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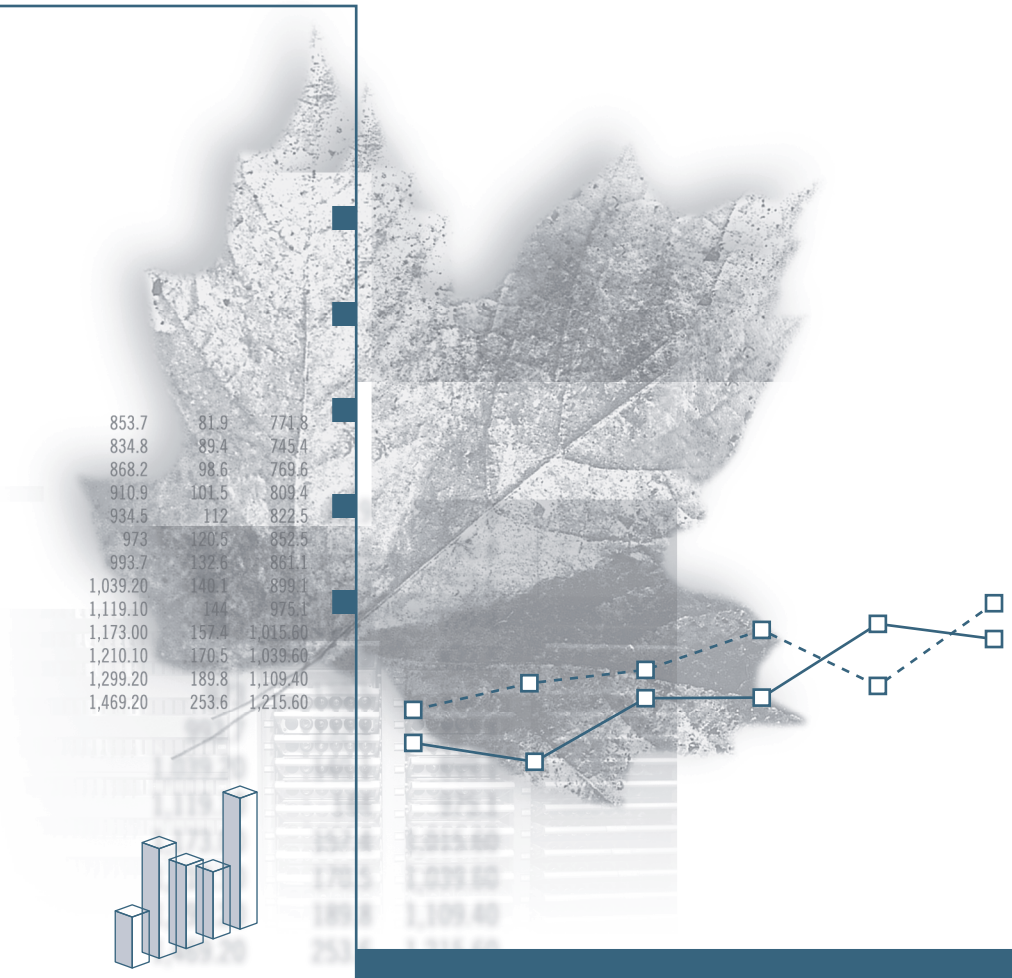

Key Small Business Statistics

Canada

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When is a business "small"?

The size of a business can be defined in many ways, by the value of its annual sales or shipments, for example, or by its annual gross or net revenue, the size of its assets or the number of its employees. Many institutions define small businesses according to their own needs: the Canadian Bankers' Association classifies a company as "small" if it qualifies for a loan authorization of less than $250 000, while the Export Development Corporation defines small or "emerging" exporters as firms with export sales under $1 million. Industry Canada has often used a definition based on the number of employees: goods-producing firms are considered "small" if they have fewer than 100 employees, while for service-producing firms the cutoff point is seen as 50 employees. Above that size, and up to 499 employees, a firm is considered medium-sized. The smallest of small businesses are called micro-enterprises, most often defined as having fewer than five employees. The term "SME" (for small and medium-sized enterprise) is used to refer to all businesses with fewer than 500 employees, while firms with 500 or more employees are classified as "large" businesses.

As will be seen, in practice, reporting on small businesses can seldom adhere to any strict definition due to data limitations.

How many businesses are there in Canada?

The Business Register of Statistics Canada maintains a count of business establishments[1] and publishes results twice a year. Some business establishments can belong to the same company and each company owns at least one business establishment. For an individual business establishment to be included in Statistics Canada's Business Register, the company to which it belongs must meet at least one of the following minimum criteria: have at least one paid employee (with payroll deductions remitted to the Canada Revenue Agency — CRA), or have annual sales revenues of $30 000, or be incorporated and have filed a federal corporate income tax return at least once in the previous three years.

As of June 2004, there were more than 2.3 million business establishments in Canada, as shown in Table 1. About half of all business establishments are called "employer businesses," because they maintain a payroll of at least one person (possibly the owner). The other half are classified as "indeterminate" because they do not have any employees registered with the CRA. Such businesses may indeed have no work force (they may be simply paper entities that nonetheless meet one of the criteria for being recognized as a business establishment), or they may have contract workers, family members

1. Statistics Canada uses four standard statistical business units for purposes of compiling statistics. Establishments are the smallest unit/grouping for which data are published. Establishments must:
   a) produce a homogeneous set of goods or services;
   b) not cross provincial boundaries; and
   c) provide data on the value of output together with the cost of principal intermediate inputs used, along with the cost and quantity of labour resources used to produce the output.

   For example, a business unit of a larger enterprise that provides independent accounting information to the government on sales taxes and payroll deductions would be recognized as an individual business establishment.

and/or only the owners working for them. Because information about their work force is not available, the "indeterminate" category was created.

Approximately 59% of all business establishments in Canada are located in Ontario and Quebec. Virtually all the rest are divided up between the western provinces (around 35%) and the Atlantic provinces (around 6%). The Northwest Territories, the Yukon and Nunavut only represent 0.3% of Canada's businesses.

