- Government investment is indirect: investment choices are made by the private sector, avoiding the problem of government trying to “pick winners” through direct investment
- The tax relief provided is generous and the scheme has been widely publicised in the financial press. As a result, there are high levels of investor awareness and usage.
- The rules of the scheme have helped promote “additionality”, i.e. investments in EIS companies that would otherwise not have been made, as well as positive impacts on the performance of the recipient companies. In particular, it is important to ensure that investors take on greater risk in return for the tax relief.
- The scheme is reviewed every five years, and adjustments are made to maintain the interest and engagement of investors.

Obstacles and responses

One limitation of the EIS is that it does not specifically target start-up companies. To encourage investment in these ventures, a more dedicated programme is needed. In recognition of this fact, the British Government launched the Seed Enterprise Investment Scheme (SEIS) in April 2012. Like the EIS, the SEIS offers both income tax and capital gains tax reliefs to qualifying investors who subscribe for shares in qualifying companies. Under the SEIS, investors can obtain 50% relief for income tax on the cost of shares, on a maximum annual investment of GBP 100 000. No capital gains tax is paid on profits earned on shares held for more than three years.

Box 5.2. The Enterprise Investment Scheme, United Kingdom (cont.)

Another problem with the EIS is misconceptions in this community about who can use it and under what terms. Part of the misunderstanding comes from the complex rules and restrictions that have been created in an effort to reduce abuse of the scheme. Some investors are deterred by the complexity of the rules of the scheme, while others dislike the 30% maximum equity stake that they are allowed to take in EIS companies under the eligibility rules, or object to EIS rules which mean that typically, only ordinary shares qualify. In response some limited forms of preference shares are now allowed. Also, the EIS has increased limits on the amounts that can be invested in EIS companies.

Relevance for Canada

Investment in companies that are not listed on a stock exchange often carries a high risk. The tax relief, on the income tax for the investment and on capital gains taxation, offered by a scheme like the EIS provides some compensation for that risk. In view of the limited size of the Canadian business angel sector, and the gap in early-stage finance, income and capital gains tax reliefs could prove to be an effective way to stimulate angel finance, even if a Canadian version were not as generous as the EIS. On the whole, EIS-type tax relief on capital gains and losses is likely to have a further stimulating effect on investments in risky enterprises.

Sources for further information

www.enterpriseinvestmentschemes.co.uk/.

Labour-sponsored venture capital corporations

As a means of strengthening institutional investments in SMEs, the Canadian federal government and some provincial governments encourage investments in Labour-Sponsored Venture Capital Corporations (LSVCCs) by offering tax credits to their retail investors. LSVCCs are a type of mutual fund corporations, sponsored by labour unions and managed by investment professionals that make venture capital investments in Canadian SMEs. They make private equity and venture capital investments in local SMEs on behalf of shareholders, commonly labour union members saving for retirement. LSVCCs operate primarily in the province of Quebec, where the network of the Fond de Solidarité of the Fédération de Travailleurs et Travailleuses du Québec and the Fondation CSN account for some 90% of total LSVCC assets under management. The Fond de Solidarité had approximately CAD 12 billion assets under management and was invested in some 2 600 enterprises in 2016, while the Fondation CSN had some CAD 1.5 billion under management and investments in some 1 050 local SMEs. The federal government offers a 15% income tax credit to LSVCC investors. The LSVCCs are a useful investment vehicle that helps to fill a market gap in the Canadian private equity landscape.

Financing instruments for business restructuring and acquisitions

The G20/OECD High-Level Principles on SME Financing (G20/OECD, 2015) highlight the importance of enabling access to a broad range of SME financing instruments in order to obtain the form and volume of financing best suited to the specific needs and stage of the firm life-cycle of SMEs. Two relevant interventions of the BDC with respect to providing the right form of finance to enable life-cycle transitions are the Special Accounts and Business Restructuring Unit and the Growth and Transition Capital Offering.

The Special Accounts and Business Restructuring Unit has a team of specialists dedicated to helping clients save and turn around their business when it gets into trouble. It can help clients address problems caused by mismanagement, poor productivity and loss of a major customer.

The Growth and Transition Capital Offering offers cash flow, mezzanine financing, quasi-equity and equity to firms on growth or transition paths. This type of financing is particularly beneficial for firms with few tangible assets, those who require long term patient capital such as high-growth firms, and those who face intergenerational business succession. The size of the Growth and Transition Capital offering now exceeds CAD 650 million, with about 40% of transactions in this portfolio relating to succession financing. This makes this intervention very relevant, since 60% of Canadian SME business owners are over 50 years old and a large proportion of them are projected to retire and sell or close their businesses in the next ten years (ISED, 2013).

Financial literacy

The G20/OECD High-Level Principles on SME Financing also highlight the importance of enhancing the financial skills and strategic vision of SME managers and entrepreneurs. The BDC is active in supporting financial literacy development in SMEs through its consultancy programmes. For example, the BDC Advantage programme is a key programme offering rounded support for high-impact firms. However, the range and penetration of training and advice initiatives to support the financial literacy of SME managers and entrepreneurs could be expanded in Canada.

Innovation programmes

This section analyses Canada's current set of innovation support programmes targeted at small businesses or largely used by SMEs and entrepreneurs. However, it should be recognised that a boost to federal innovation support is in preparation. The Trudeau government, which took office following federal elections in October 2015, has started to prepare an Innovation Agenda, which was launched through a public engagement in June 2016. The Innovation Agenda is expected to provide further support to incubators, accelerators and the Industrial Research Assistance Program (IRAP), for example, with a focus on sectors where Canada has the ability to attract investment or grow export-oriented companies. As part of the Innovation Agenda, the RDAs and FedNor will also be enabled to enhance their strategic investments that build on the competitive advantages of regions, including helping some regions to diversify their economies and facilitate the transition from declining industries.³

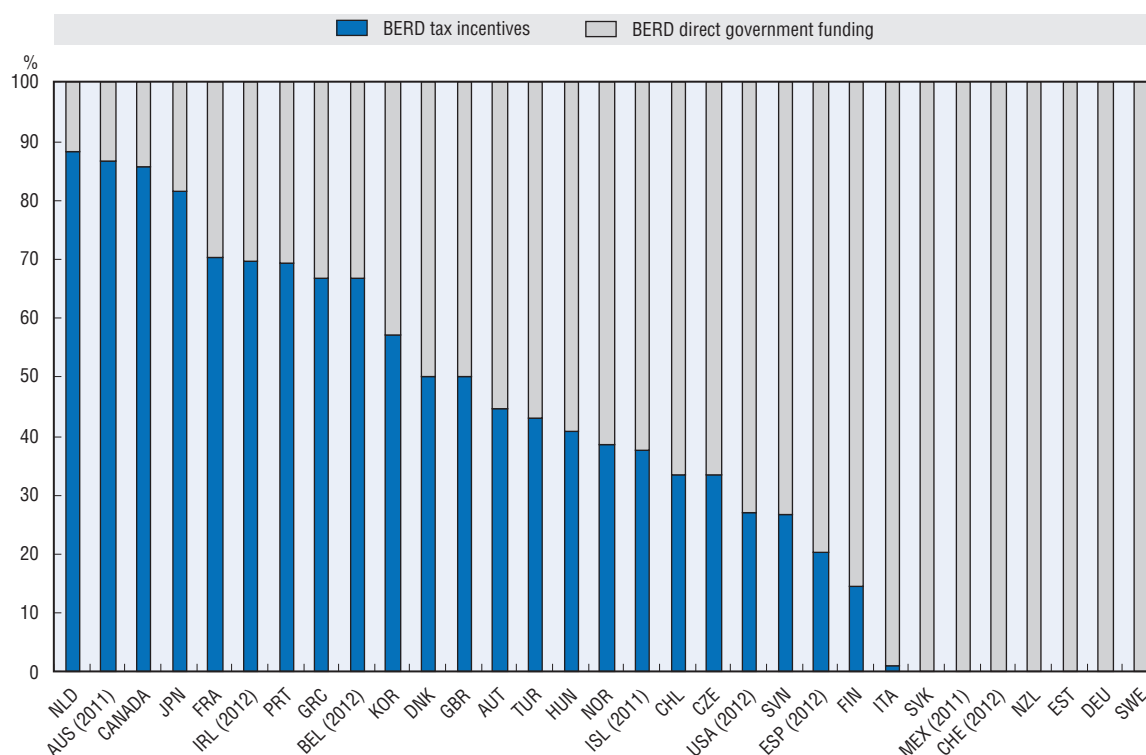
The SR&ED investment tax credit

The Scientific Research and Experimental Development (SR&ED) investment tax credit plays a major role in Canadian innovation policies. It has been in place since the mid-1980s and supports businesses in developing a new or improving an existing technology, product or process. The general SR&ED investment tax credit rate is 15% of eligible R&D expenditures. Unused credits may be carried back for up to three years and carried forward for up to twenty years. This is a significant benefit for young, small businesses that may not yet have generated sufficient profits taxes to make use of the credit in a given year. In 2014, the SR&ED had a budget of CAD 3 billion and served over 25 000 claimants.

Significant use is made of the SR&ED investment tax credit by small businesses, which can receive the tax credits at an enhanced rate of 35% on up to CAD 3 million per year of qualified R&D expenditures.⁴ The enhanced-rate SR&ED tax credits and 40% of regular-rate credits are payable as cash refunds if taxable corporate income is not high enough to allow the enterprise to fully benefit from the credits. The total value of the credits for small businesses (CAD 1.5 billion) represented roughly one-half (49.75%) of the total cost of the programme in 2015 (Department of Finance, 2016).

Figure 5.1 shows that in 2013 the share of government support for business expenditure on R&D (BERD) represented by tax credits rather than direct expenditure was relatively high in Canada. At that time, the SR&ED program accounted for around 86% of federal public support for BERD.⁵ In comparative terms, Canada also had one of the highest tax subsidy rates on small business R&D expenditures of OECD countries in 2013 (OECD, 2015d). Since 2014, following the recommendations of the report of the so-called “Jenkins Panel”, there has been a degree of shift in support from tax to direct support measures. This included a reduction in the value of the tax credit to the current 15% from a previous rate of 20%, and withdrawal of the eligibility of capital and leasing costs for SR&ED tax credits. In addition, support for more direct forms of innovation has been increasing.

Figure 5.1. Tax incentives and direct funding as a share of government support for BERD, 2013
Proportion of total government funding of BERD



Note: Direct government funding includes grants, loans and payments for R&D contracts for procurement. Tax incentives for business enterprise R&D (BERD) include allowances and credits, as well as other forms of advantageous tax treatment of business R&D expenditure. For Canada, estimates do not reflect the cost of provincial governments' R&D tax incentives provided by many Canadian provinces in order to ensure the comparability of R&D tax incentive estimates across countries.

Source: OECD based on OECD (2015d), OECD Science, Technology and Industry Scoreboard 2015, OECD Publishing, Paris

StatLink <http://dx.doi.org/10.1787/888933554259>

The main reason for withdrawal of capital and leasing costs from SR&ED eligible costs were the high compliance costs for businesses and monitoring costs for tax administration to establish whether capital costs were effectively related to business R&D. For example, it has been estimated that small firms used to spend as much as 14% of their SR&ED tax credit in order to comply with the administrative requirements (IPFSRD, 2011).⁶ This is a positive change that simplifies the rules and reduces the compliance costs of a large and complex programme, although there have been some concerns that it may favour labour-intensive over capital-intensive industries and distort the technology choices of businesses (OECD, 2012).

Overall, the SR&ED investment tax credits offer welcome support to small business innovation, which is an important target of policy. However, examination is needed of whether the share of R&D tax credits is still too large, following the recent changes, relative to more direct support for small business innovation support. R&D tax incentives can be associated with some potential problems, such as support of non-additional activities, favouring innovation inputs (i.e. R&D investments) over outputs (i.e. patents or research commercialisation), and overlooking non-R&D based innovation. Moreover, because SR&ED supports a wide range of formal R&D, it may be less effective in targeting public resources to forms of R&D that could have the highest social returns. R&D fiscal incentives may also have the unintended consequence of protecting incumbents and slowing down resource reallocation towards more innovative start-ups (Bravo Biosca et al., 2013).

A potential change that might be made to reduce the share of tax credits in innovation support and increase the impact on innovation performance is making the SR&ED programme more rewarding of business growth by reducing the carry-forward provisions if the business does not become profitable and does not have taxable income, as suggested by the Jenkins Panel (IPFSRD, 2011). Another potential change that would yield fiscal savings would be to lower the enhanced ITC rate for small businesses in SR&ED. For example, 12 of the 20 OECD countries which give R&D tax credits do not apply different ITC rates for SMEs and large companies (OECD, 2015d). In parallel, more resources could be devoted to expanding targeted small business-relevant innovation programmes such as the Industrial Research Assistance Program (IRAP) and the Build in Canada Innovation Program (BCIP) and launching new interventions targeted at non-technological innovation, which is not served by SR&ED.

The Industrial Research Assistance Program

The National Research Council's (NRC) Industrial Research Assistance Program (IRAP) is targeted at innovative and growth-oriented SMEs. It has a presence in 120 locations across 10 provinces and provides technology support and funding for innovative projects in companies.

IRAP provides funding to projects that demonstrate technological uncertainty and have the potential to increase the company's revenues by commercialising the results of the project. It uses a systematic due diligence process that assesses and reviews both the firm's business capacity and the individual technical project.

In addition, technical and business advisory services and connections into regional, national and international innovation networks are provided to companies through a network of IRAP field staff called Industrial Technology Advisors (ITAs). There are 250 ITAs delivering IRAP services. The ITAs develop one-on-one long-term relationships with the companies in their portfolios (see Box 5.3).

Box 5.3. IRAP's Industrial Technology Advisors, Canada

IRAP engages with over 16 000 SMEs every year, providing direct technical/business advice and funding support through a network of 250 field staff known as Industrial Technology Advisors (ITAs). The ITAs are close to their client base and are often located in technology parks, innovation support organisations, incubators, universities, and colleges across the country. These individuals typically join IRAP after they have achieved extensive private sector experience as senior managers or/and entrepreneurs in SMEs. The sector experience of ITAs is typically matched with the needs of the regional clients.

Although ITAs are located throughout Canada, all clients have access to the collective expertise of the ITA community. The location and number of ITAs is constantly re-evaluated to ensure the appropriate skill sets are available to meet the demands of the market. Typically, ITAs have a local office but they also travel extensively (for some, 80% of their time) to meet with the clients at their site and bring them the necessary support and resources.

To obtain funding from IRAP, firms are invited by their ITA to submit project proposals that outline the business opportunity as well as the proposed innovation project to develop the intended service, product or process. The depth of the assessment process is commensurate with the maturity of the firm, the complexity of the project, the amount of the IRAP contribution requested and the “co-investment” by the company and its other partners.

The ITA-client relationship is widely regarded as the fundamental element that sets IRAP apart from other federal and provincial government programmes. In view of the growing recognition that growth constraints lie more in the realm of managerial skills and capabilities, the extensive discussions held between the ITA and the client enable the ITA to assess both the managerial and technical needs of the client. Thus, ITA-client relationships are labour intensive by design. However, it is through this relationship that the opportunity for significant impact is created and realised.

Source: For more on the IRAP programme, see the National Research Council Canada website: www.nrc-cnrc.gc.ca/eng/irap/index.html.

A recent development is a new Concierge Service developed by IRAP in collaboration with over 40 federal and provincial partners. This offers a single access point for SMEs with the aim of helping SME clients to navigate the large and complex set of innovation resources and support programmes across all levels of government. The concierge service is operated by Concierge Advisors, who are located across Canada and provide one-on-one assistance through online, phone and in-person services. They can also link SMEs into networks including universities and colleges, provincial and municipal programmes, RDAs, FedNor, other government departments, and industry associations. Access to these networks provides an opportunity for SMEs to connect with individuals and organisations knowledgeable about local sources of financing, research and development institutions, technology brokers and technology transfer centres. In 2015, more than 3 500 companies benefitted from Concierge's expertise. However, harder data on the impact of the Concierge Service is currently lacking. It is not known for example how many SMEs are aware of it, how they value it, or the value-adding impact it makes to the SMEs which use it.

In 2014-15, IRAP supported over 16 000 SMEs, with more than 2 500 receiving some form of financial assistance, over 10 000 benefiting from expert advisory services (at no charge), and 3 578 from the Concierge Service.

Another component of IRAP is the Youth Employment Program which provides eligible SMEs with financial assistance to hire highly skilled post-secondary science, engineering, technology, business and liberal arts graduates. Graduates work on innovative projects within SMEs and may participate in research, development and commercialisation of innovative products or services.

The EUREKA programme

The NRC also manages Canadian participation in EUREKA, an international network that supports market-oriented R&D projects undertaken by industry (both large firms and SMEs), research centres and universities across all civil technological sectors. EUREKA membership includes over 40 economies. Canada joined EUREKA in 2012 as an Associate Member and, in July 2015, renewed its membership until 2018. Within the framework of EUREKA, the NRC works with national and international stakeholders to provide Canadian innovators with access to this innovation network, strategic technologies and new markets.

The digital agenda

One of the major constraints on productivity among small businesses is under-investment in, and under-adoption of, new digital technologies. Canadian SMEs have low e-commerce adoption rates compared with their larger counterparts. Canada also ranks near the bottom of OECD countries in terms of SMEs' use of Enterprise Resource Planning (ERP) software – a business management platform that integrates different parts of the business and is typically required to participate in global supply chains (OECD, 2015b).

Two initiatives which seek to foster business internalisation in Canada are the Digital Technology Adoption Resources (DTAR) and Digital Canada 150 (DC150). The former is a set of online resources, available through the IRAP website, which entrepreneurs can use to learn more about the link between digital technologies and productivity improvements. The latter is the digital economy strategy of the Government of Canada, the second incarnation of which was launched in July 2015. As part of DC150, the BDC committed CAD 200 million in financing per year for three years and CAD 300 million in venture capital funding over three years to help entrepreneurs create or adopt information and communications technologies. BDC's Smart Technology Program website hosts specialised advice, resources and tools to promote this agenda.

However, these government initiatives rely on entrepreneurs to know about, and then find and use, the sources of information provided. Many SMEs are unaware of the information sources, and even more need help in implementing them. According to a report prepared for ISED by Middleton and Biggar (2012), coaching programmes to extend digital literacy are an effective way of tackling this problem.

At one time this type of assistance was available in Canada through the Digital Technology Adoption Pilot Program. This was a three-year pilot programme that ran from November 2011 to 31 March 2014. It had a budget of CAD 80 million to disburse non-repayable grants to SMEs to help them adopt (but not purchase) new digital technologies. During its period of operation, over 200 experts across the country engaged with small businesses to determine eligibility for the grants and to offer one-on-one advice. Manufacturing SMEs were the modal users, and ERP systems were the most common technologies adopted through the programme. Most of the money disbursed under the programme was used for training and hiring skills the SMEs lacked.

The Digital Technology Adoption Pilot Program ended in 2014. However, the adoption of digital technology has been identified as an area of focus as part of the development of the government of Canada's Innovation Agenda. Some of the approaches and lessons learned from the previous pilot would be useful in expanding advice and coaching to SMEs in this area in the future.

Incubators and accelerators

Incubators are organisations that help new companies explore and develop early-stage business ideas by providing services such as management training or office space. Accelerators help firms grow by providing guidance and mentorship. Unlike incubators they tend to assist ventures at a more advanced stage of development, usually when they have successfully created their products and are looking to grow. Both incubators and accelerators are widely recognised as essential parts of the entrepreneurship support infrastructure.

Canada has numerous incubators and accelerators: some of these are highly regarded internationally. They include DMZ, Communitech, Velocity, Creative Destruction Labs, FounderFuel, MaRS and many others. Box 5.4 provides more information on the examples of DMZ and Communitech.

Box 5.4. The DMZ and Communitech incubators and accelerators, Canada DMZ, Ryerson University

Ryerson University's DMZ is one of the most successful university incubators in Canada, being ranked fifth globally and top in Canada in University Business Indicator's global ranking. DMZ's projects focus on high potential growth start-ups whose business models are matched with mentoring capability in the incubator. As well as peer-to-peer mentoring, DMZ calls on the services of external mentors and four "Entrepreneurs in Residence" who act as guides.

About 80 companies are active in DMZ at any given time; their average stay is about one year. They are mainly, but not exclusively, student companies. The first 4 months in the incubator are free, but entrepreneurs pay CAD 380 per team per month thereafter.