Table 1: Total Number of Business Establishments, and Number of Establishments Relative to Provincial/Territorial Population and Gross Domestic Product, June 2004

Provinces/Territories	No. of Business Establishments			No. of Establishments per 1000 population	GDP per Business Establishment ($ thousands)
	Total	Employer Businesses	Indeterminate[1]		
Newfoundland and Labrador	26 911	17 230	9 681	52.1	669
Prince Edward Island	10 611	6 693	3 918	77.0	366
Nova Scotia	54 251	30 582	23 669	57.9	531
New Brunswick	45 947	26 559	19 388	61.1	487
Quebec	516 447	236 102	280 345	68.5	492
Ontario	858 085	349 410	508 675	70.1	575
Manitoba	78 119	35 883	42 236	66.8	487
Saskatchewan	98 128	39 972	58 156	98.6	375
Alberta	312 102	141 331	170 771	97.5	547
British Columbia	339 642	158 565	181 077	80.9	419
Yukon Territory	2 940	1 616	1 324	94.2	446
Northwest Territories	2 808	1 763	1 045	65.6	1 187
Nunavut	890	639	251	30.1	1 029
Canada Total	**2 346 881**	**1 046 345**	**1 300 536**	**73.5**	**518**

Source: Statistics Canada, Business Register, June 2004; National Income and Expenditure Accounts 2003; Estimates of Population by Age and Sex for Canada, the Provinces and the Territories, July 2004.

Note 1: The "indeterminate" category consists of incorporated or unincorporated businesses that do not have a CRA payroll deductions account. The work force of such businesses may consist of contract workers, family members and/or owners.

Relative to population, the western provinces, the Yukon and Prince Edward Island have more business establishments than elsewhere, with the highest rates in Saskatchewan and Alberta at 98.6 and 97.5 per 1000 population, respectively. Nunavut, Newfoundland and Labrador, Nova Scotia and New Brunswick have the lowest ratios of business establishments per 1000 population. Ontario and Quebec are below the national average of 73.5, with 70.1 and 68.5 business establishments per 1000 people, respectively.

In terms of Gross Domestic Product (GDP) per business establishment by province, the Northwest Territories shows the highest ratio at $1 187 000 per establishment. (This is likely due, in part, to the low number of establishments per 1000 residents and therefore its GDP is spread over fewer establishments.) More broadly, there is a noticeable negative relationship between the number of

establishments per 1000 inhabitants and the per-establishment GDP in the sense that a higher number of establishments per 1000 population corresponds to a lower per-establishment GDP. The Northwest Territories is the only exception to this rule with a relatively high GDP per establishment and a number of establishments per 1000 residents that is close to the national average.

Of the 1 046 345 employer businesses, slightly less than 3000 or about 0.3% have more than 500 employees. The vast majority of employer businesses (98%) have fewer than 100 employees, nearly 75% have fewer than 10 and 58% have only 1 to 4 employees (see Table 2).

Table 2: Number of Business Establishments by Sector and Firm Size (Number of Employees), June 2004

Number of Employees	Cumulative Percent of Employer Businesses	No. of Business Establishments		
		Total	Goods-producing Sector[2]	Service-producing Sector[2]
Indeterminate[1]		1 300 536	346 135	954 401
Employer Business Total	*100.0*	*1 046 345*	*241 938*	*804 407*
1–4	57.5	601 652	148 796	452 856
5–9	74.6	178 971	35 320	143 651
10–19	86.3	122 856	23 933	98 923
20–49	94.7	87 472	18 783	68 689
50–99	97.7	30 810	8 046	22 764
100–199	99.0	14 548	4 261	10 287
200–499	99.7	7 167	2 177	4 990
500+	100.0	2 869	622	2 247
Grand Total		**2 346 881**	**588 073**	**1 758 808**

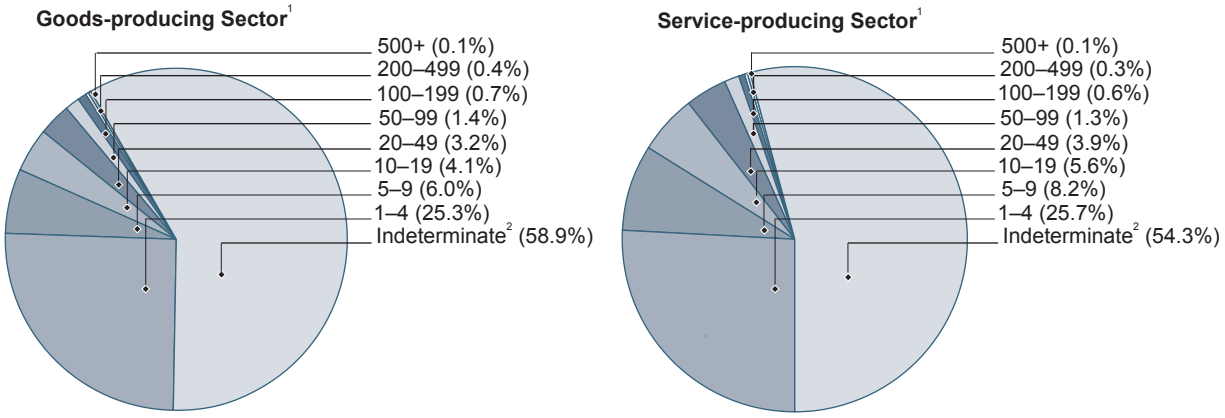
Source: Statistics Canada, Business Register, June 2004.

Note 1: The “indeterminate” category consists of incorporated or unincorporated businesses that do not have a CRA payroll deductions account. The work force of such businesses may consist of contract workers, family members and/or owners.

Note 2: By conventional Statistics Canada definition, the goods-producing sector consists of North American Industry Classification System (NAICS) codes 11 to 31–33, while NAICS codes 41 to 91 define the service-producing sector.

About one quarter of all business establishments (indeterminate and employer businesses alike) produce goods, while the remainder provides services. Small firms (those with fewer than 100 employees) make up 97% of goods-producing employer businesses and 98% of all service-producing employer businesses (Table 2 and Figure 1). Using an alternative definition of small businesses in the service-producing sector that defines small businesses as those with fewer than 50 employees, small firms account for 95% of all service-producing employer firms.

Figure 1: Distribution of Business Establishments in the Goods-producing and Service-producing Sectors by Firm Size (Number of Employees), June 2004



Source: Statistics Canada, Business Register, June 2004.

Note 1: By conventional Statistics Canada definition, the goods-producing sector consists of North American Industry Classification System (NAICS) codes 11 to 31–33, while NAICS codes 41 to 91 define the service-producing sector.

Note 2: The "indeterminate" category consists of incorporated or unincorporated businesses that do not have a CRA payroll deductions account. The work force of such businesses may consist of contract workers, family members and/or owners.

Table 3 shows the distribution of employer businesses by size of business establishment in each province and territory. Generally speaking, the distribution in the provinces is similar to the national average. However, there is some variation among the provinces and territories: for example, there is a higher percentage of micro-businesses (1 to 4 employees) in Quebec (63%) than in Ontario (54%), Manitoba (52%), or the territories (from 29% to 52%).

Table 3: Employer Businesses by Firm Size (Number of Employees) in Provinces and Territories, June 2004

Provinces/Territories	Employer Businesses										
		Percent of Total									
	Total	1–4	5–9	10–19	20–49	50–99	*Small <100*	100–199	200–499	*Medium 100–499*	Large 500+
Newfoundland and Labrador	17 230	60.8	17.8	10.2	6.9	2.3	*98.0*	1.1	0.6	*1.7*	0.3
Prince Edward Island	6 693	54.9	18.9	13.4	8.7	2.6	*98.4*	0.9	0.5	*1.4*	0.2
Nova Scotia	30 582	55.6	17.8	12.5	8.8	3.0	*97.6*	1.5	0.6	*2.1*	0.3
New Brunswick	26 559	58.3	17.2	11.8	8.2	2.7	*98.0*	1.2	0.6	*1.7*	0.2
Quebec	236 102	62.6	16.1	9.7	7.0	2.5	*98.0*	1.2	0.6	*1.8*	0.3
Ontario	349 410	54.2	17.2	12.6	9.5	3.5	*97.1*	1.7	0.9	*2.6*	0.3
Manitoba	35 883	52.1	18.0	13.8	10.0	3.4	*97.4*	1.5	0.8	*2.3*	0.3
Saskatchewan	39 972	57.6	18.4	12.3	7.8	2.3	*98.3*	0.9	0.6	*1.5*	0.2
Alberta	141 331	57.9	17.1	11.9	8.1	2.9	*97.9*	1.3	0.6	*1.9*	0.2
British Columbia	158 565	58.3	17.5	11.9	7.8	2.6	*98.0*	1.2	0.6	*1.7*	0.2
Yukon Territory	1 616	52.2	19.9	13.1	9.7	3.0	*98.0*	1.2	0.7	*1.9*	0.1
Northwest Territories	1 763	40.7	20.1	18.3	13.3	4.4	*96.8*	2.1	1.0	*3.1*	0.1
Nunavut	639	29.3	24.6	19.4	17.5	6.4	*97.2*	2.0	0.6	*2.7*	0.2
Canada Total	**1 046 345**	**57.5**	**17.1**	**11.7**	**8.4**	**2.9**	***97.7***	**1.4**	**0.7**	***2.1***	**0.3**

Source: Statistics Canada, Business Register, June 2004.

Where are the self-employed in this count of businesses?

In short, everywhere. The designation “self-employed” is most commonly used as defined in Statistics Canada’s *Labour Force Survey*, which is a count of the labour force (see **Who is self-employed?**). This section, on the other hand, provides counts of business establishments. It is easy to confuse the two because of the common perception that self-employed workers operate their own businesses. While this is generally true, the two are distinct counts. These counts relate as follows. First, a business owned by a person who is identified as self-employed and who is on the payroll would be captured as an “employer business” in the appropriate size category (Tables 1 to 3). Likewise, the business of a self-employed owner who is *not* on the payroll and has nobody else on the payroll, would be counted among the 1.3 million “indeterminate” business establishments (Tables 1 and 2). On the other hand, while many self-employed persons operate a business, many others do not, at least not in the sense of how the term “business” is defined by the Business Register (see **How many businesses are there in Canada?**), and thus would not be included in the count of business establishments. It is not known to what degree there is a correspondence between the 2.3 million “business establishments” in Canada and the estimated 2.4 million persons in the population who identify themselves as “self-employed.” For more on self-employment, see also **How many people are self-employed?** For more on small business employment based on payroll data, see **How many people work for small businesses?**

How many businesses appear and disappear each year?

Thousands of businesses enter and exit the marketplace throughout the year. Keeping track of these births and deaths is no easy matter. The best source is Statistics Canada's *Employment Dynamics*, which compares businesses in a base year with those in the following year. If a business is observed to exist in the base year but not in the following year, it is considered an "exit" and vice versa for an "entry." While there may be other reasons why a business cannot be found in either year,[2] the data give a good overall picture of the turbulence (often called "churn") of new and disappearing businesses.

The *Employment Dynamics* data are based on payroll deduction information issued by employers (T4 slips) and therefore cover only employer businesses. The most recent data available are for 1998–99.[3] The counting unit of "employee" in *Employment Dynamics* is an Average Labour Unit (ALU), a derived unit obtained by dividing the total payroll in a business by the average annual earnings of employees in a firm of that size class in the same industry and the same province. ALUs aim to measure the number of people, on average, who worked for a business in the course of a year, that is, the average level of employment in a business.

Figure 2 shows the number of SMEs (those with from 1 to 499 employees) that entered and exited the marketplace annually between 1983 and 1999. For most of the 1980s, the number of entries remained at around 150 000 per year, while the number of exits increased steadily to a peak of 150 000 in 1990–91, the only time the number of exits exceeded the number of entries. After a drop during the recession in the early 1990s, the number of entries again grew and stabilized close to the 150 000 level by the mid-1990s. From 1990–91 onwards, the number of exits varied but generally decreased. On a net basis, entries averaged approximately 27 500 annually from 1984 to 1988, were near zero in 1991–92, and remained low until 1996–97 when they again began approaching pre-recession levels.