DMZ points to two key success drivers for its incubator. The first is community support. This comes through links with other start-ups, industry and government. The second is regular exposure to potential customers. For example, DMZ brings in 100-200 visitors per week, including corporations and entrepreneurs from other countries. These visitors give entrepreneurs feedback on their ideas and, in the case of existing companies, sometimes become valuable early customers. An important part of the financial sustainability of DMZ derives from charging "intrapreneurs" in existing companies to have access to the incubator's entrepreneurs and ideas.

DMZ emphasises internationalisation. It has forged partnerships with networks in South Africa and India; and regularly brings in foreign entrepreneurs to meet and work with domestic entrepreneurs in Canada. Five years after launching, in 2010, 243 start-ups have incubated at the DMZ, which have raised CAD 172 million in seed funding and have fostered the creation of more than 2 100 jobs.

Ryerson has recently added an accelerator, "Ryerson Futures", which offers seed funding to some of its companies to support their further growth. This is in line with the practice adopted by many leading incubators of taking equity stakes in the most promising ventures that they host and assist.

Box 5.4. **The DMZ and Communitech incubators and accelerators, Canada** (cont.)

Communitech, kitchener

Communitech is a not-for-profit public-private partnership, which was founded in 1997 and is based in the Kitchener-Waterloo technology cluster. Communitech supports more than 500 growth-oriented technology companies per year at all stages of the life cycle. It obtains money from all three levels of government, private sector partners, rent and event registration money, corporate sponsors, and industry partners who pay for lab space. Communitech runs programmes for companies and entrepreneurs at each growth stage with the aim of scaling up high-growth companies and promoting corporate innovation. Helping larger companies is beneficial not only because they are valuable sources of innovative ideas and advice, but also because they can become customers for the start-up members.

Among Communitech's programmes are a Start-up Services Programme, where entrepreneurs come for help to launch their business, and Business Fundamentals workshops, which are boot-camp information sessions. Communitech also hosts a team of experienced former executives in residence, who provide contacts and coaching. Recently, Communitech has added a small accelerator to assist promising start-ups which are further along and are looking to grow their venture. However, Communitech has decided not to take equity stakes in these ventures.

Source: For more on DMZ, see <https://dmz.ryerson.ca/>. For more on Communitech, see www.communitech.ca/.

In Canada, most incubators and accelerators have received some government support as they usually require initial financing to pay for physical infrastructure and to become operational. Once started, incubators and accelerators may be able to finance themselves by charging user fees levied on entrepreneurs hosted in the incubator/accelerator and by taking equity stakes or charging royalties from the ventures that they host. The NRC provides some start-up funding and ongoing funding to incubators and accelerators through the Canada Accelerator and Incubator Program (CAIP). CAIP provides non-repayable contributions to a limited number of accelerators and incubators that meet strict eligibility and selection criteria over a five year period. Contributions support incremental activities that expand the overall service offerings to early-stage firms and entrepreneurs, and promote SMEs that are investment-ready and able to develop into sustainable, high-growth businesses. CAIP's total funding stands at CAD 100 million.

In addition, BDC invests CAD 100 million of its own capital in strategic partnerships with business accelerators and co-investments in graduate firms as part of the Venture Capital Strategic Investment Plan (VCSIP). This Plan makes direct and indirect investments in support of the entrepreneurial ecosystem and is complementary to support from CAIP. For example, VCSIP manages the Convertible Note Program, which offers financing for firms which graduate from CAIP-supported business accelerators. The RDAs and FedNor also support incubators and accelerators through their regular programmes.

Overall, incubators and accelerators seem to be working well in Canada. There is no obvious upper limit on their number and it is indeed desirable that they will spread across regions, universities and colleges. However, there are some ongoing challenges facing incubators and accelerators that policy might be able to influence.

One challenge often mentioned by incubator managers is the existence of a limited pool of mentors, which leads to an over-reliance on a small group of mentors. This problem

seems to be especially pronounced in some locations and sectors, where mentorship talent is currently spread thinly, especially outside traditional technology sectors.

Another challenge for accelerators in particular is to focus more on global market-ready, rather than just local market-ready, high-growth firms. While many accelerators recognise this, more could be done to strengthen the focus on internationalisation of early-stage companies in accelerators. Funding of growth projects also remains a challenge, due to the limited numbers of Canadian business angels who have been willing to invest in incubator- and accelerator-hosted ventures. Finally, better data are needed to gauge the success of incubators and accelerators, including the survival and growth rates of the companies they assist.

The Build in Canada Innovation Program

The Build in Canada Innovation Program (BCIP) is a public procurement programme designed to bridge the pre-commercialisation gap by procuring and testing late-stage innovative goods and services by Canadian companies within the federal government before taking them to market. It is managed by Public Services and Procurement Canada (PSPC) and implemented by its Office of Small and Medium Enterprises (OSME). Although the BCIP is not explicitly targeted at SMEs, the vast majority of BCIP contracts (97%) are awarded to SMEs.

The BCIP targets innovation in ten priority areas falling under two components: the Standard Component (environment, safety and security, health, and enabling technologies) and the Military Component (command and support, cyber-security, protecting the soldier, in-service support, training systems, and arctic and maritime security). From 2016, BCIP has a total budget of CAD 40 million annually. Non-defence projects can be funded for up to CAD 500 000, while defence-related projects have a ceiling of CAD 1 million. As of June 2016, 190 contracts had been awarded for a total value of over CAD 66 million, with innovation testing taking place in 248 government organisations.

BCIP appears to be playing an important role in encouraging SME innovation, although the programme is relatively small. Monitoring and evaluation information on the programme could help define better the benefits and how the programme achieves them and provide guidance on how far and how best to scale up the programme. In assessing the options two key considerations for future development of the programme should be kept in mind.

Firstly, the BCIP programme is currently responsive, in the sense that government waits to see what proposals emerge from the market. An alternative or complementary approach would involve pro-actively identifying specific public procurement needs with an innovation component and then inviting proposals from companies to meet the needs. This is the approach taken by the SBIR programme in the United States (Box 5.5). Secondly, the BCIP does not provide follow-up funding to help SMEs move on and grow after they finish their contract to supply the initial commercialisation work. More could be done to try and build links with other programmes and private-sector business angel and venture capital funds in this respect.

Finally, there may be scope to simplify the process for small businesses wishing to sell ICT services to the government. For example, the United Kingdom government has established the “CloudStore”, launched as part of its G-Cloud Strategy, which is an online marketplace where government agencies can buy information technology products and services from SMEs and other firms.

Box 5.5. The Small Business Innovation Research (SBIR) programme, United States of America

Description of the approach

The SBIR was established in 1982 to address concerns about the declining competitiveness of United States industry, by increasing the share of procurement contracts going to small firms from the largest federal R&D agencies and commercialising more federally-funded research. Under SBIR, all federal agencies with extramural R&D budgets exceeding USD 100 million annually are required by law to set aside 2.5% of those budgets with American SMEs via a competitive bidding process. The expenditure is on contracts for the development of new technology needed by the agencies. Approximately USD 2.5 billion is awarded through this programme each year. The United States Department of Defense (DoD) is the largest agency in this programme with approximately USD 1 billion in SBIR contracts annually.

The SBIR is the United States federal government's most important R&D funding programme for SMEs. SBIR is designed to stimulate commercialisation by small private sector ventures from technological innovations derived from federal R&D, while at the same time providing government agencies with new cost-effective technological and scientific solutions to challenging mission problems. The programme is highly competitive, with just 12-15% of applicants being funded following multiple-stage reviews. The awards are limited in both duration and amount. The SBIR's combination of public R&D subsidies with *ex ante* screening of potential ventures is thought to reduce financing constraints by certifying venture quality to external financiers. The certification effect is likely to be stronger if larger subsidies are accompanied by greater screening intensity. Thus SBIR is a seed fund which significantly reduces the risk faced by follow-on private equity providers.

Lerner (1999) compared a sample of SBIR Phase I awardees with a matched sample of non-SBIR awardees, and reported that SBIR awardees enjoyed superior employment and sales growth. Other independent academic evidence points to higher private rates of return for SBIR projects than for "normal" corporate projects, suggesting that SBIR promotes value-adding innovation and commercialisation by SMEs.

Factors for success

Important factors contributing to the success of this programme include:

- SBIR plays a catalytic role at an early stage in the technology development cycle.
- SBIR is demand-driven, soliciting valuable, strategic and clearly specified solutions from United States SMEs.
- Rigorous screening ensures that public money is well spent and provides an important certification role which stimulates follow-on finance from business angels and venture capital.
- The set-aside percentage ensures that SMEs benefit from the programme. Furthermore, awards are not repayable and they do not dilute ownership or control of a firm's management. The intellectual property rights remain with the firm, creating an opportunity for downstream contracts. All of these factors make the programme attractive to entrepreneurs.
- Government becomes a customer, which provides a crucial source of early cash flow to early-stage ventures. The SBIR gives successful firms a "single source" contract for the subsequent development of the technology and products derived from the SBIR award. This often assists small firms by creating an alternative path to enter the government procurement system.

Box 5.5. The Small Business Innovation Research (SBIR) programme, United States of America (cont.)

- Given the relatively large scale and high profile of the SBIR programme, the status of being an SBIR-funded company often helps companies obtain follow-on funding from business angels and venture capitalists through an informal “certification effect”.
- Government receives cost-effective solutions that it needs, capitalising on the best ideas drawn from a wide range of expertise and innovators across the country.

Obstacles and responses

The programme nonetheless faces the following challenges:

- Despite its successes, transitioning products and processes developed under the SBIR programme into the mainstream procurement process and private markets remains a challenge. Many projects are developed to a certain level of readiness but require substantial follow-on funding to realise their full potential.
- The time required for agencies to solicit, assess, select, and make awards can be a challenge for SMEs, especially new start-ups.
- Maintaining an environment in which potential benefits and risks are carefully weighed, but where risk taking is encouraged, is an ongoing challenge for programme managers. The award size needs to be generous enough to incentivise entrepreneurs to participate in the programme. At the same time, the programme costs need to be contained.
- SBIR provides many small awards to SMEs, which can entail high overhead costs for the administering agency, compared with larger, ‘bundled’ contracts with a single large provider.

In response to these challenges, it is necessary for the SBIR administrators to develop appropriate management and operational incentives for the procurement agencies it works through, and to encourage follow-on funding from non-procurement agencies. It is also necessary for the agencies doing the procurement to adjust their risk attitudes, accepting that not all SBIR award winners will innovate successfully. The programme must also be designed to avoid the risk of capture by larger SMEs at the expense of smaller ones; it is necessary to publicise the programme, conducting early foresight exercises with public and private sector lead users.

Relevance for Canada

The SBIR programme has relevance to Canada in the following areas:

- There is growing recognition that the Government of Canada needs to make procurement more demand-driven. Steps are already underway in this direction, with the National Procurement Strategy for R&D allowing government to be a first client for new, innovative services and products that address a need or provide a necessary service or technology.
- An SBIR-type procurement system enables the government to be strategic, targeting demand on certain technologies and services. This fits with the current practice in BCIP of prioritising sectors like defence.

NAFTA rules need not rule out the implementation of an SBIR-type programme in Canada (the USA is of course a NAFTA signatory). However, it would be necessary to work with provincial governments under the Agreement on Internal Trade to enable SME set-asides at the federal level.

Box 5.5. The Small Business Innovation Research (SBIR) programme, United States of America (cont.)

Sources for further information

Lerner J. (1999), "The Government as Venture Capitalist: The Long-Run Impact of the SBIR Program", *The Journal of Business*, Vol. 72, No. 3, pp. 285-318; Wesner C. (ed.) (2009), *An Assessment of the Small Business Innovation Research Programme at the Department of Defence*, US Committee for Capitalizing on Science, Technology, and Innovation, Washington, DC; Qian, H. and K. Haynes (2014), "Beyond Innovation: The Small Business Innovation Research Program as Entrepreneurship Policy", *Journal of Technology Transfer*, Vol. 39, 524-543.

SBIR website: www.sbir.gov/.

Universities and technology development

Commercialisation of research resulting from universities and public research organisations is an important driver of economic growth as well as a potential source of funds for universities. Canada's leading programmes in this area are the Centres of Excellence for Commercialization and Research (CECR). This is part of the business-led Network of Centres of Excellence (NCE), a suite of partnership programmes, funded by the Government of Canada, which bring together academia, industry, government and not-for-profits, in order to advance research and knowledge in a few specific areas. The CECR is one of the most relevant NCE programmes for SMEs. It matches clusters of research expertise with the business community in an effort to accelerate the commercialisation of new products, technologies and services in key areas of the Canadian economy such as the environment, natural resources and energy, health and life sciences, and information and communications technologies (ICT). This is done through a wide range of tools (e.g. facilitating partnerships and collaborations; providing access to research expertise and equipment to the private sector; training and mentoring entrepreneurs; incubating start-ups; advancing research and adding value to technology; and providing financial support from micro loans to equity investment), although it is not clear which ones most effectively deliver the core mission of the CECRs.

One of the main tools for the commercialisation of university research in Canada is the operation of Technology Transfer Offices (TTOs) by universities themselves. University TTOs tend to promote university spin-offs, in which the university takes shares in enterprises started by their researchers, and organise the licensing of patents and other intellectual property owned by the university to private companies. In 2014, TTOs in Canadian universities executed 493 licenses, formed 82 start-up companies and recorded 1.1 billion in net product sales. Moreover, as of 2014, there were nearly 4 700 operating university start-ups in Canada (AUTM, 2014). This is suggestive of a national university system where technology transfer and university entrepreneurship are pursued actively.

Nonetheless, according to a report by the Canadian International Council (CIC, 2012), there is room for Canadian universities to reform TTOs to focus less on licensing fees and more on industry collaboration, infrastructure sharing and training. This may require a reversal of recent declines in the level of TTO staffing (AUTM, 2014), or the adoption of more intensive business collaboration approaches outside of the TTOs. In particular, the report argues that there is scope to encourage Canadian universities to: i) articulate and follow clear, well-defined strategies for the formation and management of spinoffs which do not focus on

short-term cash maximisation and which encourage risk-taking; ii) direct university resources towards intellectual property protection; iii) encourage university principals to change social norms in their institutions, including by giving explicit approval for university entrepreneurship; and iv) provide incentives to TTOs to hire suitably experienced technology management officers with broad-based commercial skills. Provincial governments are responsible for education in Canada, so this agenda would primarily fall within their responsibility. However, federal government may also have a role to play in supporting the exchange of good practice information across universities in the country.

RDA and FedNor innovation programmes

The federal RDAs and FedNor are also active in supporting business innovation. They play an important role both in designing tailored interventions that can support particular target groups of firms in their regions and in offering broad-based innovation support including incremental and non-technological innovation projects in SMEs as well as more R&D-based and technology-based innovation. The following are among the key initiatives of the RDAs and FedNor:

- Atlantic Canada Opportunities Agency (ACOA): The Business Development Program invests in projects that help businesses develop new or improved products and services and assists them in acquiring the skills and technology they need to bring products to market. The Atlantic Innovation Fund encourages partnerships among private-sector firms, universities, colleges and other research institutions to develop and commercialise new or improved products and services.
- Western Economic Diversification Canada (WD): The Western Innovation Initiative is a CAD 100 million five-year initiative that offers repayable contributions for SMEs in Western Canada to move their new and innovative technologies from the later stages of R&D to the marketplace.
- Federal Development Ontario (FedDev): Investing in Business Innovation encourages the development of partnerships between entrepreneurs and investors to support early-stage globally-oriented businesses in southern Ontario.
- Canada Economic Development for Quebec Regions (CED-Q): The Innovation and Technology Transfer component in the Quebec Economic Development Programme encourages innovation activities, R&D, or the improvement of new products, technologies, processes or services in businesses.
- Federal Economic Development Initiative for Northern Ontario (FedNor): Support for access to ICT services in First Nations communities that help entrepreneurs overcome barriers, such as remote distances and high travel costs, leading to enhanced access to essential business development support.

The small business innovation support role of the RDAs and FedNor is expected to be further enhanced after they have all been grouped under the responsibility of the Minister of Innovation, Science and Economic Development Canada and they have been given clear mandates within the new Innovation Agenda being developed by the government of Canada.

Internationalisation programmes

Until the federal elections of October 2015, the main business internationalisation policy of the Canadian federal government was the Global Markets Action Plan (GMAP), launched in November 2013. The GMAP intended to enhance Canada's SME exporting community,

especially the percentage of Canadian small businesses that export to emerging markets and the continued promotion of Canada's access to United States and European Union markets. The key government support elements of GMAP are presented below. Following federal elections in October 2015, a new Trade and Export Strategy is expected to replace the GMAP in 2016. Export promotion is also pursued by the RDAs and FedNor, mostly through their regular programmes.

Export financing and insurance

The Canadian government provides financing and insurance support to encourage small business exporting through Export Development Canada, Canada's export credit agency, and the Trade Commissioners Service (TCS), Canada's export promotion service. Both agencies report to the Global Affairs Canada (GAC) government department and minister.

EDC is a crown corporation, operating at arm's length from the government and on commercial terms. It operates 18 offices across Canada and 18 around the world (2 representations in Mexico, 5 in South America, 3 in Europe, 6 in the Asia-Pacific region, one in the Middle East and one in Africa). It also operates an online Knowledge Centre, which provides information about trade-related trends and developments and in-depth analysis from EDC economists and trade experts.

EDC provides trade credit insurance for accounts receivable outside Canada; EDC has just under one-half of this market, in which it complements the private sector by partnering with them on bonds, guarantees and filling gaps and areas of need. In addition, EDC provides bonding and contract insurance services that reduce non-payment risk by overseas buyers. EDC also offers financing to SMEs, mainly for working capital, as well as some direct lending and equity investments in selected SMEs.

In collaboration with the Trade Commissioner Service (TCS), EDC also operates a "pull facility", whereby it introduces foreign buyers to qualified Canadian suppliers and can provide a loan to a targeted foreign buyer who will buy from Canadian companies. Over the period 2003-15, EDC has helped 5 775 Canadian companies benefit from various Pull Facilities and has created CAD 70.6 billion in export sales. In 2015, EDC added 29 new pull loans to its portfolio and 1 426 companies benefitted from these relationships with foreign companies. Of that, 990 were SMEs (70%).

EDC serves all Canadian companies irrespective of size; each year over 7 400 Canadian companies make use of EDC's services. However, in terms of SMEs' needs, some gaps have been identified. First, many SMEs are unfamiliar with mechanisms like bonding and contract insurance, while others are simply unaware of the EDC financing services that could help them internationalise. EDC should continue to look for ways to partner with the TCS and industry associations to increase awareness of its offerings to SMEs. Second, EDC finds it challenging to finance and provide credit insurance for certain kinds of small businesses, such as those offering software as a service, owing to the small but regular receivables flows based on those businesses' intangible assets.

Export promotion activities

One of the government players in export promotion in Canada is the TCS. The TCS operates a network of over 1 000 international business professionals working in Canadian embassies, high commissions, and consulates located in 150 cities around the world and with offices across Canada. They assess the potential of Canadian companies in international target markets using market intelligence and provide them with advice on marketing

strategies. The TCS's customer management system recorded 45 000 services provided in 2014, with strong uptake from the small business community. TCS estimates that on a yearly basis it assists 20-25% of Canadian exporters.

The TCS also works with technology accelerators to host supplier days, business-to-business matching events, trade missions, and boot camps to help growth-oriented small businesses to be part of global supply chains. For example, it mounts "Go Global" export workshops which provide practical information and support to help small businesses take advantage of international opportunities. The workshops act as a one-stop shop, bringing together the TCS, EDC, BDC and the Canadian Commercial Corporation.

The TCS seems to be performing well, but there might be areas for improvement. First, the greatest benefit of TCS seems to come from helping existing exporters expand, while it is less successful at getting SMEs to export for the first time. Second, the TCS has traditionally focused on assisting manufacturing exporters, and there may be scope for it to do more to help the numerous Canadian SMEs which export services. Third, TCS uses a lot of count-based performance metrics to assess the success of the facilitated deals. It seems more appropriate to shift towards a more value-based performance measurement system where emphasising additional revenues and employment generated by successful exporting SMEs as the key metrics.

Another export facilitation agency is the Canadian Commercial Corporation, which is Canada's international contracting agency. Established in 1946, the Canadian Commercial Corporation is a crown corporation that helps Canadian exporters to access foreign government procurement markets through government-to-government contracting. As with other crown finance corporations, the Canadian Commercial Corporation operates at arm's length from the federal government and according to commercial principles.