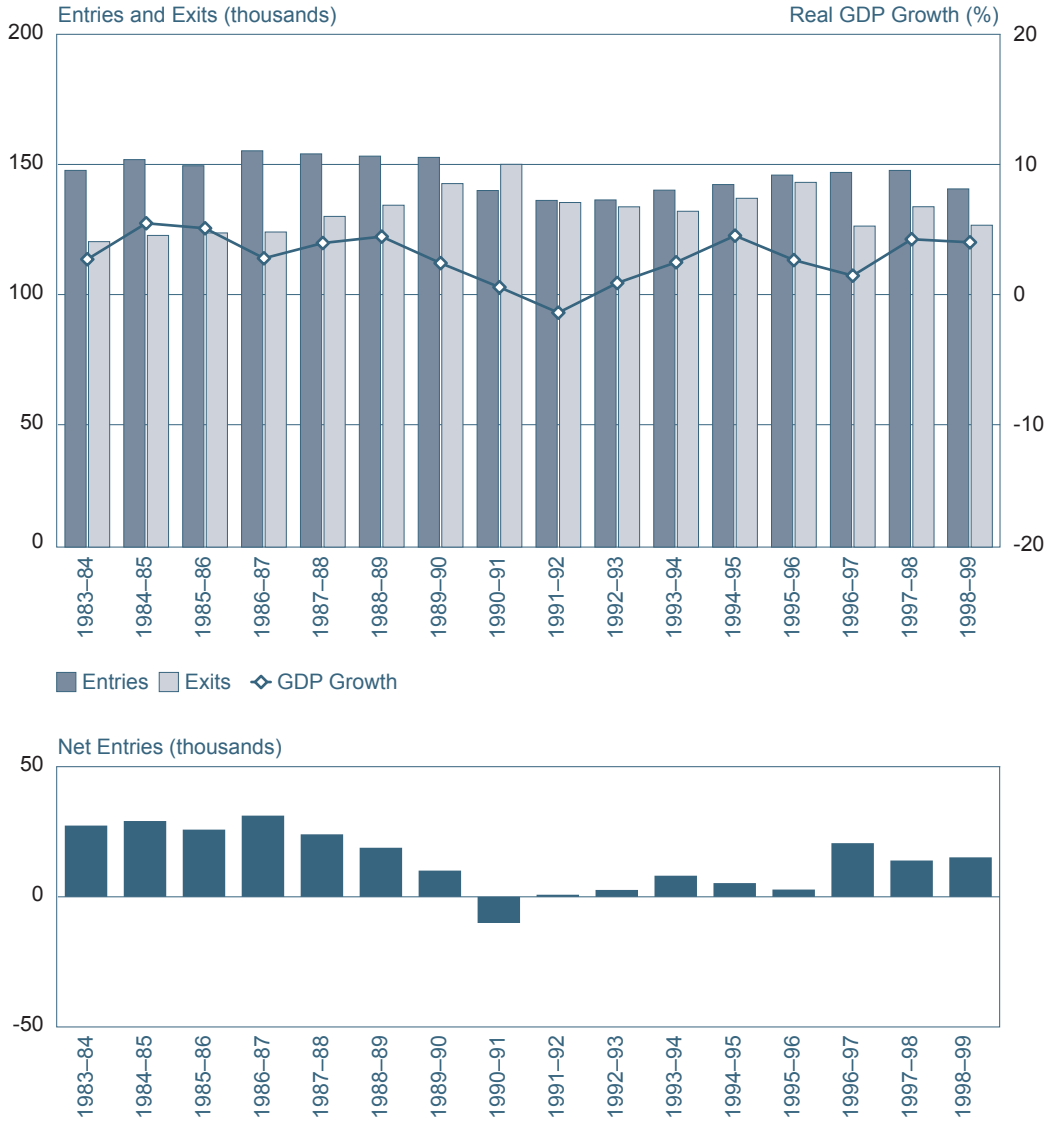
Figure 2 also shows entries and exits in relation to real GDP growth, a measure of the rate of expansion of the economy and its ability to produce goods and services. The business cycle is a key explanation for the variation of entries and exits over time. The number of entries increases when the economy expands and drops in a slow-down, while the number of exits is inversely related to the growth of the economy.

Entry and exit data by province show that Ontario and Quebec account for much of the volatility in net entries. They had positive net entries except for the early 1990s, while British Columbia and Alberta had positive net entries for the entire period. The Maritime and Prairie provinces and the territories experienced positive net entries through most of the 1980s, but negative net entries during most of the 1990s.

2. Reorganization in a firm may involve name changes, mergers, a division of existing payroll accounts or more. To the greatest extent possible, false signals about deaths and births are deleted from the data. A legitimate firm death can occur in certain merger cases, as a result of an owner's decision to cease operations, because the firm has gone bankrupt, or for a number of other reasons. For more on bankruptcies, see **Bankruptcy statistics**.

3. Although Statistics Canada still calculates the number of business entries and exits each year, *Employment Dynamics* is no longer published.

Figure 2: Entries and Exits of Employer Businesses with up to 500 Employees, and GDP Growth, 1983–84 to 1998–99



Source: Statistics Canada, *Employment Dynamics*, 1983–1999; National Income and Expenditure Accounts.

Bankruptcy statistics

Only a small proportion of firms that exit the marketplace end up filing for bankruptcy. On average over the last 13 years, there have been approximately 12 000 business bankruptcies per year in Canada. They gradually increased from about 11 000 in 1990 to a peak of more than 14 000 in 1996. Since then, business bankruptcies have been on the decline, to about 8800 in 2003.

More detailed statistics on business bankruptcies and the liabilities involved are regularly reported in Industry Canada's *Small Business Quarterly*, and are also available on the Web site of the Office of the Superintendent of Bankruptcy at **http://osb-bsf.gc.ca**.

How long do small businesses survive?

How long a business stays in business is influenced by many different factors. Geographic location, type of industry, size and age are some predictable factors in how long a business stays active. Unforeseen factors also affect survival of a business, including market influences such as the number and size of competitors and new entrants, as well as general economic conditions.

One way to answer the question of how long small businesses survive is to determine the probability of survival based on predictable factors. It is a more useful way than determining the average age of businesses because the majority of start-up firms do not operate for very long. The probability of survival is defined as the percentage of new firms that continue to operate when they reach a given age. Table 4 presents the survival rates from start-up, by region, for two sizes of business: micro-enterprises (those with fewer than 5 employees) and other small employer businesses (those with 5 to 99 employees). The table is based on firms that entered the market between 1984 and 1995; therefore, the highest age observable was 11 years. As an example, the table indicates that 30% of micro-enterprise entrants in the Atlantic provinces stayed in business for at least four years.

The percentage of new firms that remain in business after one, two or three years declines rapidly. That is to say, failure rates are high the first few years after start-up. This is even more true for micro-enterprises than for other small businesses. Moreover, beyond the first three years, survival rates of micro-enterprises continue to be well below those of other small firms. The likelihood that micro-enterprises require less investment could induce these firms to take more risks, which may explain the higher probability of exit.

The survival rates of micro-enterprises at any age are consistently lowest in the Atlantic region and among the lowest for other small firms. Small-firm survival rates are also lower in the Prairie provinces. The survival rates in Quebec, Ontario and British Columbia are very similar for all ages and both sizes of small firms, as displayed in Table 4.

Table 4: Survival Rates of Micro-enterprises and Other Small Employer Businesses, by Region, Size and Age of Business (Percent), 1984–95

AGE (years)	Micro-enterprises (<5 employees)						Other Small Employer Businesses (5–99 employees)				
	ATLANTIC	QUE	ON	PRAIRIE	BC		ATLANTIC	QUE	ON	PRAIRIE	BC
1	61	74	78	72	76		86	90	91	89	91
2	45	58	62	56	59		74	78	79	75	78
3	37	47	50	46	48		65	68	69	65	68
4	30	40	42	39	40		58	61	61	57	61
5	26	34	36	33	34		52	54	55	51	55
6	22	30	31	29	30		47	49	49	46	50
7	19	26	27	25	26		43	44	44	42	46
8	17	23	24	22	23		39	41	40	39	43
9	15	21	21	20	21		36	38	37	36	39
10	13	19	19	18	19		34	35	33	33	36
11	12	17	17	16	17		30	32	31	30	34

Source: J. Baldwin, L. Bian, R. Dupuy and G. Gellatly, *Failure Rates for New Canadian Firms: New Perspectives on Entry and Exit*, Statistics Canada, 2000.

How many people work for small businesses?

To best answer this question, it is necessary to look at business establishments as part of the larger enterprise to which they belong, where applicable. Statistics Canada defines a business enterprise as "a family of businesses under common ownership and control for which a set of consolidated financial statements is produced on an annual basis." Statistics Canada's *Survey of Employment, Payrolls and Hours* (SEPH) covers employer businesses in Canada and reports the number of employees at the enterprise level. Self-employed persons who are not on a payroll are not included in these figures, nor are employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Firms are grouped into seven size categories: those with fewer than 4 employees; from 5 to 19; from 20 to 49; from 50 to 99; from 100 to 299; from 300 to 499; and 500 and more employees.

According to SEPH data, on average in 2003, just over 5.0 million employees on payroll, or 49% of the total private labour force,[4] worked for small enterprises (those with fewer than 100 employees), as shown in Table 5. Nearly 1.7 million, or 16%, worked for medium-sized enterprises (those with 100 to 499 employees). In total, therefore, SMEs employed close to 6.7 million, or 65%, of all employees in the private sector covered by SEPH.

The distribution of employment by size of firm varies considerably across industries. As shown in Table 5 and Figure 3, small businesses account for over two thirds of employment in the (non-institutional) health care sector (90%), construction industry (77%), other services (74%), and accommodation and food (69%). In another six industries at least half of the work force is employed by small businesses. Lastly, in terms of the total number of employees, industries that had the largest number of employees working for small firms were, in order of magnitude, retail trade (0.80 million), manufacturing (0.65 million), accommodation and food (0.65 million), construction (0.50 million) and wholesale trade (0.41 million). These industries alone accounted for 60% of all jobs in small firms in Canada.

4. Private sector employment in the SEPH data was identified with the aid of *Employment Dynamics* and *Small Business Profiles* data for corresponding years and by projecting trends for more recent years. A technical note on the methodology used in this process is available and can be obtained by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**. In addition to the industries excluded from SEPH, data shown in Table 5 and Figure 3 exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners) and beer and liquor stores.

Table 5: Number of Private Sector Employees by Industry and Size of Business Enterprise, 2003[1]

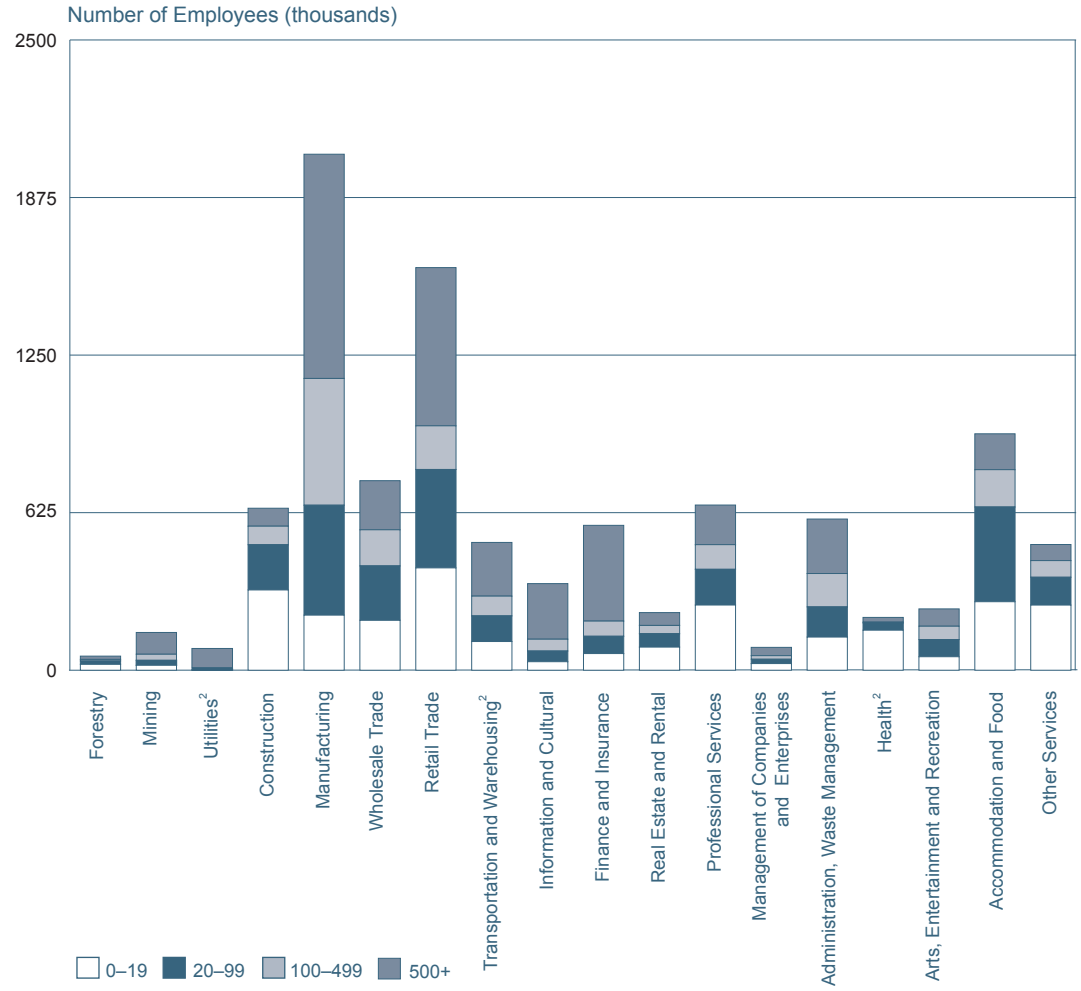
Industry	Total	Size of Business Enterprise (No. of Employees)								
		0–4	5–19	20–49	50–99	*Small (<100)*	100–299	300–499	*Medium (100–499)*	Large (500+)
Forestry	55 890	10 169	13 267	8 055	5 260	*36 750*	4 616	1 516	*6 132*	*13 008*
Mining	149 750	7 375	12 315	10 234	9 068	*38 991*	17 481	6 944	*24 425*	*86 335*
Utilities[2]	101 900	76	406	467	679	*1 627*	4 151	1 174	*5 325*	*94 947*
Construction	642 547	124 437	194 003	115 859	63 590	*497 888*	59 195	14 295	*73 490*	*71 169*
Manufacturing	2 046 784	45 958	172 595	219 984	216 024	*654 560*	352 627	150 163	*502 790*	*889 433*
Wholesale Trade	751 856	55 415	142 615	126 247	89 596	*413 872*	107 678	35 546	*143 224*	*194 760*
Retail Trade	1 597 036	122 782	283 178	211 280	179 075	*796 314*	144 836	28 280	*173 116*	*627 605*
Transportation and Warehousing[2]	506 871	44 502	69 356	57 722	44 041	*215 620*	58 871	19 458	*78 329*	*212 922*
Information and Cultural	343 540	10 458	23 336	22 846	19 557	*76 197*	31 650	15 231	*46 880*	*220 463*
Finance and Insurance	574 684	26 269	39 819	37 475	31 154	*134 717*	41 481	18 704	*60 185*	*379 782*
Real Estate and Rental	228 606	39 350	52 388	30 965	22 243	*144 945*	23 946	8 778	*32 723*	*50 937*
Professional Services	655 220	123 637	134 974	87 610	54 074	*400 294*	66 897	30 888	*97 785*	*157 141*
Management of Companies and Enterprises	90 674	12 860	13 529	10 364	6 828	*43 581*	9 287	4 884	*14 171*	*32 923*
Administration, Waste Management	599 672	46 114	85 422	66 899	52 791	*251 226*	90 677	41 697	*132 375*	*216 073*
Health[2]	209 487	72 979	85 907	22 531	6 135	*187 552*	2 149	1 113	*3 262*	*18 673*
Arts, Entertainment and Recreation	243 249	14 134	39 427	38 334	29 829	*121 723*	37 699	15 149	*52 848*	*68 678*
Accommodation and Food	937 797	54 837	216 925	215 642	160 072	*647 476*	120 537	27 504	*148 041*	*142 279*
Other Services	498 694	100 583	157 874	70 915	39 430	*368 802*	50 206	15 844	*66 050*	*63 843*
Industry Aggregate Total	**10 234 254**	**911 931**	**1 737 333**	**1 353 425**	**1 029 445**	***5 032 134***	**1 223 982**	**437 168**	***1 661 150***	**3 540 969**