The Canadian Commercial Corporation's two main income sources are fees for service and federal appropriations. Fees are charged to foreign governments for services rendered in government-to-government contracts. Federal appropriations are used to cover procurement to the United States Department of Defence. In 2015/16, the Canadian Commercial Corporation was active in 70 countries with 145 Canadian companies, more than 30% of which were SMEs.

Despite these initiatives, the exporting activity of Canadian small businesses is still low (see Chapter 2) and their awareness is also low about the opportunities that internationalisation can offer them. New approaches should therefore be considered to augment the existing support.

An additional approach which could help SMEs to export would involve encouraging and enabling them to combine human and financial resources through creating networks of small businesses for exporting activity. This type of approach is particularly relevant to smaller SMEs, which often find it difficult to commit all the resources needed to move into foreign markets.

One method of creating small business networks for exporting could involve creating a new legal form to accommodate export consortia and incentivising the participation of small businesses in export consortia with grants or tax benefits. Export consortia are voluntary alliances of firms which have the objectives of promoting the goods and services of their members abroad and facilitating the export of these products through joint actions. Participating in an export consortium reduces the risks and costs involved in penetrating foreign markets for SMEs. Many countries now operate systems of export consortia, although one of the longest-established is found in Italy (Box 5.6).

Box 5.6. Export Consortia, Italy

Description of the approach

Export consortia in Italy are voluntary alliances of firms whose objective is to enhance their export performance through joint actions. Members of export consortia retain their financial, legal and management autonomy but co-operate on specified joint actions undertaken by the consortium. Export consortia are active across a range of different industry sectors, including engineering, textiles, food and wine, chemicals, wood and furniture, construction, electronic goods and jewelry.

Co-operation among SMEs in the Italian export consortia promises greater success in foreign markets, at reduced cost and risk. At the same time, participants can increase their knowledge, productivity and profitability through joint actions including shared best practices within the consortium. Other benefits from co-operation among SMEs include a larger choice of products and a more reliable source of supply for large overseas clients. Moreover, in the most successful export consortia, SMEs can gain enough negotiating power to take a more active role in selling products to these clients.

There are two main types of export consortium. *Promotional* consortia explore specific export markets by sharing promotional and logistic costs among participating firms. Actual sales are the responsibility of the individual firms. *Sales* consortia in contrast handle the sales of member firms' products in addition to promotion activities.

The Italian Institute for Foreign Trade gives grants to export consortia to incentivise their use. In order to qualify, export consortia must comprise a minimum of eight SMEs (five for consortia operating in Southern Italy). Grants are made annually and are calculated on the basis of expenses incurred in the previous year. Up to 40% of annual promotional expenses (60% for export consortia based in Southern Italy) are eligible for funding in this way.

The Italian Federation of Export Consortia represents the 110 consortia that interact with the Italian Institute for Foreign Trade. It provides tax and legal advice to the consortia, and arranges its own trade delegations, conferences and market surveys. It has also negotiated credit lines with major banks to finance the export efforts of its members to countries in Central Europe, the Mediterranean region and Latin America.

Factors for success

The following factors have been associated with the success of export consortia in Italy: i) precise and realistic objectives, which are agreed with all the members of a consortium; ii) consensus building and constant communication, to establish trust between the members; iii) a clear message that success takes time, and patience among members as the consortium works towards its goals; iv) supportive institutional and regulatory frameworks.

Obstacles and responses

UNIDO (2005) has identified both internal and external obstacles to successful export consortia. Some of the most salient are: i) reluctance of individualistic entrepreneurs to collaborate with "competitors", as well as lack of trust and difficulties of raising member contributions; ii) scepticism about the benefits of consortia, especially among SMEs which are already exporting; iii) lack of effective consortium leadership, resulting in ineffective consortium performance; iv) divergent export interests of members; v) financial fragility of consortia.

Some of these challenges can be addressed by following international best practice guidelines for setting up export consortia (UNIDO, 2005). Trust problems can be alleviated by appropriate consortium design, e.g. ensuring that member firms are all of similar size,

Box 5.6. Export Consortia, Italy (cont.)

and offer complementary rather than directly competing products. Also, transparent accounting is needed to reassure members that money is being raised and spent on a fair and consistent basis. Motivation problems can be reduced by selecting as members SMEs who lack experience exporting but which have viable products for export. Finally, leadership issues can be assuaged by hiring an export consortia manager who is charged with informing and organising SME members.

Regarding financing, it may be necessary for the public sector to offer initial funding support to set up consortia. However, it is important that SMEs pay fees to ensure that the consortium is financially self-sustainable, and to ensure that they are motivated to contribute actively in the consortium.

Relevance for Canada

Canadian small businesses continue to struggle to export, especially beyond the United States and to emerging markets. A lack of resources and knowledge among small business owners and managers is often cited as a prominent reason for this outcome. Export consortia provide a way of tackling this problem by sharing the costs involved in exploring export possibilities and sharing knowledge to make these investments pay off.

Although export consortia could be national, the geographical dispersion and remoteness of some Canadian SMEs might make the creation of regional-based consortia advisable, possibly overseen by a local chamber of commerce. These regional consortia would pool resources and target particular foreign markets. Chambers of commerce could advertise and promote export consortia, and possibly also identify suitable members.

Source of further information

More information about Italian export consortia can be found at UNIDO (2005), *Development of Clusters and Networks of SMEs: A Guide to Export Consortia*, United Nations Industrial Development Organization, Vienna.

Another method used in Italy to facilitate small business networks for internationalisation (or innovation) activities, consists in Network Contracts, introduced in 2009 (OECD, 2014). Network Contracts are formal agreements whereby two or more independent businesses decide to undertake together (while maintaining full legal independence) some activities to improve their competitiveness either through increased internationalisation or innovation. By engaging in Network Contracts, participating firms become eligible for tax credits, cheaper bank credit and simplified administrative procedures. A written agreement or contract must be filed with the Register of Enterprises. Participants have considerable leeway over how they write and structure their Network Contract, although they are required to make contributions to a common fund established for the purpose of achieving the goal of the Network Contract.

Finally, a further approach that policy could take to helping SMEs overcome barriers to accessing foreign markets for the first time consists in supporting the costs related to the hiring of a temporary export manager. This could be a full-time or part-time temporary posting in the small business to help them establish the relevant marketing, sales, accounting, information technology and other processes needed to export to a new market. Once the systems are in place and the knowledge passed on to existing staff in the business, the temporary export manager can move to support other small businesses. This policy has been adopted by Italy as part of the 2015-17 Special Plan for the Made in Italy

Promotion. The Italian approach has two components: one provides training programmes for temporary export managers, while the other provides a EUR 10 000 voucher to SMEs to partially cover the cost of employing a temporary export manager.

Attracting and embedding inward foreign direct investment for small business development

Inward foreign direct investment (FDI) can enable SMEs and entrepreneurs to benefit from knowledge spill-overs from foreign firms and through collaboration with them gain access to valuable global supply chains.

Invest in Canada, within GAC, is the governmental organisation responsible for attracting inward FDI to Canada through new investments or expansions of existing operations. Invest in Canada guides foreign companies through each step of the investment process, from the exploratory phase through to site selection and follow up, providing information about doing business in Canada and making introductions to specialists who can offer customised assistance. Invest in Canada also has a global network of investment and trade professionals present in more than 150 cities worldwide to assist companies interested in investing in Canada.

From a new industrial policy perspective, some have advocated for governments to become more active in more industry targeted investment promotion and industry support, pointing to the productivity benefits that can result (Warwick, 2013). The federal government of Canada could further develop its targeting of inward FDI promotion on key sectors with potential for small business development benefits, for example by aligning FDI policies with cluster development strategies. The Select-USA initiative in the United States provides an example of a relatively pro-active approach to investment attraction in which the United States federal government helps local Economic Development Organisations (EDOs) to increase their FDI attraction and focus it on securing broader local economic development benefits (Box 5.7).

Box 5.7. Support services for promoting inward FDI: SelectUSA

Description of the approach

SelectUSA is a federal initiative started in 2011 and run by the United States Department of Commerce. The initiative highlights the United States as a prime location for domestic and foreign direct investment. SelectUSA offers consulting and ombudsman services through its website, online and on-site trainings, and national summits.

SelectUSA's specific services include:

- **Business Solutions for Investors:** Provides one-on-one consulting for businesses to identify and utilise available federal programmes and services, and to connect them to partners or resources at the state and local levels. (Available to international and United States firms).
- **Ombudsman Services:** Helps firms and United States economic development organisations (EDOs) to navigate the United States regulatory environment on a case-by-case basis. (Available to firms or EDOs).
- **Advocacy:** Advocates for United States EDOs that are competing with foreign locations for investment projects. (Available to an EDO, Governor, Mayor or County Executive of a jurisdiction in global business location).

Box 5.7. Support services for promoting inward FDI: SelectUSA (cont.)

- **Single Location Promotion:** A fee-based service to develop specific activities for United States EDOs to help promote a United States region as an investment destination. (Available to states, local or regional governments or EDOs seeking assistance in planning their activities in a market).
- **Facilitated Investment Mission (FIM):** Provides United States EDOs and jurisdictions with unique international promotion opportunities and access to potential investors with market insights, investor connections, one-on-one business appointments, and networking events. (Available to states, local or regional governments or EDOs).
- **Economic Development Organisation Counselling:** Counsels EDOs on FDI trends, effective outreach methods tailored for specific overseas locations, and marketing strategies to promote their location to foreign investors. (Available to states, local or regional governments or EDOs).

The programme served over 1 000 foreign investors and United States EDOs in 2014.

Factors of success

Major factors of success are the following:

- **International summits:** SelectUSA places a lot of importance on hosting summits in countries around the world in order to meet with leaders of major foreign enterprises and support United States EDOs in specific markets including Canada, India, Denmark and Brazil. It also holds a major annual Investment Summit within the United States with participation of senior federal and state officials, leading companies and United States EDOs. These summits are important to broker relationships.
- **Political commitment:** The United States President participated in the 2015 Investment Summit. The White House also announced on the day of the Summit the creation of a federal advisory committee led by Commerce Secretary Penny Pritzker to solicit formal input on the development and implementation of strategies and programmes to attract and retain FDI. One of the factors of SelectUSA's success is the high-level political support it has received.
- **Online tools for investors:** SelectUSA provides detailed information on its website about federal incentive programmes including grants, loans, loan guarantees, and tax incentives, as well as a comprehensive database of state-level incentives. Investors also have access to the Department of Commerce's website <http://clustermapping.us>, a joint project of the Harvard Business School and the Economic Development Administration. The website provides data and tools that allow investors to easily identify regional concentrations of specific industries and to locate potential business partners.

Obstacles and responses

One obstacle for foreign investors has been difficulties in temporarily bringing in foreign workers with specialised knowledge to support the start-up of new operations in the United States. To address this SelectUSA is providing policy guidance for the L-1B Visa, which is a non-immigrant visa. The Department of Homeland Security will also be working on clarifying guidelines for global companies seeking to expand in the United States without negatively impacting domestic workers.

Relevance for Canada

SelectUSA includes a federal web portal that directs firms to resources available from the federal government. It also offers a range of direct services to EDOs and foreign investors.

Box 5.7. Support services for promoting inward FDI: SelectUSA (cont.)

Such an approach could help to boost inward FDI in Canada and direct it to sectors and locations where it can have the highest productivity and greatest spill over benefits for domestic SMEs.

For further information

SelectUSA's website: <http://selectusa.commerce.gov/>.

In addition, the government could promote FDI-SME linkages by introducing a specific programme with this objective. Such a programme would go beyond seeking to achieve better complementarity between the sectors and locations of incoming foreign investments and the existing local supply base to involve two further components. One of the additional components would involve brokering relationships between foreign investors and potential domestic small business suppliers and advising small businesses on how to work with local FDI operations. The other would involve work to build the capabilities of domestic small businesses to supply foreign investors. This could include efforts to increase the ability of domestic firms to use new technology (for example, the EPR system) as may be required in relationships with FDI and support their investment in innovation and workforce skills in order to increase their productivity to levels expected by FDI customers.

Entrepreneurship education and skills programmes

Entrepreneurship education covers a broad range of pedagogical activities such as classroom lectures, business games, organising real or virtual student business start-ups, business idea competitions, guest-speaker lectures, etc. Its objective is to foster entrepreneurial attitudes and skills in the student population and thereby to contribute to a more entrepreneurial economy.

Entrepreneurship education in primary and secondary schools

There are significant opportunities to strengthen entrepreneurship education in Canada's primary and secondary education system in order to promote entrepreneurship skills and mind sets in young people (CCC, 2014; The Learning Partnership, 2014). Few young people know about entrepreneurship and those interested in entrepreneurship often do not find ways to develop their talents inside the school system (CPPF, 2014). Early entrepreneurship education could reduce risk aversion and fear of failure, two factors that limit the growth aspirations of Canadian SMEs (The Learning Partnership, 2014).

In Canada, education policy falls under the responsibility of provinces and territories. As a result, access to entrepreneurship education varies significantly across the country, mirroring differences in the resources, capacities and priorities of different provinces and territories.

Quebec and Ontario are two forerunners in this area. In Quebec, a pillar of the provincial youth policy is dedicated to entrepreneurship education and entrepreneurial projects in primary and secondary schools, including through projects focussing on the socioeconomic role of co-operatives. The *Fondation de l'Entrepreneuriat* has developed *Le Portfolio de l'Entrepreneuriat au Secondaire*, a set of different pedagogical entrepreneurial projects available to high-schools in the province and funded by the Quebec Ministry of Education, Loisir and Sport. In Ontario, the Youth Jobs Strategy includes a High-school Entrepreneurship Outreach

programme, which financially supports 22 projects (each with up to CAD 200 000) developed by local not-for-profit organisations which expose secondary-school students to the practice of entrepreneurship.

Many other initiatives are available across Canada (see Box 5.8), some of which can be considered good practices such as the Shad Valley programme in Waterloo, Ontario (see Box 5.9).

Box 5.8. **Examples of primary and secondary education entrepreneurship projects in Canada**

Canada has a host of entrepreneurship education initiatives for primary and secondary students operating either across the whole country or in certain provinces or territories. Some of the most relevant initiatives are listed below. They demonstrate the sorts of approaches that could be integrated into a more widespread and comprehensive entrepreneurship education effort.

- **Junior Achievement** (across Canada): Currently offers 15 national entrepreneurship related programmes delivered to youths in elementary and secondary schools.
- **4-H** (across Canada): Helps young Canadians to become skilled, engaged and responsible leaders.
- **Youth Science Canada** (across Canada): Encourages young students to develop scientific and technological knowledge and skills through project-based science.
- **Entrepreneurial Adventure** (Ontario, Alberta, New Brunswick, Nova Scotia, Manitoba, Quebec and Prince Edward Island): Connects students from K-12 with a business mentor who helps them to start and run their own enterprise with profits going to a charity.
- **Entrepreneurship Lemonade** (Alberta): An online entrepreneurship course for high school students to develop entrepreneurial skills and management practices.
- **Young Entrepreneurs – Make your pitch** (Ontario): Lets high school students pitch their business idea in a two-minute video. Twenty finalists present their idea to a judging panel, receiving coaching and mentoring.
- **DECA** (Ontario): Favours the development of entrepreneurial skills by connecting young people with corporate professionals.
- **Youth Enterprise Camp** (Ontario): A week-long camp in which young people learn about entrepreneurship through a variety of games and activities, prepare a business plan and run their “business for a day”.

Box 5.9. **Shad Valley: Entrepreneurship Education, Canada**

Run by SHAD, a non-profit organisation based in Waterloo, Ontario, the annual Shad Valley programme stimulates the entrepreneurial and innovative potential of young people. Each year in July, SHAD provides 600 outstanding students selected from across Canada and abroad with the opportunity to participate in a four-week summer camp focusing on entrepreneurship and Science, Technology, Engineering and Maths (STEM) skills. SHAD is held in-residence at twelve Canadian host universities and offers an inspiring programme of lectures, workshops, projects, team building exercises and recreational activities. In a rich learning environment, students are introduced to multi-disciplinary thinking, looking at science and technology from an entrepreneurial perspective.

Each year, SHAD campuses build their programmes around a specific challenge of national importance. Participants are asked to come up with bold solutions to the challenge. Students

Box 5.9. Shad Valley: Entrepreneurship Education, Canada (cont.)

co-operate to simulate a start-up venture based around a product or service that addresses the challenge. Groups formulate a business plan, a marketing plan, a promotional strategy, an external resources plan, a website and a working prototype of their product or service. At each of the twelve campuses one winning project is selected which advances to a national competition, the SHAD Entrepreneurship Cup Awards. SHAD participants can also compete for one month summer volunteer internships immediately following in August. Participants become part of a broad network of currently more than 14 000 alumni.

About 85% of SHAD's alumni pursue STEM studies as undergraduates and 80% have at least one post-graduate degree. Close to 20% have launched at least one start-up, predominantly in STEM-related fields. SHAD-participants come from all social backgrounds, 60% are young women. The entrance fee for Canadian students amounts to CAD 4 500. For international students the fee is CAD 8 000. Scholarships are available for students with proven financial needs. SHAD raises more than CAD 2 million annually from individuals, public sector companies, foundations and government.

Source: www.shad.ca.

Although there is a wealth of entrepreneurship-related initiatives in Canadian schools, there are also a few important gaps related to the provision of entrepreneurship education. First, existing good practices need to be better shared so that provinces and territories currently offering fewer good practice support initiatives can learn from those which have moved ahead. A one-stop website which offers information on available (quality-controlled) projects could reduce information deficits and ease this catch-up process. An example is Scotland's Enterprising Schools, an online resource developed by the Young Enterprise Scotland non-profit organisation (see Box 5.10). Second, there are still fewer actual

Box 5.10. Scotland's Enterprising Schools, United Kingdom**Description of the approach**

Scotland's Enterprising Schools (SES) offers a "one-stop-shop" online resource to schools interested in developing an integrated approach to encouraging enterprise and entrepreneurial thinking. It is developed by Young Enterprise Scotland, a registered charity that has been working to inspire and equip young people to learn and succeed through enterprise in Scotland for over 40 years, and receives public support through the Scotland CAN DO framework, a shared statement of intent towards becoming a world-leading entrepreneurial and innovative nation. SES recognises schools, both primary and secondary, for their work in the area of enterprise education and provides a platform for sharing good practice. Schools are encouraged to evaluate themselves using a Professional Reflection tool to help them measure where they are on their entrepreneurship education journey and set actions for improvement.

In order to assist schools, the website hosts case studies, learning materials, links to relevant literature and a wide range of partners who can help schools deliver appropriate learning opportunities. The focus is on experiential learning that builds confidence, improves self-esteem and helps students develop skills for learning, life and work. Schools can also join the Enterprising Schools Professional Learning Community where they can take part in discussions and collaborate with colleagues across Scotland to share innovative practices.

Box 5.10. Scotland's Enterprising Schools, United Kingdom (cont.)

SES was launched in September 2015. Six months later, it already had 80 educators as members of the professional learning community. There are a growing number of case studies, showcasing possible learning activities for primary and secondary school students of any age. Direct financial support has been given to over 20 schools to work with a range of entrepreneurial-learning organisations. Twenty-two of them are now partnering with SES. The final goal is to generate a peer-to-peer support model.

Factors for success

The main success factors can be summarised as follows. Firstly, as SES is an online tool, practitioners are able to access resources easily anytime from anywhere. Secondly, schools have access to a wealth of diverse entrepreneurial learning organisations, with testimonials from other schools on the impact of their activities on students and school life. Thirdly, the sharing of good practices is aligned with broader government policies such as Scotland's CAN DO framework and "Developing the Young Workforce" strategy. This makes it easier for educators to embed wider policy agendas and achieve national standards. Finally, key to success has been the collaboration around this initiative between key agencies such as Education Scotland and Skills Development Scotland and local authorities and schools.

Obstacles and responses

SES had to deal with two main obstacles: i) making teachers and schools aware of the initiative and the online resource and (2) raising teachers' confidence in delivering enterprise/entrepreneurial learning.

In order to ensure the participation of a wide range of schools and teachers, a variety of public relations measures were used. First, the initiative was launched in a high-profile event organised by the Cabinet Secretary for Education and Lifelong Learning at the national Scottish Learning Festival. Second, SES established collaboration with the national cabinet, in particular Education Scotland and Skills Development Scotland, as well as with enterprise organisations. Third, and perhaps more importantly, SES promoters looked for and obtained the engagement of local authorities, through the Scottish Local Authority Economic Development Group, of the Directors of Education in each Local Authority via the Association of Directors of Education Network, and of people responsible for "Developing the Young Workforce" strategy in each local authority via the Scottish Council for Enterprise Education Network.