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), September 2004, and calculations by Industry Canada. Industry data are classified in accordance with the North American Industry Classification System (NAICS).

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.

Note 2: Besides the data excluded from the SEPH, the data shown in this table also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners) and beer and liquor stores. Industry Canada's *Small Business Quarterly* regularly publishes data similar to those in Table 5, but without excluding public sector employment. A technical note on the separation of public and private sector employment is available and can be obtained by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

Figure 3: Number of Private Sector Employees by Industry and Size of Business Enterprise, 2003[1]



Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), September 2004, and calculations by Industry Canada. Industry data are classified in accordance with the North American Industry Classification System (NAICS).

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.

Note 2: Besides the data excluded from the SEPH, the data shown in this figure also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners) and beer and liquor stores. Industry Canada's *Small Business Quarterly* regularly publishes data similar to those in Figure 3, but without excluding public sector employment. A technical note on the separation of public and private sector employment is available and can be obtained by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

How many jobs do small businesses create?

The data that make it possible to answer this question are derived from Statistics Canada's *Survey of Employment, Payrolls and Hours* (SEPH), and are regularly published in Industry Canada's *Small Business Quarterly*. SEPH data exclude self-employed workers who are not on a payroll. Other limitations also apply (see **How many people work for small businesses?**). Historical employment data for the period from 1994 to 2000 are reported for only three firm size categories, so job creation over these years was estimated for the seven size categories using ratios to distribute annual employment levels across the size categories. Since 2000, Statistics Canada has been publishing the SEPH data with the seven size categories.

Table 6 and Figure 4 display relative contributions to the net year-over-year change in private sector paid employment by small, medium and large businesses from 1994 to 2003. Over the years, the relative contribution in terms of size varied greatly. During the period under review, each of the business-size categories played the leading role at different times in net job creation in Canada. For six years, in 1996 and 1997 and from 2000 to 2003, small businesses made the greatest contribution to net job creation. On the other hand, at the beginning of this period, in 1994 and 1995, medium-sized businesses created the most jobs, and in 1998 and 1999, large businesses played the leading job-creation role.

A significant limitation of these data is that they are for a period when the economy was generally expanding, with only a mild downturn in 1995–96. In a more severe downturn or a recession, the percentage contributions to job creation (or loss) by smaller businesses may be quite different.

Table 6: Percent Contribution to the Net Change in Private Sector Paid Employment by Size of Business Enterprise (Annual Averages), 1994–2003[1,2]

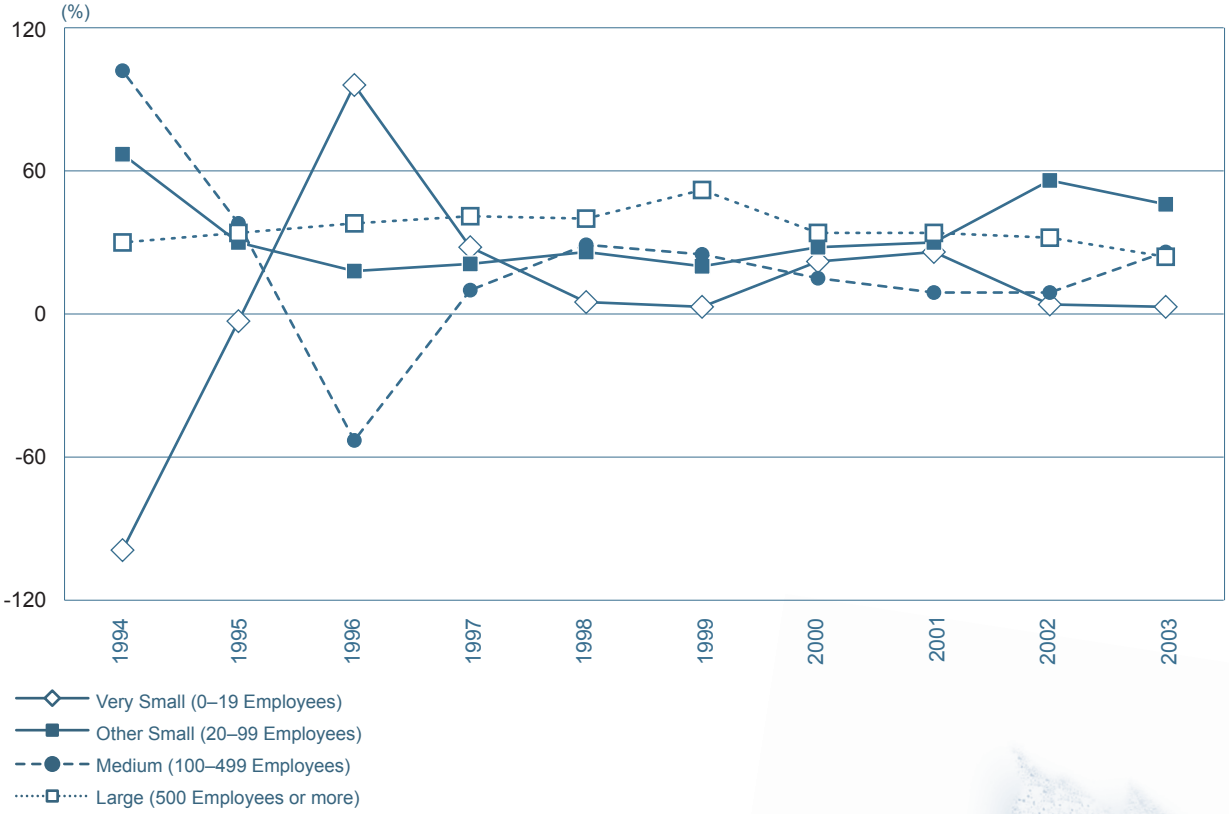
Year	Size of Business — Number of Employees (Percent Contribution)						
	0–4	5–19	20–49	50–99	*Small (<100)*	*Medium (100–499)*	*Large (500+)*
1994	-7	-93	21	46	*-32*	*102*	*30*
1995	2	-5	7	23	*27*	*38*	*34*
1996	7	88	38	-20	*114*	*-53*	*38*
1997	3	25	11	10	*49*	*10*	*41*
1998	2	3	14	12	*31*	*29*	*40*
1999	4	-1	9	11	*23*	*25*	*52*
2000	4	18	17	11	*50*	*15*	*34*
2001	16	10	17	13	*57*	*9*	*34*
2002	-1	5	27	29	*59*	*9*	*32*
2003	6	-3	21	25	*50*	*26*	*24*

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), September 2004, and calculations by Industry Canada. Historical data are frequently revised, and as of 2000 are available on a North American Industry Classification System (NAICS) basis. Updates for the total economy covered by SEPH are regularly published in *Small Business Quarterly*.

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data in this table also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners) and beer and liquor stores.

Note 2: Differences between these data and those published in previous versions of *Key Small Business Statistics* are largely due to revisions to the historical SEPH data. A small proportion of the differences is the result of refinements in the methodology used to separate the private and public sectors. A technical note on the separation of public and private sector employment is available upon request by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

Figure 4: Percent Contribution to the Net Change in Private Sector Paid Employment by Size of Business Enterprise, 1994–2003



Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), September 2004, and calculations by Industry Canada. Historical data are frequently revised, and as of 2000 are available on a North American Industry Classification System (NAICS) basis. Updates for the total economy covered by SEPH are regularly published in *Small Business Quarterly*.

Table 7 and Figure 5 show year-over-year quarterly changes in paid employment, starting in the first quarter of 2001, by business size. These data indicate that total private sector jobs continued to increase over the 12 consecutive quarters since the first quarter of 2001. However, up to the first quarter of 2002, they increased at an ever slower rate — by the first quarter of 2002, net job gain was less than one fourth of that in the first quarter of 2001. This trend was reversed between the first quarter of 2002 and the first quarter of 2003, but since then, the quarterly change in total number of employees has grown at a decreasing rate.

In the first quarter of 2001, large businesses were responsible for over half of the net job growth. However, in all subsequent quarters, small and medium-sized businesses were responsible for creating the most new jobs. In periods when net job creation was at its lowest — the last quarter of 2001 and the first quarter of 2002; and the last two quarters of 2003 — small firms contributed a whopping 166%, 91%, 70% and 152%, respectively, of jobs, compensating for negative contributions, primarily by medium-sized businesses and large businesses. Small businesses with more than 20 but fewer than 100 employees showed a robust contribution to job creation throughout the period.

Table 7: Year-over-year Net Private Sector Paid Employment Change, and Percent Contribution by Size of Business Enterprise, Quarterly, 2001 Q1 to 2003 Q4[1,2,3,4]