To improve teacher confidence in the delivery of enterprise education, SES will shortly offer: i) online bite-sized Staff Development Tutorial Sessions; ii) conferences across Scotland to showcase the SES resource, permeate enterprise/entrepreneurship in an organic way and help educators develop an entrepreneurial mind set.

Relevance for Canada

Entrepreneurship education is not yet widely and consistently implemented in Canadian primary and secondary schools. An online platform modelled after the example of SES could become a valuable tool for sharing good practice measures and encouraging less active schools to learn from the pioneers and integrate selected elements of entrepreneurship education into their teaching. Interested teachers would also benefit from the didactic resources and the exchange of experience with their peers. This would build up their confidence in delivering entrepreneurship education, including more experiential learning activities. At the same time, the online platform could recognise pioneering schools for their work in this area, providing much needed appreciation for the extra efforts and energy invested by teachers in teaching entrepreneurship.

For further information

Source: www.enterprisingschools.scot.

opportunities for participation in school-based entrepreneurship projects than needed to meet the interest and demand from students. Third, there are relatively few entrepreneurship education initiatives where young students are exposed to experiential learning opportunities, for example by meeting with real entrepreneurs or starting virtual companies, although these are most effective approaches for developing entrepreneurial mind sets and skills.

Entrepreneurship education seems to play little importance in the Canadian system of secondary-level vocational training, although apprenticeship students may want to become self-employed at a certain point in their life. The Student Institute for Technology and Applied ICT from Germany offers an inspiring model of how to target innovation and entrepreneurship training to students in the secondary vocational training system (see Box 5.11).

Box 5.11. The students' Institute for Technology and Applied ICT, Germany

Description of the approach

The Students' Institute for Technology and Applied ICT (SITI), founded in 1999 in Havelberg (Saxony-Anhalt), is a pioneer in the field of entrepreneurship education and the promotion of innovation and technology skills among young students, (mainly) from secondary schools (aged 10-18). SITI targets bright young students, though not necessarily academic top achievers. A team of four supports young people with coaching and technical expertise. The institute uses nine free of charge rooms of the local school campus which are furnished with high-quality technological and ICT equipment.

SITI operates during three afternoons per week and is attended by around 50 young students. It offers a large variety of innovative extra-curricular learning-by-doing projects in the areas of manufacturing technology, applied ICT, natural sciences and entrepreneurship around a long-term objective. In a so-called "ideas conference", students and coaches jointly decide on the projects to be worked upon in the following school year. Basic regular training courses in ICT, multimedia, robotics, CAD/CAM/CIM, physics and astronomy lay the foundations for the comprehensive theme-specific project work. Each year, SITI-students also work on three-to-four challenging and age-adjusted paid R&D projects for technology-oriented companies and universities and on six "young researcher" projects (i.e. a national R&D competition).

SITI's resources include a fully operational foundry available to students, a centre for "start-uppers", an inventor club, teacher training courses, and interregional summer camps for talented students in entrepreneurship and technology. SITI's annual budget is only around EUR 15 000, which is financed by membership fees, income from R&D projects, prize monies and sponsoring. Over the last ten years, two projects have also been supported by Saxony-Anhalt's Ministry of Economy with partial co-financing by the European Social Fund.

Factors for success

A critical success factor is the presence of committed and creative teachers able to coach and train young people in a manner which is encouraging but does not neglect the final goal of the project. Another key factor has been the co-operation with more than 30 network partners from the region which share the same long-term vision about youth talent development. Thanks to these partnerships, SITI can offer eight targeted internships to students at universities and technology companies every year. SITI also maintains close contacts with more than half of its alumni who hold occasional training classes, provide new contacts and meet once a year to discuss further co-operation. Finally, the recruitment of

Box 5.11. The students' Institute for Technology and Applied ICT, Germany
(cont.)

talented youth is facilitated by a close link between curricular school lessons and extracurricular (afternoon) activities, including the use of school facilities.

By participating in national R&D and entrepreneurship competitions and by working on age-adjusted R&D projects commissioned by technology-oriented companies and universities, students also directly learn and apply research and working methods that are usually not part of their curricular lessons (e.g. project and time planning, problem analysis, etc.). In this way, students acquire problem-solving skills useful for their later career. Moreover, by working in small groups of two to six students, the transfer of interdisciplinary technical competences is eased without hindering creativity and experimentation.

Obstacles and responses

The main obstacle has been that policy makers did not initially appreciate the potential role of schools in the promotion of innovation- and entrepreneurship-related skills. For example, an initial application for financial support by SITI was rejected by the regional Ministry of Education. Stable financial support is needed to enable such initiatives to take off and operate on a sustained basis.

Relevance for Canada

A network of school-attached institutes that offer extra-curricular activities comparable to those of SITI could represent a first step in the direction of introducing entrepreneurship education into vocational education systems at secondary level. This objective could be pursued by provinces and territories in their own respective jurisdictions.

For further information

www.siti.de.

Entrepreneurship education in tertiary education

The number of entrepreneurship education and start-up support activities for graduates has grown over the last 15 years in Canada (Sá et al., 2014). However, there is a gap between the leading higher education institutions (HEIs) which offer comprehensive programmes across the institution, such as the University of Waterloo and its Velocity programme (see Box 5.12), and the majority of institutions where entrepreneurship education often depends on the efforts of a few individuals (ISED, 2010b).

The market penetration of entrepreneurship education in Canadian HEIs is also quite limited. It was recently estimated for example that only 2-3% of HEI students have completed an entrepreneurship-related course or an extra-curricular activity (ISED, 2010b). An important barrier to greater coverage of the student population is that entrepreneurship education has traditionally been organised within only one or two university departments, typically business schools and engineering departments, rather than across the HEI as a whole, although students from other departments may have equal if not higher propensity to become entrepreneurs. This narrow focus also reduces the scope for multidisciplinary co-operation and joint work by students from different backgrounds, which can be important for successful entrepreneurship projects. A commonly effective way of spreading the entrepreneurship education offer across an HEI, while encouraging multidisciplinary co-operation, can involve the establishment of entrepreneurship centres that are not linked to a specific department and are open to all students.

**Box 5.12. Velocity entrepreneurship education programme,
University of Waterloo, Canada**

Velocity is a leading entrepreneurship programme run by the University of Waterloo in Ontario. It provides the knowledge, tools, space and network that entrepreneurial students and start-ups need from idea generation through product development to commercialisation. Velocity has three main components:

- **The Velocity Residence:** A student residence created to house up to 70 entrepreneurial students per term who live together on campus and have access to opportunities to learn from a network of mentors and entrepreneurs (e.g. weekly dinners with start-up founders, boot-camps for team and project building, etc.).
- **Velocity Alpha:** A tri-annual series of 12 weekly workshops, panel discussions and brainstorming sessions that provide entrepreneurial students from any faculty the practical knowledge and coaching needed to get started in building a business. It connects people to one another and introduces teams to the various resources that exist in the broader community.
- **Velocity Science:** In collaboration with the university department of science, this offers a peer network, a community of mentors, a series of workshops and a discovery lab to students interested in starting a business related to life science or material sciences.

Building on the foundation of its three on-campus programmes, Velocity also enhances the local entrepreneurial ecosystem by providing two off-campus workspaces for start-ups free of charge. Here, students and alumni benefit from peer advice, mentor networks, and connections to potential investors:

- **Velocity Garage:** A 7 000 square feet incubation space hosting more than 30 software start-ups.
- **Velocity Foundry:** An 11 000 square feet workspace for more than 30 hardware and life- and material sciences start-ups.

Funding is offered by Velocity on a competitive basis, which involves an application, an interview and a business pitch. In particular:

- **Velocity Fund** is a grant programme that offers more than CAD 350 000 each year to local start-ups through the CAD 25K section and the CAD 5K section. Moreover, three times a year Velocity hosts the Velocity Fund finals, a pitch competition where CAD 125 000 are awarded to eight start-ups.

Velocity takes no equity and no intellectual property rights in return for the grant.

More than 120 companies have emerged from Velocity-related initiatives. These companies have created 700 jobs and secured CAD 190 million worth of investments.

Source: <http://velocity.uwaterloo.ca>.

The direct involvement of students is also important to increase students' interest in entrepreneurship education. Through student networks or student clubs, university students can contribute to the design of curricular and extra-curricular activities. In Canada, this is exemplified by Enactus-Canada, the local branch of a global not-for-profit network. In 2015, approximately 2 700 students and 120 faculty advisors on 67 campuses were part of the Enactus-Canada community. Altogether they implemented 288 community development projects and started 891 businesses providing employment for 1 025 people. Entrepreneur-in-residence programmes can also stir students' interest by debunking

myths about what it takes to become an entrepreneur and making available guidance and mentoring to students and early-stage companies.

Experiential learning opportunities are of great importance in tertiary education as well as at other education levels. For example, student internships in growth-oriented start-ups allow students to learn about the life of a new business venture. The number of start-up internship programmes is, however, very small in Canada, despite the large number of business incubators and business accelerators which could offer a regular supply of such opportunities.

Many of the challenges to better integrate entrepreneurship education in tertiary education in Canada could be tackled by leveraging the role of existing associations representing Canadian HEIs or supporting entrepreneurship education, rather than seeking to set up new national forums. Universities Canada (i.e. the association of universities and colleges of Canada) and Colleges and Institutes Canada (i.e. the association of Canadian community colleges) could, for example, support the spread of good practices across the country. In the United States, for example, the National Science Foundation funds the National Centre for Engineering Pathways to Innovation to spread good practice approaches to developing entrepreneurship and innovation skills across universities and colleges (Box 5.13). Connections with existing government programmes could also be developed further in Canada to support entrepreneurship education. For example, start-up internships could be boosted by signing agreements with the main players in the Canada Accelerator and Incubator Program (CAIP).

Box 5.13. Pathways to Innovation, United States of America

The Pathways to Innovation programme is run by the National Center for Engineering Pathways to Innovation (Epicenter) and funded by the National Science Foundation and directed by Stanford University and VentureWell.

The programme helps engineering faculties of United States colleges and universities to develop innovation and entrepreneurship skills through their curricula. To do this, it uses a collaborative, peer-based approach. First, participating schools organise a team of faculty members to undertake a baseline analysis of the school's innovation and entrepreneurship activities, using a provided self-assessment tool. Based on this assessment, each school designs a two-year strategy. Peer institutions that have already gone through the process provide models and guidance on what has worked elsewhere. Guided by this active partnership, each team starts implementing its strategy, which may include changes to curricula and development of extracurricular offerings. Throughout the process, a peer-based “community of practice” is central to the work. In addition to two workshops at the outset of the programme, university teams are expected to participate in a number of “virtual” meetings. Several cross-institutional partnerships have also resulted from closer collaborations between the first participating schools.

As of June 2015, 37 schools were enrolled in the programme. These schools had developed 13 majors, certificates or degrees, designed 38 new courses, launched 16 competitions and created 27 new spaces to support idea exchanges among students around innovation and entrepreneurship.

Source: <http://venturewell.org/pathways-to-innovation>.

Management consultancy and advice programmes

Research suggests that Canada does not have enough business managers with the management skills needed to create vibrant innovation cultures within their companies and grow through innovation (The Institute for Competitiveness and Prosperity, 2010; Conference Board of Canada, 2014 and 2015). A further study, supported by ISED, indicates that while Canada has a strong supply of senior technology talent and a strong supply of corporate and administrative talent, it lacks a supply of senior executives with customer-facing talent for sales, marketing and support (Snowy Cloud, 2015).

Canadian business schools have sometimes been blamed for this lacklustre performance in innovation management skills by not adequately equipping their students with the skills necessary to become successful managers of growing technology firms and with the skills to create strong innovation cultures in those firms. Outside of the education system, an increased use of external expertise and advice is often seen to lead to better management decisions in small businesses, including an increased propensity to take pro-growth investment decisions.

A key federal player in business management support and advice in Canada is the BDC, which is also a major source of entrepreneurship and SME finance. As a crown finance corporation that is wholly owned by the government, the BDC takes on board most of the costs linked to the development and delivery of its advisory services. This ensures that they are affordable to small businesses, though in most cases not for free. The BDC uses its network of more than 100 business centres across Canada, as well as external organisations, to reach out to its clients. In 2014, it worked on 2 500 SME consulting mandates for an average transaction value of CAD 8 700.

The combination of financing and business advisory services is a good practice of the BDC. A recent analysis shows, for example, that BDC clients who receive both financial and advisory services experience stronger growth in sales, employment and productivity than BDC clients that take up only one of the two. BDC clients who received both consulting and finance reported sales growth between 8-25% greater than a control group of non-BDC clients over the five years following the intervention, while sales growth was only 2-5% higher than in the control group among BDC clients who only received finance (BDC, 2013a).

In 2014 the BDC restructured its advisory services by developing 14 standardised methodologies. The main broad objectives of such services are to help SMEs improve their operational efficiency, integrate technology into their business models, and access foreign markets. A prominent example of the new portfolio of BDC's advisory services is BDC Advantage (See Box 5.14). Through its long-term commitment to participants, BDC Advantage is particularly valuable to those firms that do not draw on external strategic advice and guidance on a regular basis, for example through an external advisory board.

The 2016 Budget proposes a new initiative in 2016-2017 that will help high-impact firms to scale up and further their global competitiveness. Under this new programme, firms will be able to access coordinated and tailored services (such as finance, advice, and export and innovation support) from the relevant federal agencies. The intention is to target 1 000 firms in the first few years and to expand thereafter (OECD, 2016).

On the whole, existing government-backed advisory services show a strong preference for start-ups and innovative firms, while there is relatively limited support for existing non-innovation driven SMEs. Two exceptions are the Operational Efficiency Program (OEP) of the BDC and the activities of the RDAs and FedNor. The OEP of the BDC aims to support

Box 5.14. BDC Advantage, Canada

BDC Advantage is an initiative meant for mostly mid-sized (between 100 and 500 employees) “high-impact” firms to help them build management and organisational capabilities and thereby realise rapid business growth. Two main features of this programme are that: i) it directly addresses key growth barriers such as limited management capabilities, access to foreign markets, access to equity finance and access to skilled labour force.; ii) it intends to build long-term relationships with client firms, contrary to standard short-term advisory mandates.

BDC advisors provide strategic advice to fast-growing entrepreneurs through formal management training, peer to peer networking and other tailored non-financial services. Moreover, they can signpost client firms to relevant programmes and services offered locally by third-party organisations. Finally, along the activities of BDC Advantage, the BDC’s financing business line can provide integrated financial services tailored to the needs of high-impact firms.

Source: BDC (2015).

improvements in the production processes of SMEs, regardless of their stage of development or industry, with a focus on small companies (usually less than 50 employees). The programme helps small businesses to compare their productivity performance with that of other companies in the same industry, isolate the main causes of inefficiency in enterprise operations, and implement operational best practices that streamline production processes and reduce production costs. The OEP undertakes about 500 consulting mandates per year. The RDAs and FedNor provide ongoing consultancy and advice to mainstream SMEs through their project officers in the field. In addition to direct advice, the RDAs and FedNor also signpost SMEs to a network of local partners who can help them move forward their specific business development projects.

One of the reasons why traditional SMEs have limited access to management advisory services is that Canadian chambers of commerce and business associations primarily act as advocacy institutions, while they are much less involved in giving specialised consultancy and advice, free of charge or at affordable cost, to their members.

To fill this gap, the Canadian government could consider covering part of the cost faced by small businesses to access management advice offered by certified private-sector consultants. Special attention could be paid to business strategy, business internationalisation, supply chain management, sales and marketing and after-sales services, areas where Canadian SMEs have stronger needs. Manufacturing SMEs stand to particularly benefit from this kind of support. Since the 2008 global recession, many of these firms have downsized or gone out of business, squeezed between the cost-based competition coming from emerging economies and the urge to innovate and differentiate their products from lower-cost ones (BDC, 2013b).

In parallel, a self-assessment diagnostic tool made available online, free of charge or at affordable cost would strengthen the outreach of government-backed advisory services by enabling a large number of small businesses to understand better their management capacities and needs. There are already some self-assessment diagnostic tools focused on specific themes and available for a charge, such as the Conference Board’s Index of Corporate Innovation.⁷ However, a publicly-supported, self-assessment tool could take a more holistic view by screening management areas beyond innovation, such as production, internationalisation, human resource management and marketing. It could be provided free of charge or with charges set at a low level so as not to discourage wide participation by small businesses.

Workforce skills development programmes for SMEs

Canadian entrepreneurs show a weak and declining propensity to invest in formal workforce training (Burleton et al., 2013), although they often recognise the importance of workforce training for business competitiveness (BDC, 2012). One of the main public programmes available to support workforce training is the Government of Canada's Canada Job Fund (CJF), which has taken over from the previous Labour Market Agreements. The CJF provides federal investments of CAD 500 million per annum, which are transferred to provinces and territories for investments in worker skills and training. The focus is on support for the unemployed and the low skilled employed, such as literacy and essential skills training and employment counseling. However, the agreements include employer-sponsored training initiatives, such as the Canada Job Grant (see Box 5.15). The CJG can help businesses, including small businesses, train unemployed individuals or existing employees for available jobs. It offers large flexibility with respect to training structure, contents and delivery methods and has special provisions to facilitate access by small businesses. Provinces and territories are responsible for administration and delivery of this programme. In addition, RDAs and FedNor provide support for SME workforce training as part of their regular programmes.

Box 5.15. Canada Job Grant

The Canada Job Grant (CJG) helps employers to train unemployed or under-employed individuals for specific available jobs. The CJG offers funding toward the cost of training provided by eligible third-party trainers such as colleges, trade union centres or private training companies. Participating enterprises must invest in the training and recruit or continue to employ the trainees upon completion of the training.

A specific advantage of the CJG is the large flexibility it offers with regard to training structure, contents and delivery method. Training can be provided in a large variety of functional/thematic areas and can take place in different settings, including classrooms, workplace or online.

The CJG provides two thirds of the training costs (up to a maximum of CAD 10 000), covering tuition/training fees and training materials, while employers are required to contribute the remaining one third. To encourage participation by small businesses, the CJG offers enterprises with up to 50 employees the opportunity to make "in-kind" contributions: i.e. wages paid to the training participant can count for half of the employer contribution, leaving as little as 15% to contribute directly. Moreover, access of SMEs has been further facilitated by reducing red tape and offering an easy application process with all required forms available online.

Source: www.esdc.gc.ca.

Notwithstanding these initiatives, combined federal and provincial resources for the upskilling of existing small business employees are low, whether provided to SMEs or directly to individual employees (CCC, 2012). Several OECD countries have embarked on comprehensive policy initiatives to incentivise training in small businesses. Interesting broad-based approaches are the Industry Training Funds (ITF) in Italy, the Industry Skills Fund in Australia and the Skills for Growth strategy in the United Kingdom. The Italian ITF, for example, allocates employer social contributions (0.3% of the total payroll) to training schemes designed by the social partners (employer organisations and unions) with the participation of companies that chose to become part of an ITF. In 2012, there were 21 ITFs recognised by the

Italian Ministry of Labour, which had allocated some EUR 450 million for training activities, nearly 80% of which was for training at company level (OECD, 2014). This type of measure could provide an important boost to small business workforce skills in Canada.

Other potential measures include the use of tax credits to employers for training expenditures and personal training vouchers for small business employees. In addition, SMEs, especially small and micro enterprises, could benefit from advice to help them identify in which areas workforce training is most urgent in their organisations.

Public procurement programmes

Available data suggest that Canadian SMEs participate more in government procurement than SMEs in the European Union (PwC, 2014a). The federal government department Public Service and Procurement Canada (PSPC) handles more than 75% of federal procurement and acts as a common service provider for federal departments and agencies. In 2005, PSPC created the Office of Small and Medium Enterprises (OSME) to facilitate the interaction of SMEs with government procurement (Box 5.16). Today, Canadian SMEs win more than 80% of all public contracts awarded by PSPC and hold a share of approximately 40% in total procurement volume. When only contracts of up to CAD 1 million are taken into account, the proportion of SMEs in contract value rises to almost 80% (PSPC, 2013). However, SMEs may still be underrepresented in large public contracts (CFIB, 2011).

Box 5.16. Supporting small business access to public procurement, Canada

The Office of Small and Medium Enterprises (OSME) in Public Service and Procurement Canada advocates on behalf of small businesses and encourages small business participation in public procurement. OSME works to reduce the main procurement barriers, raises awareness among government buyers about small business concerns, trains procurement officials to keep suppliers' perspective in mind when setting out the calls for tender, recommends improvements to procurement tools and processes, and provides training and education to small businesses interested in doing business with the federal government.

One of the main barriers to small business participation in public procurement is a perception that related rules and regulations are complex. OSME helps debunk government procurement through extensive awareness-raising activities and provision of user-friendly information, including through six regional centres across the country. Free webinars, seminars and a toll-free InfoLine assist suppliers in understanding federal procurement processes. Furthermore, OSME reaches out to small businesses through conferences, trade shows and industry associations. Every year, OSME assists about 60 000 (potential) suppliers and organises approximately 1 100 outreach events.

The government procurement website "buyandsell.gc.ca" has been designed in co-operation with hundreds of businesses and government representatives across Canada and is a key element of OSME's outreach activities. The one-stop portal provides access in plain language to federal procurement information and open data including bidding opportunities (tenders), standing offers, supply arrangements and contract history. The website also contains a self-guided five-step tour that helps new and experienced suppliers selling their goods or services to the federal government.

In order to receive feedback from small businesses on how to create more SME-friendly procurement policies, OSME has also set up a supplier advisory committee with participants from different industries which meets on a quarterly basis and conducts surveys of SME suppliers every three years.

Box 5.16. Supporting small business access to public procurement, Canada (cont.)

OSME also manages the Build in Canada Innovation Program (BCIP) which assists Canadian businesses in testing their innovative goods and services with the government before they are commercialised (see section on innovation policies).

Source: www.tpsgc-pwgsc.gc.ca.

As part of the defence procurement strategy, the government of Canada has also developed a policy called Industrial and Technological Benefits (ITB) managed by ISED. This requires 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 small businesses. Small businesses can benefit either directly, by undertaking work which is closely linked to the equipment or service being procured by the government, or indirectly, by undertaking more generally work related to the contractor's product or business line. Eligible activities include, among others, the purchase of goods and services from suppliers, investments in R&D and technology transfer.

The RDAs and FedNor have an important role supporting and leveraging regional opportunities associated with this policy by promoting their region's industrial and technological capabilities to defence contractors, brokering connections between defence contractors and regional businesses and promoting the economic interests of the region they represent in the development and implementation of the ITB policy.

Additional improvements in federal procurement policies for small businesses could include granting the PSPC/OSME the authority to review large contracts and suggest whether or not they could be broken up into smaller lots. This approach is used in the United States by the Small Business Administration, which has established set-aside quotas for SMEs in public procurement. The public procurement process could also be simplified in Canada for very small-sized contracts.

In parallel, the government could make greater efforts to pay public contracts as quickly as possible. In recent years, it was estimated that only about 20% of suppliers received payment from government clients within the 30 day timeline stipulated by the Treasury Board of Canada (CFIB, 2011). Late payments are likely to impact more negatively on cash-constrained small businesses than other firms.

Programmes for entrepreneurship promotion among disadvantaged and under-represented social groups

Many countries have developed dedicated SME and entrepreneurship policies aimed at specific sections of the population that are disadvantaged or under-represented in entrepreneurship activity and growth-oriented entrepreneurship, or alternatively have developed specific mechanisms to facilitate their access to mainstream programmes (OECD/EU, 2015). This section looks at policy developments in Canada in respect to specific policies for rural entrepreneurship, social entrepreneurship, youth entrepreneurship, indigenous entrepreneurship, immigrant entrepreneurship and business succession from senior entrepreneurs approaching retirement. The theme of women's entrepreneurship, a priority of the Canadian government, is analysed in greater detail in Chapter 7 of the report.

Rural entrepreneurship

Small business and entrepreneurship development in rural regions of Canada is primarily pursued at the federal level by the Community Futures Program (CFP). Given the geographical scale of Canada and the existence of many small local communities scattered across the country, often in remote areas, the CFP fulfils an important role in the federal small business policy landscape.

The CFP was established in 1985 to promote economic stability, growth and job creation in rural economies, build more diversified and competitive rural economies, and contribute to more economically sustainable rural communities. It has an annual budget of CAD 76 million and is implemented by the federal RDAs (ACOA, CED-Q, WD and FedDev) and FedNor in their respective regions.⁸ The only one of these organisations not responsible for the implementation of CFP is CanNor, which has its own programmes for business and community development in the northern territories, which share several common features with the CFP.

The RDAs and FedNor deliver the CFP by financing 269 Community Futures organisations (CFs). These are not-for-profit organisations that operate independently of the government and are overseen by volunteer boards of directors who are representative of the communities that they serve. The CFs are tasked with four activities: i) fostering strategic community planning and socio-economic development; ii) delivering a range of business, counselling and information services to small businesses and social enterprises; iii) providing access to capital to assist new and existing small businesses and social enterprises; and iv) supporting community-based projects and special initiatives. Business development (activities ii and iii) is the dominant type of support, helping the creation, development and transfer of businesses through consulting, debt finance, equity investments and technical assistance (OECD, 2010). The focus of CFP is on very small businesses; for example, in Western Canada 95% of CFP loan clients had less than 20 employees.

The CFP is an initiative that espouses a bottom-up and endogenous approach to rural development and strongly supports local autonomy. As such, the success of the CFP has varied locally, depending on the level of engagement of local communities and the capacity of CF managers to develop a clear vision of the economic development opportunities in their respective communities (OECD, 2010). Overall, however, the evaluation evidence collected by the RDAs and FedNor in charge of implementation of the CFP tends to show positive results and a continued need for this programme, notably its business development component.

For example, with respect to CF business loans, WD found that most clients who had requested a CFP loan from a CF in western Canada had previously been denied funding from other sources and that CF-assisted firms outperformed a comparable group of non-assisted firms in terms of employment growth, survival rate and revenue growth (WD, 2014). From 2005 to 2010, CF-assisted firms had an average employment growth rate of 9.5% compared with 4.2% for non-assisted firms; a survival rate of 76% five years after the start of their businesses, compared with 60% for non-assisted firms; and an average revenue growth rate of 13.8% compared with 6.1% for non-assisted firms. Similarly, between 2009/10 and 2012/13, small businesses that received CFP loans from CFs supported by FedDev in southern Ontario grew significantly faster (average revenue growth of 14.9% vs. 6.9%) and had higher survival rates after five years (88% vs. 66%) than similar businesses that did not receive CFP loans (FedDev, 2014). Although these results are subject to a self-selection bias by which more

viable firms are more likely to receive public support than less viable firms, they broadly point to general positive outcomes of CFP loan support.

CFP clients also seem to appreciate the management advice, training and other forms of technical assistance that they receive from the programme. Over two-thirds of non-loan clients rated these services as important or very important for the further development of their business in the case of FedDev, while in Western Canada one-on-one business counselling services were reported as the most common reason for satisfaction with the programme among CFP non-loan clients (FedDev, 2014; WD, 2014).

Overall, the CFP emerges as a well-functioning programme, although some opportunities for improvement can also be identified. First, loan volumes appear modest on the whole. For example, in Western Canada, the average number of loans per CF per year was only 16.8 in the period 2008-13. This implies that the CFP disbursed on average only 1 500 loans per year in the four western provinces of Canada. In southern Ontario, the CF provided 2 799 loans from 2009/10 to 2012/13, i.e. about 930 loans per year. Given identified small business credit needs and good evaluation results for the impact of CFP loans, there seems to be a case for increasing funding for the CFP so as to scale up its outreach. Second, there seems to be scope for making better use of unused resources in CFP. For example, the WD evaluation revealed that individual CFs held over CAD 80 million in funds that were not invested in active business loans as at 2013, representing 28% of the overall value of the CFP investment funds for Western Canada. Third, there appear to be significant differences in the effectiveness and efficiency of CFs across the country (OECD, 2010), suggesting scope for increased sharing of good practices among them and capacity-building in strategy and management in the weaker CFs.

Social entrepreneurship

Social enterprises are organisations whose goal is to provide goods and services to customers in the marketplace while pursuing a social mission. The main aim of social entrepreneurs is therefore not to maximise profits but to generate social value. The five main types of social enterprises in Canada are co-operatives, non-profit organisations, community development/interest organisations, indigenous businesses and businesses with a social mission (McMurtry et al., 2015). In 2016, there were an estimated 25 000 social enterprises in Canada.⁹ Co-operatives are the most common form of social enterprises in Canada; those that responded to the 2010 Annual Survey of Canadian Co-operatives reported CAD 33.9 billion in revenues and CAD 20.7 billion in assets, employed almost 88 000 Canadians, had 7.4 million members and paid over CAD 746 million in patronage dividends back to their members and local communities (ISED, 2015).

Policy support for social entrepreneurship is primarily delivered by provinces and territories in Canada. Quebec and Ontario have historically been leading provinces in terms of the emergence of social entrepreneurship and the development of policy support. Some main recent developments in social entrepreneurship at provincial level are profiled in Box 5.17.

One of the main types of intervention that can support social entrepreneurship is facilitating access to finance for social entrepreneurs. For example, in Ontario, access to capital was identified by 80% of social entrepreneurs as the major barrier to their success (Ontario Government, 2015). One of the recent responses has been the development of social impact investment at provincial/territorial level. This consists in the provision of finance to

Box 5.17. Social entrepreneurship developments in Canadian provinces**Quebec**

Quebec was an early leader in the development of social entrepreneurship in Canada. It now has more than 6 000 social enterprises generating more than 70 000 jobs. It also has the largest concentration of co-operatives among the Canadian provinces, with 2 881 co-operatives representing 36.6% of the national total (i.e. 7 865 co-operatives) (ISED, 2015). There has been longstanding policy support for social entrepreneurship in Quebec, which commonly emphasises cross-sector partnership. For example, the *Réseau d'investissement social du Québec* is a not-for-profit organisation and hybrid fund established in 1997 that has combined funding and support from the provincial government, the private sector and the philanthropic sectors to provide both loans and loan guarantees to social economy enterprises, co-operatives and non-profit organisations. Another longstanding Quebec initiative is the *Chantier de l'économie sociale*, an example of a large and effective network bringing together representatives and promoters of social economy enterprises in over 20 economic sectors, as well as local and regional development stakeholders to foster the social economy in the province. More recent initiatives include *L'Esplanade*, Montreal's first social entrepreneurship hub and collaborative space, and *Impact8 Québec*, an accelerator which assists high potential social enterprises.

Ontario

Ontario hosts 10 000 social enterprises and nearly 1 700 incorporated co-operatives. The Ontario government has developed a Social Enterprise Strategy. This includes various financing initiatives for social enterprises: i) The Ontario Social Enterprise Demonstration Fund is a CAD 4 million pilot fund to help high-growth social entrepreneurs, with funding being delivered through community-based intermediaries; ii) The Ontario Catapult Microloan Fund can provide social enterprises with loans of between CAD 5 000 and CAD 25 000 at concessionary rates as well as business mentorship; iii) the Ontario Community Loans Pilot Project incentivises social inclusion through discounted commercial loan rates to small business owners who commit to hiring people with disabilities or who face employment barriers.

Other provinces

Other provinces are also prioritising the development of social entrepreneurship. For example, in British Columbia, the B.C. Social Innovation Council has developed an action plan that provides guidance on how to maximise social innovation in the province through government work. Recent activities include a Social Enterprise Month to celebrate the social enterprise sector; the launch of an online social innovation community (HubcapBC.ca); the creation of a new hybrid corporation type – the Community Contribution Company – to support social enterprises in attracting investors and customers; and the development of Social Impact Purchasing Guidelines by the Ministry of Social Development and Social Innovation. Manitoba also launched a comprehensive Social Enterprise Strategy in 2015, which offers a roadmap for the further development of the sector. Newfoundland and Labrador was working on a similar strategy in early 2016.

Source: "Supporting social enterprise investment in Québec", www.virgin.com/unite/entrepreneurship/supporting-social-enterprise-investment-in-quebec, accessed on 5 August 2015; Ontario Government (2015), *Making an Impact: Ontario's Social Enterprise Progress Report 2015*; <http://socialinnovation.ca/catapult>.

organisations addressing social needs, with the expectation that the investment will bring financial as well as social returns. Relevant projects include the launch of social impact bonds in Saskatchewan and Ontario. In a further joint initiative in Ontario and Quebec, the

SVX has been established as an investment platform to connect social ventures, funds and investors in these provinces. These developments respond to the considerable demand by social enterprises for small-sized, simple and unsecured financing sources.

Another emerging policy tool to promote social entrepreneurship in Canada is social procurement, which involves the use of public procurement strategies to support social policy objectives. This implies the use of social and financial values in procurement decisions. Various jurisdictions at provincial and territorial levels are taking actions to support social enterprises through their purchasing activities, for example in Quebec, Ontario, and British Columbia.

The federal government could provide additional support for social entrepreneurship to complement measures undertaken by the provincial and territorial governments. The support could involve a number of policy thrusts. First, the federal government could make federal mainstream business support programmes more open to social enterprises. This could involve reviewing the eligibility criteria of programmes such as the CSBFP and the BDC consultancy programmes to ensure that they do not discriminate against social enterprises. It could also seek to increase awareness of these programmes and how they could benefit from them among social entrepreneurs. Second, the federal government could continue to support the development of social impact investment in Canada. For example, the National Advisory Board on Social Impact Investment has highlighted key priorities for supporting the growth of social impact investing and provided advice to the global policy discussion in the frame of the G7 Taskforce on Social Impact Investment. More recently, the Ministries of Families, Children and Social Development and Employment, Workforce Development and Labour have been mandated to develop a Social Innovation and Social Finance Strategy. Third, the federal government can stimulate the social enterprise sector by ensuring that public procurement is open to social enterprises. For example, PSPC has recently started to promote new social procurement strategies in federal government departments. It can play a leadership, monitoring and training role for public sector buyers in social procurement techniques.

In addition, the federal government would be well placed to support the development of a national certification for those social enterprises that wish to obtain such a label, or to co-ordinate provincial and territorial governments in developing mutually recognisable certifications. Social enterprise certifications could then be used as eligibility criteria for access to targeted public support programmes, to preferable public procurement schemes or to communicate social impact orientation more easily to potential financiers in the market.

Youth entrepreneurship

Futurpreneur Canada is the main organisation supporting youth entrepreneurship in Canada. It is a non-governmental organisation (NGO) that receives an annual government contribution of approximately CAD 9 million to support its operations (see Box 5.18).

Futurpreneur is a successful initiative. Its loan repayment rate is around 90%, even in the absence of collateral requirements, and five years on from enterprise creation supported companies have created on average five jobs. However, it is estimated that Futurpreneur assists only 2-3% of the potential youth entrepreneurship market, based on information submitted by its CEO to the Standing Committee on Finance in October 2014.

In view of the pronounced interest of many young Canadians in starting their own business, the government could consider scaling up and widening the scope of this programme.¹⁰ An expanded and longer-term funding commitment would help ensure that

Box 5.18. Futurpreneur Canada

Founded in 1996 as the Canadian Youth Business Foundation, Futurpreneur is the only national, non-profit organisation providing financing, mentoring and support tools to aspiring business owners aged 18-39 years.

One of the key contributions of Futurpreneur is business loans to young entrepreneurs. Since 2008, Futurpreneur operates a co-funding arrangement with the BDC. With one application, a founder can obtain a loan of up to 15 000 CAD from Futurpreneur, which uses a line of credit guaranteed by the BDC, and another one of up to 30 000 CAD from the BDC itself. Both loans are offered at favourable interest rates and collateral free. Futurpreneur is responsible for managing the initial relationship with the applicant and conducting the initial due diligence. This accelerates BDC's decision on the loan applications it receives from young entrepreneurs.

In addition, Futurpreneur provides young entrepreneurs with business development support services. Potential young business founders can access Futurpreneur support services at 15 regional offices or through one of 340 community and referral partners across Canada. Futurpreneur offers a wide range of support services in the pre-launch phase to assist young starters to prepare a viable business and credit plan. Services include coaching by entrepreneurs-in-residence and an online business resource centre.

The outstanding good practice element of Futurpreneur is the combination of finance with one-on-one mentoring: for the first two business years, young entrepreneurs are matched with an experienced business expert from Futurpreneur's network of approximately 3 000 volunteer mentors.

As of December 2015, Futurpreneur had assisted more than 8 600 young entrepreneurs (of which 40% were women). They started 7 200 new enterprises that created approximately 35 000 new jobs. The average age of supported founders was 27, the majority of whom had previous work experience. Supported enterprises operated in almost all industries, with only 5-10% considered high-tech.

Source: www.futurpreneur.ca.

the existing support structure, network relations and well-known brand of Futurpreneur can be maintained and further expanded to assist Canadian young entrepreneurs. Moreover, this programme could play a role in addressing the problem of business succession in the sense of developing and funding potential young successors. This would imply adding mentors with knowledge in business succession to its mentors' pool.

Indigenous entrepreneurship

The number of indigenous self-employed increased from around 37 500 in 2006 to about 41 500 in 2011, based on information from National Housing Surveys. However, there remains an important gap in labour market activity rates and outcomes for indigenous populations that increased self-employment could help address.

The federal government encourages indigenous entrepreneurship and supports majority-owned indigenous small businesses mainly through Indigenous and Northern Affairs Canada's (INAC) Aboriginal Entrepreneurship Program (AEP). This programme provides support to indigenous entrepreneurs for business start-up, expansion and acquisition through opportunities for access to finance, business information and advice and technology development. The AEP supports the developmental lending services

offered by Aboriginal Financial Institutions (AFIs) by funding capacity-building activities for AFI employees, interest-rates rebates and capital allocations to partly cover loan losses and administrative costs. The AEP also provides non-repayable equity contributions to indigenous entrepreneurs and small businesses. Between 2014 and 2016, management of the AEP was successfully transferred to the National Aboriginal Capital Corporations Association (NACCA), which represents AFIs nationally.

Today, there are approximately 53 AFIs. They are independent institutions controlled by and accountable to their own community and rely more on community-based credit assessment (i.e. relationship lending) than on standard credit scoring methodologies making the loan decision-making process closer to the communities that the AFI serves. In addition to loans, 14 AFIs were selected as Programme Delivery Partners of the AEP to offer non-repayable equity contributions to allow indigenous-owned small businesses to leverage additional financing from private sources. Individual indigenous entrepreneurs are entitled to receive up to CAD 99 999, while funding assistance for community-owned businesses can reach CAD 250 000. Co-participation by applicants in project funding is required and typically amounts to at least 10% of the project costs.

AFIs are active players in the support of indigenous entrepreneurship and small business development. They offer developmental loans, financial and management consulting services and aftercare support to First Nation, Inuit and Metis people and communities across all provinces and territories of Canada. They were established between the late 1980s and the early 1990s to tackle major barriers experienced by indigenous entrepreneurs in access to finance from mainstream banks, including lack of capital and collateral, remoteness from main lending centres, and perceptions of Indigenous communities as risky borrowers. Since their inception, AFIs have been capitalised with more than CAD 240 million in cumulative financing from the federal government and, as a result, have provided more than 38 000 loans totalling more than CAD 2 billion. Over the last five years, they have provided CAD 573 million in new loans, contributing to create or maintain about 20 500 jobs. The BDC also offers a range of dedicated consulting and financial services to indigenous businesses. The BDC Growth Capital for Aboriginal Business programme offers flexible term loans of up to CAD 25 000 for new indigenous businesses and up to CAD 100 000 for existing indigenous enterprises. The BDC has also committed CAD 1 million to four Aboriginal Business Development Funds. These are delivered by community-based organisations and provide mentoring via experienced consultants from the Canadian indigenous population. In addition, the BDC promotes entrepreneurial skills in young indigenous people through “E-Spirit”, a national business plan competition for indigenous youth in grades 10 to 12.

Another major player is the CanNor RDA, which encourages indigenous entrepreneurship in the northern territories through its Northern Aboriginal Economic Opportunity Program. The programme provides financial support to First Nations and Inuit communities to strengthen their participation in economic development opportunities, including through business creation and business growth.

Finally, the federal government uses procurement as a tool to build business capacity in indigenous communities, in particular through the 1996 Procurement Strategy for Aboriginal Business, which helps indigenous enterprises in competing for federal contracts.

Though this package represents a relatively comprehensive range of support measures, a key challenge seems to be reaching the target group and informing it about the available

programmes. An option would be to co-operate more strongly with regional community centres, schools and the media to address potential indigenous entrepreneurs. Because of a shortfall in role models, policy makers could also increase efforts to showcase successful indigenous business owners, for example by connecting them with high-school students through meetings at school and company visits. Finally, entrepreneurship skills development could be added to active labour market programmes targeting the unemployed in indigenous communities.

Immigrant entrepreneurship

The Start-up Visa Program is the federal government's main instrument to attract immigrant entrepreneurs. Launched in April 2013, the Start-up Visa Program differs from an earlier immigrant entrepreneur programme that only required immigrant entrepreneurs to have business experience, a modest net worth and to create one full-time job in order to obtain a permanent resident visa.

The new Start-up Visa Program pursues a different approach. It aims to attract top-notch entrepreneurs from all over the world with innovative business ideas and links them with private sector organisations that have expertise in working with start-ups. Start-up Visa provides permanent resident status to successful applicants, regardless of the ultimate success of the business venture, in recognition of the fact that not all start-up ventures are initially successful and this is the nature of the industry. The main requirement is that start-ups must first secure a minimum investment of CAD 200 000 from a designated Canadian venture capital fund or CAD 75 000 from a designated Canadian angel investor group, or acceptance into a designated Canadian business incubator or accelerator programme.

As of October 2016, the Start-Up Visa Program had granted permanent residence to over 70 entrepreneurs (more applications were being processed), which is in line with the intended size of this niche programme. Nevertheless, designated organisations (such as incubators and accelerators) under the programme have sometimes found it difficult to deal with the large volume of proposals that they receive from foreign entrepreneurs. As a result, many have decided to shift to a proactive rather than a reactive approach in the recruitment of foreign entrepreneurs by travelling abroad and using contacts in other countries to find entrepreneurs who fit their business model. Policy makers could also consider widening their own marketing activities for the Start-Up Visa Program, which to date, seem to have been concentrated in the United States and, in particular, the Silicon Valley.

Enterprise succession

Several surveys indicate that between 50% and 60% of Canadian enterprise owners will retire within the next five to ten years (CFIB, 2012; PwC, 2014b) and that less than 20% have a robust succession plan (CFIB, 2012; KPMG, 2012).

The BDC's Growth and Transition Capital Offering can be used to support enterprise succession, which accounts for approximately 40% of BDC's portfolio in this programme. Through this instrument, the BDC offers cash flow, mezzanine financing, quasi-equity and equity to support the acquisition of enterprises with retiring owners. Some smaller scale initiatives have also been launched. For example, in 2014, the ACOA RDA provided funding to *La Coopérative de développement régional-Acadie*, an organisation representing 40 francophone co-operative organisations in New Brunswick, to develop a tool box explaining and promoting business co-operatives among SMEs where business succession was imminent

but no clear plan was in place. The CED-Q RDA (Quebec) provides funding for enterprise transfer and succession through its regular programme.

The federal government could also consider the creation of a formal online exchange mechanism where potential buyers and senior entrepreneurs searching for successors could meet virtually to discuss the sale of businesses. Such an online tool would best be developed by the BDC in collaboration with provincial and territorial government authorities and chambers of commerce. The BDC would also be well placed to offer specialised financing and management advice solutions once the buyer and seller of a business are matched through the online tool.

In addition, the eligibility criteria of some of the existing public access to financing programmes could be adjusted to make business succession eligible for support. Finally, efforts could be pursued to develop information for senior entrepreneurs and potential business acquirers on preparing and achieving business succession, such as published guidelines, seminars and webinars prepared in collaboration with business associations and tax consultants.

Conclusions and policy recommendations

The Canadian federal government offers a fairly comprehensive package of support programmes for small business owners and entrepreneurs, although the support is stronger in certain areas (e.g. enterprise financing and business innovation) than in others (e.g. workforce and management training).

With respect to enterprise financing programmes, the BDC fulfils a valuable role in keeping credit flowing and serving the riskiest clients in a way that is largely complementary to commercial banks, while the VCAP, managed by BDC Capital, has succeeded in boosting the supply of Canadian venture capital through a funds-of-funds approach. Some gaps nevertheless remain. In particular, the CSBFP loan guarantee programme operates on a small scale and its use is declining. In addition, there appears to be a gap in support for mid-sized equity investments through business angels.

Canada's innovation policy mix has traditionally strongly relied on R&D tax credits. Following the recommendations of the Jenkins Panel, this policy mix has slowly begun to move towards greater use of targeted interventions where there is often a strong mentoring component (e.g. incubators, accelerators, IRAP, etc.). There are some very good practice programmes in this area, including IRAP and CAIP, but also some policy gaps (e.g. public support of non-technological innovation), which seem to justify increasing attention to targeted programme measures for small business innovation.

Business internationalisation is backed in Canada by the full array of conventional instruments working in an effective and complementary way (e.g. international promotional activities, export insurance and export credits). In a typical scenario, the TCS can provide Canadian SMEs with advice and practical support to explore new export opportunities, while EDC can follow on with financing, insurance and matchmaking services. Nonetheless, many small businesses are still unaware of the available services, while others do not have full capabilities to undertake the technical aspects of contracting and insurance related to exporting.

Skills development falls under the prime responsibility of provinces and territories in Canada. As a result, the role of the federal government in entrepreneurship education, management advice and workforce skills development is more limited than in other small

business policy areas. With respect to entrepreneurship education, there is a wealth of local initiatives that promote entrepreneurship and entrepreneurial mind sets across Canada. Nonetheless, the current offer of entrepreneurship support does not match the demand and interest expressed by students, especially in certain provinces where entrepreneurship education has not yet fully rooted. Management advice is mainly aimed at young, innovative and growth-oriented SMEs, whereas the scale of advisory services available to mainstream SMEs is somewhat limited despite some involvement by the BDC and the RDAs and FedNor. There is also limited public support for on-the-job training for SMEs or individual employees (aside from programmes aimed at the unemployed).

Public procurement opportunities are relatively accessible to Canadian small businesses, with 80% of all public contracts and 40% of total procurement volume awarded by PSPC going to small businesses. This has been underpinned by pro-active policies, such as the establishment of the OSME in PSPC and the ITB policy in the federal defence procurement strategy.

Finally, there are some successful policy interventions which encourage small business and entrepreneurship development in specific target groups although there is room to increase their scale in order to better match the scale of impact of the market and institutional failures they address. Social entrepreneurship is actively supported at the local level, particularly in certain leading provinces, but there is scope for complementary federal programme actions. Youth entrepreneurship support is underpinned by federal government funding towards the activities of Futurpreneur, although longer-term and expanded funding arrangements would be needed to enable it to increase its coverage of potential young entrepreneurs. Immigrant entrepreneurship is encouraged by the Start-up Visa Program and access to a range of existing business support services, including a business angel network and a federally-recognised incubator and accelerator programme. The support of entrepreneurship in indigenous communities is pursued by a range of different organisations, including INAC, CanNor and the BDC, mainly through loans and business advice. A remaining challenge is to better inform potential entrepreneurs in indigenous communities about the existing programme offering. Finally, senior entrepreneurs are also an important target group for SME and entrepreneurship programme support, given the high proportion of Canadian enterprise owners likely to retire within the next five to ten years. The BDC's Growth and Transition Capital Offering helps provide succession financing and advice, but additional initiatives should be considered.

Based on this analysis, the following recommendations are proposed to consolidate the offer of federal programmes for entrepreneurs and small businesses in Canada:

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.

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

- 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.
- 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.

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

- 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.

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.

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

- 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.

Notes

1. Within CSBFP, eligible loans can be used only to: purchase or improve land or buildings dedicated for commercial purposes; purchase or improve new or used equipment; purchase new or existing leasehold improvements; or pay registration fees
2. Under the fund of funds concept, limited partners pool their money and employ a third party manager to invest in various private venture capital funds, each of the latter investing in portfolios of entrepreneurial ventures.
3. Mandate letter of the Minister of Innovation, Science and Economic Development (ISED): <http://pm.gc.ca/eng/minister-innovation-science-and-economic-development-mandate-letter>.
4. Firms eligible for the enhanced credit are CCPCs with less than CAD 800 000 in prior-year taxable income and less than CAD 50 million in prior-year taxable capital. The CAD 3 million expenditure limit is gradually reduced if prior-year taxable income is between CAD 500 000 and CAD 800 000 or if prior-year taxable capital is between CAD 10 million and CAD 50 million. SR&ED investment tax credits which are earned by unincorporated businesses are eligible for the standard 15% tax credit which is 40% refundable.
5. It should also be noted that most provinces top up SR&ED with their own R&D tax credits.
6. The major SR&ED eligible costs have, therefore, remained current expenditures, including wages paid to employees directly engaged in R&D materials, overhead expenditures (which can be determined using a percentage of up to 55% of wage costs), and contracts with external research organisations.
7. The Index of Corporate Innovation is a diagnostic tool that measures via an online survey of employees, the innovation capabilities and performance of a business organisation. The survey asks quantitative and qualitative questions in various categories, including corporate culture, leadership, workforce capacity, organisational processes, collaboration, investments, and performance.
8. FedNor is from a legal standpoint a regional development organisation that is part of ISED rather than a regional development agency.

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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 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.

StatLink  <http://dx.doi.org/10.1787/888933554468>

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.

StatLink  <http://dx.doi.org/10.1787/888933554487>

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 ISSED'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 ISSED 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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Chapter 7

Women's entrepreneurship in Canada

This chapter assesses policies to promote entrepreneurship and small business development by women in Canada. It presents evidence on gender differences in the scale and nature of business start-up and small business ownership and on differences in previous management experience, access to markets and access to finance. It also assesses existing policies aimed at overcoming barriers to women's entrepreneurship. It covers the measures to improve the institutional context, enterprise financing, business internationalisation, supplier diversity, and management skills, to offer awareness-raising for entrepreneurship as an option for women and to offer mentoring for women entrepreneurs. It also examines the co-ordination of women's enterprise support policies across different providers. The chapter points both to significant gender gaps in entrepreneurship activity in Canada and active federal government policies to reduce the gaps.

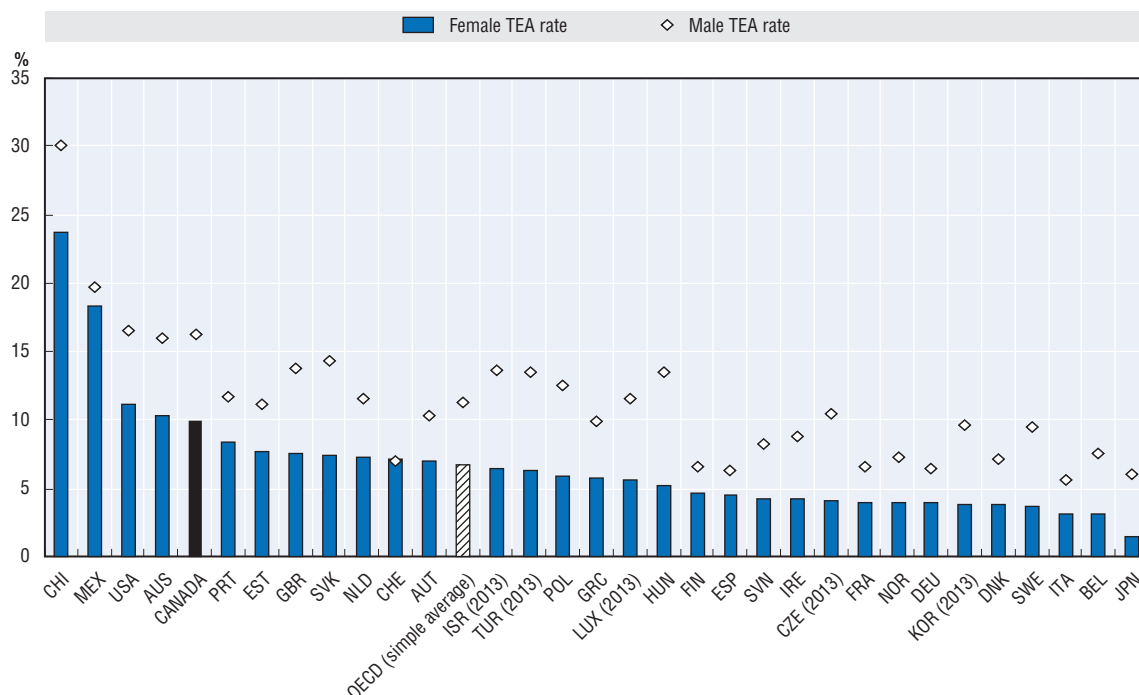
The performance of women's entrepreneurship and women-owned businesses in Canada

Entrepreneurship and business ownership

According to the Global Entrepreneurship Monitor (GEM), both the male (16%) and female (10%) Total early-stage Entrepreneurial Activity (TEA) rates are comparatively high in Canada. Canadian women's GEM TEA rate ranks in the top ten among similar innovation-driven economies.¹ At the same time, the female TEA rate was only two-thirds of the male TEA rate in 2014 (Figure 7.1), notwithstanding the progress made since 2003 when the female TEA rate was only one-half of the male TEA rate (Langford and Josty, 2015).

Figure 7.1. **Proportion of the adult population involved in early-stage entrepreneurship (TEA rate), 2014**

Percentage of the surveyed adult population (18-64)



Note: This graph is also shown in Figure 1.9.

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

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

Most women's entrepreneurship in Canada is opportunity-driven, although there are minor gender gaps in this dimension, too, with 19% of early-stage women entrepreneurs who are necessity-driven (i.e. driven into entrepreneurship by lack of paid employment) compared with only 14% of early-stage male entrepreneurs. Canadian women in early stage entrepreneurial activity are also far less likely than men to believe they have the

skills to succeed, but more likely to report that fears of failure would prevent them from setting out a business (Hughes, 2015a).

In the 2000s, similarly to most other Organisation for Economic Co-operation and Development (OECD) countries, self-employment rates have dropped in Canada, notably from 10.6% in 2000 to 9.2% in 2010, and 8.8% in 2013. However, Canada's male self-employment rate declined more sharply than Canada's female self-employment rate. The male rate dropped from 11.8% in 2000, to 10.2% in 2010, to 9.5% in 2013, whereas the female rate dropped from 9.2% in 2000 to 8.1% in 2010, where it has since then stabilised (OECD, 2012; OECD 2015).

On the other hand, while women have been entering self-employment at a higher rate than men in the last thirteen years for which data are available, fewer of them incorporate (31.3% of women vs. 50% of men) or use paid help (22.3% of women vs. 35% of men), which means self-employed women often lack scale in their business (Canada Works, 2014).

Moreover, majority female-owned small and medium-sized enterprises (SMEs) comprise only a small proportion of total Canadian SMEs (Table 7.1).² In 2011, majority female-owned SMEs accounted for only 15.5% of the total, while equal-ownership SMEs were 18.1% of the total. Two-thirds of SMEs in Canada were therefore majority male-owned. Majority female-owned SMEs also tended to be smaller than majority male-owned SMEs (Table 7.2). In 2011, nearly 60% of majority women-owned SMEs were micro-enterprises employing less than 5 people, while the proportion of sizeable companies with between 20-99 employees was nearly twice larger among majority male-owned businesses (12.3%) than among majority female-owned businesses (6.8%), although this last proportion more than doubled since 2007 (3.1%). Finally, majority female-owned SMEs tended to report lower growth rates in annual revenues than their male counterparts (Table 7.3).

While there are therefore evident gender gaps in entrepreneurship activity and performance in Canada, it should be borne in mind that women can deliberately choose to keep their ventures small, for example for family-related reasons, and this can explain some of the gender variation in business performance (Orser and Hogarth-Scott, 2002).

Table 7.1. Percentage gender distribution of SME ownership, 2011 and 2007

Percentage values					
Majority Female-owned		Majority Male-owned		Equal ownership	
2007	2011	2007	2011	2007	2011
16.4	15.5	64.3	66.4	19.3	18.1

Source: Statistics Canada, Survey on Financing of Small and Medium Enterprises, 2007; 2011.

StatLink  <http://dx.doi.org/10.1787/888933554525>

Table 7.2. Percentage distribution of SME ownership by firm size, 2011 and 2007

Percentage values						
Number of employees	Majority Female-owned		Majority Male-owned		Equal ownership	
	2007	2011	2007	2011	2007	2011
1 to 4	58.8	59.2	59.1	51.4	55.4	53.5
5 to 19	37.6	33.5	29.1	35.1	36.7	38.6
20 to 99	3.1	6.8	10.7	12.3	7.3	7.3
100 to 499	0.5	0.5	1.2	1.3	0.6	0.6

Source: ISED (2015), Majority Female-Owned Small and Medium-Sized Enterprises, Special Edition: Key Small Business Statistics, May. Percentages may not add to 100 due to rounding.

StatLink  <http://dx.doi.org/10.1787/888933554544>

Table 7.3. Percentage distribution of SME ownership by Reported Annual Revenue Growth Rates, 2009-11

Percentage values

Growth rate	Majority Female-owned	Majority Male-owned	Equal ownership (50:50 male/female)
< 0% (decline)	17.5	16.6	12.8
0% (no growth)	24.6	21.0	23.6
1-10% per year	41.2	44.1	44.1
11-20% per year	9.1	10.6	11.5
> 20% per year	7.4	7.7	8.0

Source: ISED (2015), Majority Female-Owned Small and Medium-Sized Enterprises, Special Edition: Key Small Business Statistics, May. Percentages may not add to 100 due to rounding.

StatLink  <http://dx.doi.org/10.1787/888933554563>

There are also relevant provincial differences in women's entrepreneurial activity and business ownership (Hughes, 2015a).³ Women's early-stage entrepreneurial activity (i.e. the GEM TEA rate) is above the Canadian average in the provinces of Alberta and British Columbia, whereas it is below the average in Ontario, Quebec and Nova Scotia. With respect to women's established business ownership rate, Alberta shows a particularly strong performance both in the absolute rate and in the relative narrowness of the gender gap in this rate, which is as small as one percentage point.

Management experience

Female SME owners tend to have less managerial experience than male SME owners. The proportion of managers in majority female-owned SMEs with managerial experience of less than five years was around double (8%) that of other SME owners in 2011. By the same token, only 68% of owners in majority female-owned SMEs had managerial or ownership experience of over 10 years, compared with 79% in majority male-owned SMEs.

On the other hand, a larger proportion of owners in majority female-owned SMEs had postgraduate qualifications (18%), compared with majority male-owned SMEs (12%), while only 7% of owners in majority female-owned SMEs had less than a high school diploma (10% in male-owned SMEs).

Access to markets

Slightly more than one-fifth of Canadian majority female-owned SMEs were found in the retail trade sector in 2011 (21.4%), compared with only 11.7% of majority male-owned firms. Overall, service industries accounted for 62.5% of majority female-owned SMEs in 2011. Women were also under-represented in high-tech manufacturing and knowledge-intensive sectors, where growth opportunities tend to be stronger and where most business leaders have university degrees in sciences and engineering (Institute for Competitiveness and Prosperity, 2012). This is partly linked to women being under-represented in science, technology, engineering and mathematics (STEM) qualifications. In 2011, for example, only 39% of people aged 25-34 with a university degree in STEM fields were women, compared with 59% in all fields (Hango, 2011).

Canadian women entrepreneurs are also less likely to operate in international markets (Orser et al., 2010). Only 5% of majority female-owned SMEs exported in 2011, compared to 12% of majority male-owned SMEs. The prevalence of women in service industries is likely to contribute to the low export propensity of women-owned businesses. Furthermore,

compared with majority male-owned SMEs, majority female-owned SMEs anticipated lower growth prospects and reported higher expectations of declining or no growth for the upcoming three years, 2012-14.

Access to finance

In 2011, a smaller percentage of Canadian majority female-owned SMEs (29.3%) sought external finance (including debt, leasing, trade credit and equity financing) than majority male-owned SMEs (37.5%). In particular, only 19.9% of majority female-owned SMEs sought debt finance compared with 26.5% of majority male-owned SMEs, while the loan approval rate (i.e. the ratio of the amount of authorised debt finance to the amount requested) was significantly lower for majority female-owned SMEs than for majority male-owned SMEs. Significantly, much larger proportions of majority female-owned SMEs had loans rejected because of insufficient collateral (66.6% vs. 35.7%) or because of the operating industry (65.7% vs. 24.8%). Finally, a greater share of majority female-owned SMEs (4.2% vs. 2.7%) was discouraged from seeking external loans, on the assumption that their application would be rejected (i.e. discouraged borrowers).

A recent analysis by the government department Innovation Science and Economic Development Canada (ISED) reveals that female entrepreneurs are more likely than male entrepreneurs to be discouraged borrowers and to have their loan requests rejected, although this mainly reflects women's insufficient collateral and operating industry (ISED, 2015). Similarly, an older study finds that women, the youth and Aboriginal people are less likely to be served by commercial banks due to the prevailing industries in which they operate (Heidrick and Nicol, 2002).

Among Canadian business owners with growth intentions, women are more likely than men to consider sharing equity to raise capital for business growth (Jung, 2010). However, women are typically underrepresented in industry sectors that attract venture capital. Furthermore, the venture capital industry in Canada is male-dominated, and this makes it complicated for women to obtain venture and angel equity funding (Brush et al., 2004).

Women's entrepreneurship policies in Canada

The institutional context

Recent federal policies in support of women's entrepreneurship include measures to encourage mentorship and championing (i.e. the "It Starts with One – Be Her Champion" campaign), foster networking (i.e. an online platform to bring together women entrepreneurs), enhance access to international markets through trade missions (i.e. the Business Women in International Trade Program), and improve access to finance (i.e. CAD 700 million in additional lending by the Business Development Bank of Canada over three years since 2015). These measures all respond to the Recommendation of the OECD Council on Gender Equality in Education, Employment and Entrepreneurship adopted in May 2013 (OECD, 2013).

Women's entrepreneurship policy in Canada sees the active involvement of women's enterprise organisations. These are not-for-profit locally-based organisations that offer programmes and direct services to women entrepreneurs. They often receive public funding from federal and provincial/territorial governments for some of the activities they carry out. Women's enterprise organisations are an important asset in Canada's women's entrepreneurship policy thanks to the context-specific knowledge and expertise they have matured over years of work on support of women entrepreneurs.

Some Canadian women's enterprise organisations are part of the umbrella association Women's Enterprise Organizations of Canada (WEOC), namely: Newfoundland and Labrador Organization of Women Entrepreneurs (NLOWE), the *Réseau des Femmes d'affaires du Québec*, the Women's Enterprise Centre of Manitoba (WECM), Women Entrepreneurs of Saskatchewan Inc. (WES), Alberta Women Entrepreneurs (AWE), and the Women's Enterprise Centre of British Columbia (WEC British Columbia). However WEOC is not completely representative at the national level, especially in Ontario and Atlantic Canada where several women's entrepreneurship organisations are not members. Support of women's entrepreneurship is also uneven across regions, being stronger in Western and Atlantic provinces than, for example, in Ontario.

In 1995, Western Economic Diversification Canada (WD) established the Women's Enterprise Initiative (WEI), based on research and consultations that identified significant barriers faced by women entrepreneurs in Canada, and in recognition of the increasingly important role that women play in small business growth. This created women's enterprise organisations (AWE, WEC British Columbia, WECM, and WES) in each of the four western provinces (Alberta, British Columbia, Manitoba and Saskatchewan) to provide information and services to women entrepreneurs. These organisations receive ongoing funding from WD to offer advisory services, training, networking opportunities, business loans and referrals to complementary services that are tailored to women entrepreneurs.

An internal evaluation of WEI points to favourable results. WEI organisations created 5.3 jobs for each loan disbursed over 2008-12. This compares with 2.5 jobs per loan created by ISSED's Canada Small Business Financing Program (i.e. the federal loan guarantee scheme) and 3.6 jobs per loan under the Community Futures Program. Clients of WEI also estimated that 44% of their existing revenues would not have been generated without aid from the programme (Western Economic Diversification Canada, 2014).

The experience of the Women's Enterprise Centre of Manitoba (WECM), the first location of the Women's Enterprise Initiative, is briefly presented in Box 7.1.

The federal RDA Atlantic Canada Opportunities Agency (ACOA) also actively supports women's enterprise organisations located in the Atlantic Provinces – namely NLOWE, the Centre for Women in Business (Nova Scotia) and the Prince Edward Island Business Women's Association – through the Women in Business Initiative. In addition, ACOA fosters women's entrepreneurship through some of its regular programmes, such as the Business Development Program and the Atlantic Innovation Fund.

Finally, the institutional context of women's entrepreneurship policy in Canada also includes other representative women's organisations. There are, for example, not-for-profit organisations which represent Aboriginal women. The Native Women's Association of Canada (NWAC), which is an aggregate of thirteen organisations from across Canada, received in 2014 federal funding from Indigenous and Northern Affairs Canada (INAC) to develop the Aboriginal Women's Business Entrepreneurship Network (AWBEN) with the aim to “connect, strengthen and give a voice to Canada's Aboriginal women entrepreneurs' community”. Industry-specific networks are also working to increase women's representation in non-traditional women's fields, such as Canadian Construction Women and Women in Communications Technology.

Box 7.1. The Women's Enterprise Centre of Manitoba, Canada

The Women's Enterprise Centre of Manitoba (WECM) was the first location of the Women's Enterprise Initiative, opening its doors in Winnipeg in 1994. The programme is based on three major supports for women entrepreneurs: training, advice and lending. Since inception, the loans have been one of the most successful aspects of the initiative, lending out approximately CAD 25 million. With terms up to five years, loans are available in any amount up to CAD 150 000 and can be used for start-up, expansion or the purchase of an existing business. The Centre is considered to be a higher risk lender than most financial institutions.

Over the course of its existence, the WECM team has developed a variety of training options. The services are delivered in both the Centre's Downtown Winnipeg office and in various locations throughout Manitoba. The six-part Business Plan Development Workshop Series is a proprietary, licensed curriculum that has provided the foundation for many successful business start-ups.

One of the specialised programmes developed by WECM is "My Gold Mine". The programme consists of a comprehensive financial template and in-depth, one-on-one coaching using the entrepreneur's own financial information to create a diagnostic analysis of the business. The programme has been applied to a variety of industries and to businesses at different stages of growth.

Source: Women's Enterprise Centre of Manitoba, www.wecm.ca.

Enterprise financing policies

The Business Development Bank of Canada (BDC) has earmarked an additional CAD 700 million over 3 years for women-owned businesses. This financial support will cover both working capital loans and investment loans and will allow for 300-400 additional loans to majority-owned women's businesses seeking financing over the period of the intervention. As part of its renewed focus on women-owned business, BDC will also aim to increase the share of its specialised financing (e.g. Growth and Transition Capital Offering and Venture Capital) and consulting services accessed by female entrepreneurs and has designated "a national champion" to lead and progress initiatives that positively impact on women-owned businesses (OECD, 2015).

While these are all positive developments, there are some further changes which could help the BDC play a stronger role in support of women entrepreneurs. First, BDC could make women-owned small businesses an explicit target of its policies, for example through specific new programmes or by setting aside minimum quotas for women clients in existing programmes. Second, women entrepreneurs could be offered an integrated package of financial and non-financial products and services, based on evaluation evidence that BDC clients who use both consulting and financial services show superior performance in sales, employment and productivity performance than those who only use one of the two (see Chapter 5). Third, BDC could collect and analyse gender-disaggregated data more often; for example, the recent impact analysis of BDC's lending and consulting activities did not break down the analysis by the gender of the business owner (BDC, 2013). This would have helped understand the extent to which women receive support from the BDC and whether women clients are more or less successful than male clients. Finally, the BDC could expand its institutional partnerships, which at the moment include the non-governmental organisation Futurpreneur Canada (youth entrepreneurship) and hundreds

of Community Futures Development Corporations (rural development), to include women's enterprise organisations that play a key role in the delivery of public support for women entrepreneurs.

Beyond the work of BDC, there is also scope to increase the provision of microfinance in Canada. It has been observed that more female business owners than male business owners are discouraged borrowers and see loan applications rejected. In some sectors, such as retail trade, small financing requirements could be met through the tools of microfinance. In Canada, the peer lending circles promoted by the PARO Centre are a good micro-lending practice (see Box 7.2).

Box 7.2. PARO Centre for Women's Enterprise, Northern Ontario, Canada

PARO is a not-for-profit, grassroots women's community development organisation that fosters business development among women and people with disabilities. Founded in 1995 as a small peer-lending project for enterprising women, over 20 years it has grown its reach and services to help approximately 10 000 women "to start or grow businesses, through training, counselling, access to grants/loans, marketing and mentoring" (PARO Centre, 2015).

PARO is involved in a number of programmes, although it is best known for catering to the networking and microfinance needs of female micro enterprises through the PARO Peer Circles. Through this scheme PARO encourages 4-7 like-minded enterprising women to form a group which meets regularly, shares experience, supports each other and expands networks. Members of the circle also provide access to microfinance with peer loans ranging from CAD 500 to CAD 5 000. Women in peer circles may find a peer loan more suited to their needs for a variety of reasons, such as a poor credit history, lack of trust of mainstream lenders like banks, need for a loan that is too small for banks to consider, or lack of acceptable collateral. PARO also conducts peer circle lending workshops, so that women can learn how to form their own group.

Other initiatives include PARO on Wheels, a mobile business advisory service that offers business-coaching, employment advice and training services to women close to home; Biz Clusters, which supports businesses to work together to build their competitive advantage through reduction in production costs or taking on large procurement contracts; and SENO's Co-Starter, which is an accelerator for social enterprises run in partnership with Social Enterprise Northern Ontario (SENO).

The Minister of Innovation, Science and Economic Development recently announced a FedNor investment of CAD 2 million in the PARO Centre of Women's Enterprise for their Women's Enterprise Initiative project which focuses on activities under the three pillars of: Industry Growth; Financing Growth; Productivity, Profitability, and Procurement. The project activities would provide enhanced skill development, training, counselling, and access to information and resources to help women throughout Northern Ontario develop innovative growth businesses, improve productivity, and increase competitiveness.

Source: PARO Centre for Women's Enterprise Website <http://paro.ca/2013/>; Paro Centre (2015) *Paro at a Glance 2013-14*. http://paro.ca/2013/files/6214/2852/4815/PARO_AGR_2014-ENG-web.pdf (accessed 31 August 2015); Northern Women in Business Report, July 1-September 30, 2013.

Dedicated microloan funds which also provide mentoring services are another approach that could help women entrepreneurs unlikely to approach banks and who only need small sums of external finance. This group could include Aboriginal women, which is a significant target group considering that the number of Aboriginal self-employed people

has increased considerably in the 2000s (by 38% between 2001 and 2006) and that half (51%) of Aboriginal-owned SMEs are either fully or partly owned by women (CCAB 2014; TD Economics, 2012). Māori⁴ Women's Development Inc., from New Zealand, illustrates the approach of a microloan fund that combines financial and mentoring services (Box 7.3).

Box 7.3. Māori Women's Development Inc., New Zealand

Description

Māori Women's Development Inc. (MWDI) "is an indigenous financial institution formed by Māori women, controlled, managed and operated by Māori women, for the economic development of Māori Women and their Whanau; i.e. their extended family" (www.mwdi.co.nz/). MWDI was established in 1987. It currently extends finance and mentoring services with loans between NZD 30 000 and NZD 50 000. Māori women who wish to start or expand their business, as well as Māori men who wish to start or expand a business and have Māori women as part of their core business operation, are eligible to apply and must meet specified requirements, such as preparing a business plan and providing security which is of a flexible nature. MWDI may be described as a lender of last resort because its loans are only provided to applicants who can show that they have been unable to receive a loan from any other financial institutions.

More recently, MWDI has strengthened its capacity-building scope through a programme called *He Oranga*, which has a major focus on financial literacy and is built and delivered in partnership with the Financial Education and Research Centre (Fin-Ed Centre). MWDI also sponsors a secondary school programme called *MaiBiz*, that offers a three-day hands-on team based business experience for all students, not only Māori.

Factors for success

MWDI has received ongoing government funding. Over the period 2010-15 its government funding was budgeted at NZD 1 867 000 annually. Strong leadership and advocacy by Māori women and for Māori women has ensured its sustainability over more than twenty-five years. The ability to broker partnerships to progress capacity building in the community has enabled MWDI to widen its scope beyond being merely a micro-lending entity.

Obstacles and responses

Financial literacy and personal financial management shortcomings can be a major obstacle to business success in certain communities. As a result, MWDI partnered with the Fin-Ed Centre (i.e. a joint-venture between Massey University and Westpac Banking Corporation) to develop a pilot project (*He Oranga*) in which it trained 18 community workers in a northern region of the country as Personal Financial Literacy Facilitators able to teach and assess financial literacy in participants. The *He Oranga* training programme has also been regionally scaled through a tri-way partnership between MWDI, the Auckland City Council (local government) and *Te Rānanga o Ngāti Porou* (i.e. the governing council, i.e. *Rānanga*, of a Māori sub-tribe, i.e. *hapu*, in the region).

Lessons for Canada

Small, dedicated pools of funding together with mentoring services have the potential to go a long way in supporting particular sub-groups of women entrepreneurs. Widening the scope of the activities of micro-lending organisations to include capacity-building initiatives that recognise the special cultural needs of the community, understands the importance of developing basic financial literacy skills, and is based on a partnership model is an effective approach. Regional scaling of the *He Oranga* training programme, by including partnership with local government is a good example.

Box 7.3. Māori Women's Development Inc., New Zealand (cont.)

The 2009 Canadian Roundtable on Aboriginal Women and Economic Development also highlighted the need for financial literacy training for Aboriginal women. The *He Oranga* programme shows how this need can be addressed through a culturally sensitive partnership.

For further information

- MWDI website www.mwdi.co.nz/;
- “New MWDI course to boost Māori women in business”, available: <http://mwwl.org.nz/new-mwdi-course-boost-maori-women-business/>;
- Kaupapa whakaritenga – business criteria Available: www.mwdi.co.nz/wp-content/uploads/2013/02/BusinessCriteria1.pdf, accessed August 11, 2015.

There is also scope for further initiatives to support financial literacy and “investor readiness” among female entrepreneurs, including the promotion of equity capital for female high-growth potential entrepreneurs.

Finally, financial inclusion can also be strengthened by extending eligibility criteria in certain mainstream enterprise financing programmes. For example, certain target groups such as Aboriginal women entrepreneurs often run part-time businesses that are typically ineligible for public support (Diochon et al., 2014). Greater flexibility in eligibility criteria in public programmes could be justified if the social inclusion of certain target groups is a policy priority.

Business internationalisation policies

Internationalisation support for women entrepreneurs is strong in Canada and includes a number of initiatives at both the federal and provincial/territorial level. The main initiative is the Business Women in International Trade (BWIT) programme of Global Affairs Canada (GAC)'s Trade Commissioner's Service (TCS). This programme provides targeted support to Canadian women entrepreneurs working in multiple sectors to pursue opportunities abroad and grow new international markets, including through business-to-business meetings and other matchmaking opportunities. Through these trade missions, Canadian women-owned firms gain heightened credibility through the on-the-ground support from the government of Canada and thereby easier access to the supply chains of leading international companies. BWIT has led several trade missions to the United States. There has also been a past mission to Brazil and future missions are planned to Mexico and possible to Europe.

In addition to trade missions, BWIT helps to assess the international trade readiness of women business owners, produces a variety of products and tools relevant to women in trade (e.g. a comprehensive website, blogs, and an annual newsletter), and works closely with the women's enterprise organisations across Canada, supplier diversity certifiers and other government departments in attempt to better coordinate women specific programmes. For example, in 2014, BWIT partnered with ISED to launch a specialised directory for women-owned businesses within ISED's Canadian Company Capabilities database. This database showcases products and services from over 50 000 Canadian businesses, attracts over 5 million visitors and procurement professionals annually from around the world, and has proved a valuable online marketing tool towards both a domestic and international audience. As part of the effort to increase the number of internationally active women-owned businesses, BWIT also engages in outreach efforts to increase awareness and understanding of its programme offering among women entrepreneurs.

Canadian business women are also well represented in GAC's advisory boards, such as the national "Small and Medium-Sized Enterprises Advisory Board", which provides advice and recommendations on commerce-related priorities, programmes and services of GAC in support of SMEs, and the Proactive Sector Advisory Boards, which provide advice on five key strategic sectors involved in international trade (e.g. Aerospace, Sustainable Technology, Information and Communications Technology, and Life Sciences).

The internationalisation of businesswomen is also supported at the provincial level. In March 2015, AWE, the women's enterprise organisation of Alberta, received CAD 1.4 million of funding from the RDA Western Economic Diversification Canada (CAD 1.2 million) and the federal department Indigenous and Northern Affairs Canada (INAC) to help women-owned businesses across Western Canada to access new international markets (Government of Canada, 2015b). Similarly, NLOWE prepares local women entrepreneurs to access foreign markets and encourage supplier diversity in Newfoundland and Labrador (Box 7.4).

Box 7.4. Newfoundland and Labrador Organization of Women Entrepreneurs' Business Growth Initiatives, Canada

Newfoundland and Labrador Organization of Women Entrepreneurs (NLOWE) provides a one-on-one advisory service to women who want to grow their business. NLOWE's Business Growth Advisors are based in four regions of the province and travel to meet businesswomen and provide them with business diagnostic assessment, business plan development, financial analysis, growth analysis, human resource strategy development, and management training assessment.

As part of its business growth initiatives, NLOWE runs export-readiness and supplier-diversity interventions. In the first case, free export consulting services are offered thanks to the support of the Provincial government. In the second case, NLOWE proactively encourages local corporations and the local government to use diverse suppliers, that is, more female-owned business suppliers within their procurement chains.

Source: www.nloweWBE.org/grow.

Supplier diversity initiatives

Improved access to corporate and government contracts are a highly valuable market opportunity for the growth of women-owned businesses. In Canada, institutional structures are already in place to facilitate this opportunity. There are certifying bodies to confirm that businesses are majority (at least 51%) owned and managed by women while providing programmes and services to enable supplier diversity, such as Women Business Enterprises Canada (i.e. WBE Canada) and Women's Enterprise Connect International in Canada (WECI). These organisations have a strong presence in the domestic market and offer assistance in accessing international markets as well. The BWIT programme in the TCS also assists with connecting Canadian women entrepreneurs to supplier diversity opportunities in the United States and other markets, including through dedicated trade missions.

Canadian women's enterprise organisations are also actively involved in supplier diversity. First, they are partners of the abovementioned certification assessors (WBE Canada and WECI) in their respective regions. Second, many of them run their own supplier diversity initiatives. The involvement of NLOWE in supplier diversity has been mentioned (Box 7.4). In

addition, the WEC British Columbia manages Supplier Diversity Canada, an initiative which encourages Canadian businesses to implement supplier diversity strategies, while AWE has received funding from the RDA Western Economic Diversification Canada to undertake a supplier-diversity initiative which aims to expand the access of women-owned SMEs to global supply chains across all four western provinces (Alberta, British Columbia, Manitoba and Saskatchewan).

Despite these ongoing efforts, women-owned businesses are still much under-represented in public and private procurement contracts. Increased awareness and understanding of supplier diversity principles among government procurement officers and private-sector businesses could help build new market opportunities for this target group. In particular, supplier-diversity programmes in government procurement could send a strong signal about the commitment of the government to increase the share of public contracts assigned to women-owned businesses.

For instance, the Canadian government could follow the example of the United States, which has in place set-asides for women-owned businesses in federal public procurement. Other possible federal actions would include further support of the existing supplier-diversity initiatives across Canada or encouraging provinces and municipalities to establish their own set-asides in public procurement for majority women-owned businesses. This would be in line with the proposal by the WEB Alliance of Women Business Networks in British Columbia which has suggested allocating 5% of the volume of provincial procurement contracts for women-owned businesses (WEB Alliance, 2015). Finally, government buyers could be asked to include diverse suppliers when receiving quotes in order to make better-informed decisions that take into account not only economic but also social considerations. This is, for example, at the core of the social procurement strategy being implemented by the City of Toronto.

Management support

Canada hosts a number of valuable “niche” initiatives which intend to boost management skills in women entrepreneurs who have the ambition and potential to grow. These initiatives typically combine training, mentoring, peer-to-peer learning and, in some cases, finance. They are important to the extent that small, established women-owned businesses are often underserved both by formal entrepreneurial education and training and by informal mentoring through peer networks (Womenable, 2007). By the same token, Status of Women Canada (SWC) found that growth-oriented businesswomen have particular capital, risk management and mentorship needs that are not currently adequately met (SWC, 2015).

Two examples of management upgrading programmes run by women's enterprise organisations in Western Canada are the Grow to Greatness Excelsator Program of AWE and the My Gold Mine Program of the WEC Manitoba. The former is an accelerator programme which offers training, mentoring and growth finance to businesses which have the potential to scale annual revenues from CAD 1 million to CAD 10 million (see Box 7.5). The latter consists of a comprehensive financial template and in-depth coaching with the aim of producing a diagnostic analysis of the business. The WEC Manitoba developed this programme based on the evidence that many of its clients fell short of using financial information to guide management decisions. The aim is, therefore, to enhance the financial acumen of women entrepreneurs who want to grow their business (see also Box 7.1).

Box 7.5. **Alberta Women Entrepreneurs' Grow to Greatness Excelerator Program, Canada**

The Grow to Greatness Excelerator Program started in 2012, and is aimed at scaling established businesses in business-to-business sectors with potential to grow from CAD 1 million to CAD 10 million in annual revenues. It is an intensive business acceleration programme delivered over a 10-month period. Formal and informal learning on specific topics of relevance to business growth (e.g. strategy, growth finance, leadership, and human resources) is combined with leadership development and mentoring from industry leaders and experts from the Alberta Women Entrepreneurs (AWE) programme staff. Additionally, AWE is well connected with other intermediaries and is able to draw on its own networks in the local enterprise ecosystem to assist with the programme.

The programme is competitive through strict eligibility criteria and a rigorous application process that takes into account the growth prospects of the business. Participants pay CAD 5 000 to enrol in the programme, which ensures the commitment of entrepreneurs.

The annual revenues and number of employees of graduating businesses have increased significantly (AWE 2014), and a high level of satisfaction with the programme has been recorded among participants (Hughes, 2015b). Moreover, the programme has been successful in establishing an on-going peer learning and support network. Many participants acknowledge that the programme has been a confidence booster and has effectively built their social capital, in addition to the benefits stemming from the formal learning process. Even after the conclusion of the programme, participants are able to draw on AWE's connections, and many of the participants in each cohort continue to support each other, periodically meeting on an informal basis or at special events. Programme alumni in turn become role models and usually provide expertise to new participants. On the whole, the programme contributes to the development of a female-friendly and growth-conducive local entrepreneurial ecosystem.

Source: AWE (2014) Growth Excelerator Programme 2014 Final Report. Alberta, AWE; Hughes. K. (2015b), *Building Ecosystems For Growth: Women's Experiences of the 'AWE Growth Excelerator Programme*, Paper presented at the 2015 DIANA Conference on 'Women's Entrepreneurship and Ecosystems' Babson College, Wellesley, MA, June.

Awareness-raising and mentoring campaigns

The It Starts with One – Be Her Champion campaign is the main awareness-raising and mentoring initiative of the government of Canada. Through this campaign, the government of Canada reaches out to successful leaders in all fields “to make a difference in a woman's career by being her champion”. Champions provide advice and support, but also promote their mentees in their networks and expose them to new opportunities.

This recent initiative of the federal government of Canada could draw inspiration from a similar policy in Germany, which has established a network of ambassadors with the view to increasing the profile and visibility of women entrepreneurs in the country (Box 7.6).

Box 7.6. **Frauen unternehmen, Germany**

Description of the approach

Frauen unternehmen is a programme initiated by the German Federal Ministry of Economic Affairs and Energy (BMWi), to raise visibility of successful female entrepreneurs by establishing a network of ambassadors for female entrepreneurship. The programme started in October 2014 and is part of a joint initiative of the BMWi and the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth.

Box 7.6. *Frauen unternehmen*, Germany (cont.)

The network itself is composed of 180 'model' female entrepreneurs from all over Germany including sole-owner operated businesses as well as female entrepreneurs who employ several hundred staff. A jury initially selected the women from 360 applicants from all over Germany who had to present their motivation for taking part in the programme.

Those selected engage in events with female trainees, students, graduates and women with entrepreneurial intentions. At these events, the ambassadors inform the female participants about entrepreneurship and share their success stories. The objective is to provide realistic and personal insights into a life of a female entrepreneur and to highlight the contribution that female entrepreneurs make to economic growth and competitiveness.

Female entrepreneur role models can be booked for events in schools, other educational institutions, chambers, business associations and local/regional offices, unions and media. Moreover the initiative provides access to a database that lists all ambassadors, including their curriculum vita and contact details. Additionally, ambassadors engage in different activities, including workshops that cover certain aspects of entrepreneurship and are well-tailored for specific target groups.

As a point of contact, a national coordination office has been established, with the support of the federal women entrepreneurs' agency (*Bundesweite Gründerinnenagentur*) (see Box 7.8). The coordination office is responsible for the organisation of the aforementioned events and has also set up a website that contains all relevant information for anyone interested.

Obstacles and responses

This initiative is ultimately dependent on the passion, dedication and willingness of the women role models to give up time to engage in ambassadorial functions. There also needs to be a sufficient diversity of ambassadors so as to effectively inspire distinct cross-sections of the population and target groups.

Promoting women role models (ambassadors) is a popular policy in several countries, especially since the European Commission has promoted the ambassador concept in order to make women's entrepreneurship more visible in the EU and raise the profile of entrepreneurship as a viable career option for women. The European Network of Female Entrepreneurship Ambassadors was inaugurated in 2009. Sweden, Norway, Denmark, Iceland, Germany, Poland, Norway, Slovakia, Italy and Ireland are among countries that established ambassador initiatives. Germany's latest national *Frauen unternehmen* initiative, which has established a dedicated coordination mechanism for the associated range of events and activities of the initiative together with a website, is a good practice model that augurs well for success.

Relevance for Canada

A nationally co-ordinated ambassador initiative that showcases and utilises the expertise of a diverse range of successful women entrepreneurs from a variety of sectors, will be useful for advancing women's entrepreneurship especially by inspiring and building confidence in women to become entrepreneurs. Such an initiative can also help change attitudes among the general public to women entrepreneurs. This attitudinal change can be especially useful in acceptance of women entrepreneurs in less traditional sectors, for example the natural resource industries.

For further information

- www.existenzgruenderinnen.de/DE/Vernetzung/Frauen-unternehmen/frauen-unternehmen_node.html.
- www.existenzgruenderinnen.de/SharedDocs/Downloads/DE/sonstige/Berufswunsch-Unternehmerin-One-Pager_english.pdf;jsessionid=06D410C80FE791308526C8070A34FDB4?__blob=publicationFile.

The formulation and governance of women's entrepreneurship policy

The importance of policy coordination in the design and delivery of women's entrepreneurship support measures cannot be overstated, given the involvement of several government departments in this field (e.g. ISED, BDC, GAC, RDAs and FedNor, etc.). Nonetheless, coordination has not always been satisfactory, with several thematic roundtables and taskforces that have stressed how better coordination of support and business services for women entrepreneurs is needed in Canada (Canada Works, 2014).

With this objective, ISED, GAC's BWIT programme and SWC have partnered to create an Interdepartmental Committee on Women Entrepreneurs, with the aim of consulting with the government, private sector, non-governmental organisations and academia to understand the major development challenges that face women entrepreneurs and how policy can help address these challenges. The Committee held its first meeting in 2016.

An additional tool that would support policy co-ordination in this area would be the preparation of a national strategy for women's enterprises. To reflect the different needs of women entrepreneurs and women business owners, the strategy should build on a policy dialogue that includes businesswomen and their representatives from different sectors, firm sizes and stages of business development.

The creation of the Interdepartmental Committee on Women Entrepreneurs can facilitate the development of the strategy by bringing together the organisations involved in the Committee to prepare its drafting. These organisations can also make use of and update their regular dialogues with women's enterprise organisations, businesswomen representative associations and other non-governmental organisations for the purpose of obtaining inputs and feedback for the development of the strategy.

There have also been parallel efforts to reach out to larger populations of women entrepreneurs, for example through a cross-country consultation of 400 female and male entrepreneurs by an Expert Panel on Championing and Mentorship for Women Entrepreneurs, which reported to the Minister of Status of Women Canada, or the consultations on the text of the Trans-Pacific Partnership, which have also involved women's enterprise stakeholders.

A strategy for women's enterprises, however, should also make an effort to reflect inputs from the grassroots level. It is important not only to listen to successful women entrepreneurs, but also to those who are disadvantaged or who have found it difficult to benefit from existing policy support, for example with respect to access to finance. In the context of Canada, explicit inclusion of minority voices from the Aboriginal and immigrant communities are essential, given the very specific challenges facing the former, especially when they live in remote areas, and that one-quarter of women entrepreneurs in Canada are born outside the country (RBC, 2013).

An international example of a strategy which has adopted a similar bottom-up approach is the Scottish Framework and Action Plan for Women's Enterprise (Box 7.7). Its key areas of action, including harnessing the potential of the co-operative or collaborative model, pinpoint multidimensional policy arenas that would also be applicable to Canada.

A strategy for women's enterprise should also build on the evidence on the state of health of female entrepreneurship in Canada and what policy experiments in support of businesswomen have or have not worked in the past. However, at present, there is a shortfall in gender-disaggregated data about entrepreneurship activity, SME performance, and the

Box 7.7. The Scottish Framework and Action Plan for Women's Enterprise, United Kingdom

Description of the approach

Launched in March 2014, the Scottish Framework and Action Plan for Women's Enterprise specifies actions for increasing and mobilising the contribution of women's enterprise to the Scottish economy. It involves all the key stakeholders in the enterprise ecosystem and was developed in consultation with government, private, public and third sector organisations, women business owners and associations.

Actions are set out in five areas: mentoring and networking; role models; markets and finance; gender specific support; and other various activities. For each of the proposed actions, the leader(s) and collaborators for implementation are specified. Thus for example, under "markets and finance", finance-related actions focus on increasing the number of women angel investors and the amount of equity investment in female-led businesses. Implementation of this action is led by Investing Women, an association of women business angels and women entrepreneurs supported by the Scottish Government, in partnership with the Scottish Angel Capital Association (LINC Scotland), private sector retail bank Royal Bank of Scotland (RBS), and local authorities. A market related initiative focuses on "raising awareness and development of the collaborative (or consortium co-operative) model" and is implemented by Co-operative Development Scotland, the arm of the RDA Scottish Enterprise which supports company growth through co-operatives and employee-ownership business models, which works in collaboration with Women's Enterprise Scotland to investigate how they can most effectively support women-led businesses.

The implementation of the Scottish Framework and Action Plan for Women's Enterprise is supervised by the Women in Enterprise Implementation Group. Core members of the group include: Business Gateway, Highlands and Islands Enterprise, Scottish Chambers of Commerce, RBS, Scottish Enterprise, Investing Women, Association of Scottish Businesswomen, Enterprise Research Centre, Community Development Scotland and Women's Enterprise Scotland. The functions of the group includes ensuring that the strategy is coherently linked to the Scotland CAN DO Action Plan, which is Scottish government's strategy for becoming a world-leading entrepreneurial and innovative nation; prioritising objectives, activities, timescales, and milestones for each of the five areas of the Framework and Action Plan; and overseeing the delivery of actions. The overarching coordination of the Implementation Group is assured by Women's Enterprise Scotland, while individual group members remain responsible for their respective activities in delivery of the Framework actions.

Factors of success

While is too early to assess the impact of the Framework, there are several elements that augur well for its success.

- The Framework sets out a series of on-going and sustained activities with assigned private and public sector partners responsible for implementation. This should guarantee the ownership of the activities by the relevant stakeholders.
- The formulation of the Framework and its various actions has followed a robust process of consultation, so that it is likely that there will be 'buy-in' from the multiplicity of involved stakeholders.
- Responsibility for leading delivery and implementation of each action and the partners involved are clearly specified at the outset.

Box 7.7. The Scottish Framework and Action Plan for Women's Enterprise, United Kingdom (cont.)

- There is firm political commitment, with the Scottish Government which retains a key role in catalysing the actions to close the gender enterprise gap. There is also a process for linking the actions of the Framework to the Government's overall strategic policy for driving competition and innovation in the economy, i.e. Scotland CAN DO.
- There was informed academic leadership and input throughout the development and formulation of the Framework and Action Plan.

Obstacles and responses

Ongoing leadership by key individuals and commitment by key partners will be necessary for success and may prove a challenge. Ensuring adequate resourcing for effective implementation will ultimately be critical.

Relevance for Canada

In Canada there is not a concerted plan on closing the gender entrepreneurship gap, nor is there a mechanism for the overarching coordination of existing measures. The Scottish Framework and Action Plan for Women's Enterprise can provide useful insights on the value of having a clearly articulated strategic direction accompanied by actions and implementation pathways.

For further information

- Carter S., J. Brierton and J. Muldoon (2014), *Women in Enterprise: A Framework and Action Plan to Increase the Contribution of Women's Enterprise to the Scottish Economy*, Women's Enterprise Scotland.
- <https://wescotland.files.wordpress.com/2014/11/wes-action-framework.pdf>.
- <http://wescotland.co.uk/influence/women-in-enterprise-implementation-group/>.

impact of government support. Calls for more gender-disaggregated data have been expressed in the past, among others by the 2011 "Canadian Taskforce for Women's Business Growth" and the 2009 "Roundtable on Aboriginal Women and Economic Development" (Government of Canada, 2009).

One option to improve data on women entrepreneurship would be through a regular survey on the determinants of business success which would also collect anonymous information on the profile of the entrepreneur. In 2006, for example, 16 EU countries carried out a harmonised survey on The Factors of Business Success, which included personal information on the respondents such as age, gender and level of education. This allowed for an analysis of differences in performance between male and female entrepreneurs, young and senior entrepreneurs, and high- and low-educated entrepreneurs for example. More specially, the Factors of Business Success survey featured four sections: i) identification of the enterprise (here the entrepreneur was only asked to confirm or amend information already given, based on business registry information); ii) profile of the entrepreneur (demography, motivation for start-up, business experience as well as a filter question to ensure that only companies born three years before the time of the survey were taken into consideration); iii) the enterprise's situation at the time of the survey (i.e. employment, turnover, access to finance, barriers to business growth, etc.); and iv) future plans (i.e. future expectations of the entrepreneur).⁵ Although the survey has not been repeated, its

information has proved a useful tool to investigate entrepreneurship dynamics in socially disadvantaged groups (OECD/EC, 2014a; OECD/EC, 2014b).

Another option to strengthen gender analysis would be to collect gender-disaggregated data in the evaluation of public programmes for entrepreneurs and SMEs. Major federal programmes are already subject to five-year evaluation studies which assess the performance and continued need for these programmes. On these occasions, information could be collected on the gender of programme recipients to assess the extent to which women entrepreneurs benefit from public support and the extent to which they outperform or underperform their male peers.

Finally, the strategy for women's enterprise should make clear the existing offering of public support measures available to women entrepreneurs. Currently, this is achieved through the Canada Business Network (CBN), which offers information about specific measures for women entrepreneurs through its one-stop offices, call centres and website. In particular, the CBN website has a landing page of information tailored to women entrepreneurs across Canada. A more ambitious plan, which could also be the final outcome of the strategy for women's enterprise, could be the establishment of a specialised government agency taking the lead on women's entrepreneurship policy, with technical support from government partners such as ISED, BDC or GAC. The National Agency for Women Start-Up Activities and Services in Germany provides an international example of a specialised agency for women entrepreneurs (Box 7.8).

Box 7.8. National Agency for Women Start-Up Activities and Services, Germany

Description of the approach

The National Agency for Women Start-ups Activities and Services (*Bundesweite Gründerinnenagentur*) is a one-stop nationwide facility for the support and promotion of women entrepreneurs in Germany established in 2004. The Agency's tri-level organisational structure comprises the nationwide umbrella organisation and head office located in Stuttgart at the Ministry of Economic Affairs, regional offices in all 16 German Federal States, and a widespread partner network of over 2 000 partners which includes women's business centres, specialised consultants, and relevant business institutions.

A key facet of the Agency is its comprehensive web portal www.gruenderinnenagentur.de. The portal hosts up-to-date information on events such as trade fairs, workshops and seminars, links to available mentoring and training for women entrepreneurs, and collect research on women's entrepreneurship. Specialised sections of the web portal also provide valuable resources. For example, the "Online Training" section has several e-training modules, while the "Business Transfer" section hosts information on all matters relating to business succession. In this section, the Agency seeks to encourage more women to become interested in business succession, more family business owners to recognise the potential of female employees and daughters as successors, and more advisers to catalyse support to women in relation to business transfers.

As a centralised agency, it bundles all relevant competencies and services together and ensures that there is a regular flow of information and knowledge on women's entrepreneurship in Germany.

Box 7.8. National Agency for Women Start-Up Activities and Services, Germany (cont.)

Factors for success

A critical success factor of the Agency is its broad coverage of women-specific activities and services. The Agency's tri-level organisational model additionally ensures the effective coordination of a national agenda for women's entrepreneurship, as well as its nationwide acceptance by main federal and regional stakeholders.

Obstacles and responses

The Agency and its partners have received positive feedback from women entrepreneurs and have contributed to increased awareness of women's entrepreneurship and related policies in Germany. However, a high degree of political commitment across all levels of government, willingness of a wide network of stakeholder partners to co-operate, and substantial financial resourcing is necessary for the model to be sustainable.

Relevance for Canada

Prior to the establishment of the National Agency for Women Start-Up Activities and Services, promotion of women's entrepreneurship in Germany was shared by different ministries. However, the joint ministerial funding of the Agency now means that there is a single institutionalised agency dedicated to women's entrepreneurship in Germany. Such a model could also be useful if the government of Canada wishes to focus attention and resources on women's entrepreneurship support in the coming years.

For further information

- www.existenzgruenderinnen.de/EN/Home/home_node.html.
- www.careerandage.eu/prevsite/sites/esfage/files/resources/National%20Agency%20for%20Female%20Start%20ups%20and%20Entrepreneurs.pdf.
- www.careerandage.eu/prevsite/network-products/germany/self-employment/programmes/national-agency-female-start-ups-and.

Conclusion and recommendations

Women's entrepreneurship in Canada is healthy and mostly driven by market opportunities, rather than by necessity caused by lack of paid employment, and the number of women self-employed has more than doubled over the last thirty years. Nonetheless, major gender gaps in entrepreneurship remain. Majority female-owned SMEs are only a very small proportion of all SMEs in Canada and tend to be smaller and report lower growth rates than majority male-owned SMEs. Moreover, majority female-owned SMEs are disproportionately found in retail industries, are less export-oriented than majority male-owned SMEs and experience more difficult access to finance than majority male-owned SMEs.

Existing women's entrepreneurship policies include measures that encourage mentorship and championing of women entrepreneurs, foster networking, and enhance their access to international markets and sources of finance. However, programmes are currently rather scattered, whereas the design of a comprehensive national strategy for women's enterprises could help identify the major causes behind the gender gaps in entrepreneurship activity and business performance and build institutional consensus on the policy package required to help narrow these gaps. The strategy process would benefit from better collection of gender-disaggregated data on entrepreneurship activity, business

performance and access to and impact of government programmes. A national agency for women's entrepreneurship with involvement of all the relevant government departments and agencies could also help promote and co-ordinate the women's enterprises strategy.

Based on this analysis, the following policy recommendations are offered to strengthen entrepreneurship by women in Canada:

Key recommendations on women's 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. Women's Enterprise Initiative) to other regions 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. The GEM TEA rate provides estimates of the proportion of the adult population (aged between 18 and 64) who have either been involved in a start-up process for less than three months (i.e. nascent entrepreneurs) or who have been business owners for less than three-and-a-half years (i.e. new business owners).
2. Hereafter, unless otherwise specified, statistics are drawn from ISED (2015) Majority Female-Owned Small and Medium-Sized Enterprises. Special Edition: Key Small Business Statistics, May, and comparative data are between the 2007 and 2011 Statistics Canada's Survey on Financing of Small and Medium Enterprises. Majority ownership is 51-100% ownership by one or more males/females and equal ownership is 50:50 male and female ownership.
3. Sufficient data for disaggregation is available only for five provinces.
4. Māori are the indigenous people of New Zealand. There were 598 605 people or 14.9% of those usually living in New Zealand in 2013 that identified as belonging to the Māori group. Like the Canadian Aboriginal population, the Māori population is youthful with 33.8% under 15 years in 2013.
5. For further information: http://ec.europa.eu/eurostat/cache/metadata/en/jobs_esms.htm.

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This report identifies several areas where new policy approaches could help achieve these objectives. Framework conditions for small business could be improved in business taxation, public procurement, access to financing and the commercialisation of research. New and extended programmes could be introduced in domains including entrepreneurship education, management advice and consultancy, and workforce skills development. A major effort is recommended to prioritise women's entrepreneurship, including by supporting social enterprises, and federal support could be offered to support the exchange of information on best practice SME regulations and programmes among provinces and territories. All this could be brought together and co-ordinated through the umbrella of a national strategy and a lead agency for SME and entrepreneurship policy.

Consult this publication on line at <http://dx.doi.org/10.1787/9789264273467-en>.

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