Year and Quarter	Total Net Change	Net Private Sector Paid Employment Change by Size of Business								
		0–4	5–19	20–49	50–99	*Small (<100)*	100–299	300–499	*Medium (100–499)*	Large (500+)
2001 Q1	403 171	44 271	7 456	40 303	29 536	*121 567*	56 569	20 437	*77 006*	204 599
Q2	286 892	6 909	32 119	45 115	42 441	*126 585*	43 178	8 465	*51 643*	108 666
Q3	194 485	66 318	11 638	41 045	38 674	*157 675*	14 289	-3 902	*10 387*	26 432
Q4	88 969	41 334	47 061	43 186	16 010	*147 592*	-19 542	-30 151	*-49 693*	-8 940
2002 Q1	103 435	-7 144	28 593	41 071	32 145	*94 665*	-5 097	-22 383	*-27 480*	36 250
Q2	221 305	-1 991	8 233	71 814	77 798	*155 855*	41 486	-27 057	*14 429*	51 017
Q3	324 000	-1 356	2 722	76 549	91 270	*169 184*	71 333	-22 456	*48 878*	105 926
Q4	405 153	-3 207	8 236	91 078	105 824	*201 931*	68 925	-13 838	*55 087*	148 143
2003 Q1	305 683	3 717	3 469	64 327	80 511	*152 024*	53 267	6 585	*59 852*	93 808
Q2	176 260	11 558	2 525	23 548	23 713	*61 343*	32 064	8 986	*41 050*	73 869
Q3	53 085	13 015	-7 026	16 996	13 758	*36 743*	16 324	5 637	*21 961*	-5 619
Q4	18 240	6 595	-13 271	13 315	21 012	*27 651*	14 958	7 615	*22 573*	-31 986
% Contribution to Private Sector Employment Change by Size of Business										
2001 Q1	100	11.0	1.8	10.0	7.3	*30.1*	14.0	5.1	*19.1*	50.7
Q2	100	2.4	11.2	15.7	14.8	*44.1*	15.1	3.0	*18.0*	37.9
Q3	100	34.1	6.0	21.1	19.9	*81.1*	7.3	-2.0	*5.3*	13.6
Q4	100	46.5	52.9	48.5	18.0	*165.9*	-22.0	-33.9	*-55.9*	-10.0
2002 Q1	100	-6.9	27.6	39.7	31.1	*91.4*	-4.9	-21.6	*-26.6*	35.0
Q2	100	-0.9	3.7	32.5	35.2	*70.4*	18.7	-12.2	*6.5*	23.1
Q3	100	-0.4	0.8	23.6	28.2	*52.2*	22.0	-6.9	*15.1*	32.7
Q4	100	-0.8	2.0	22.5	26.1	*49.8*	17.0	-3.4	*13.6*	36.6
2003 Q1	100	1.2	1.1	21.0	26.3	*49.7*	17.4	2.2	*19.6*	30.7
Q2	100	6.6	1.4	13.4	13.5	*34.8*	18.2	5.1	*23.3*	41.9
Q3	100	24.5	-13.2	32.0	25.9	*69.2*	30.8	10.6	*41.4*	-10.6
Q4	100	36.2	-72.8	73.0	115.2	*151.6*	82.0	41.7	*123.8*	-175.4

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), September 2004, and calculations by Industry Canada.

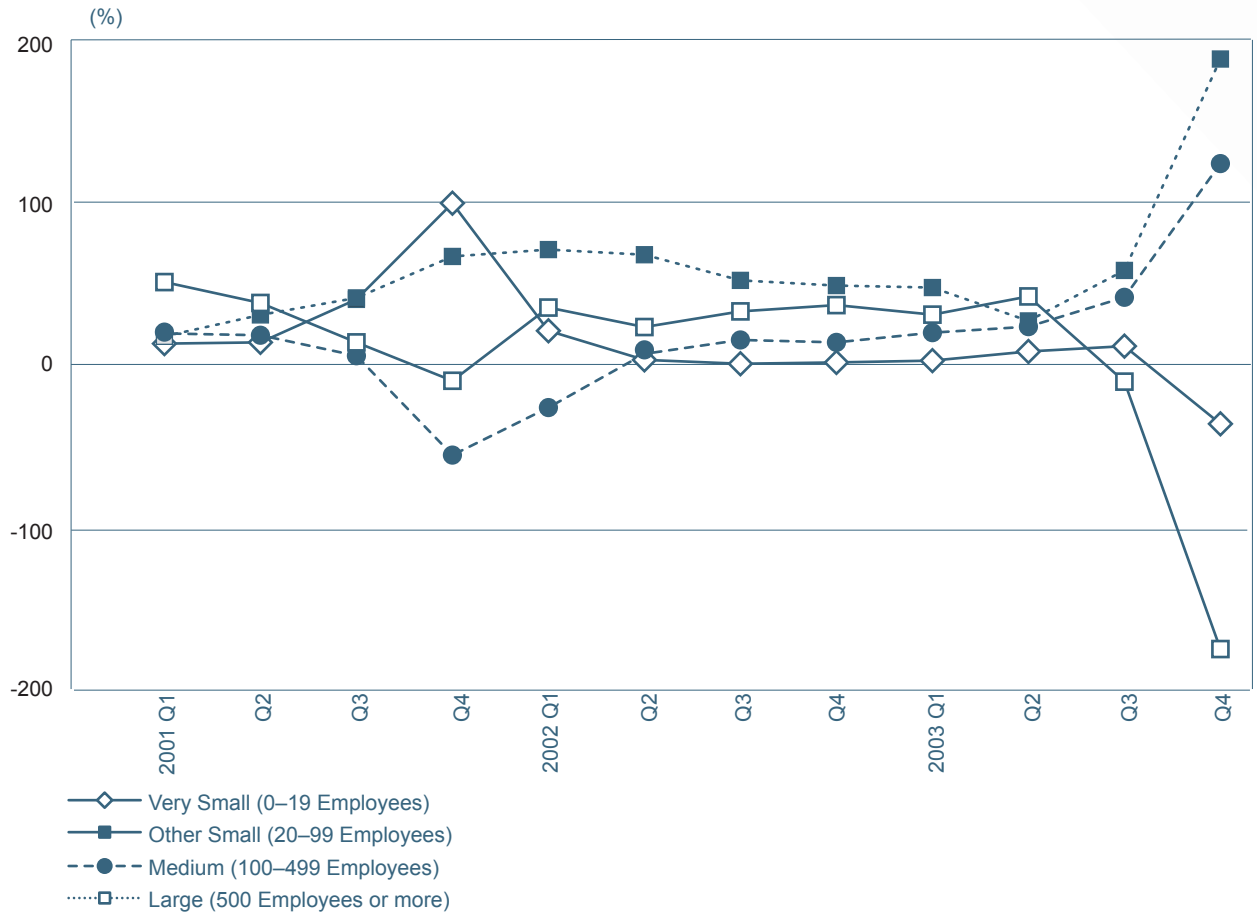
Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data in this table also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners) and beer and liquor stores.

Note 2: Statistics Canada cautions that data by firm size produced for quarters prior to year 2001 were estimated from the previous data based on the 1980 SIC and then backcast on the new NAICS classification. Especially in the smallest size categories, more volatility in the data should be expected.

Note 3: Differences between these data and those published in previous versions of *Key Small Business Statistics* are largely due to revisions to the historical SEPH data. A small proportion of the differences is the result of refinements in the methodology used to separate the private and public sectors. A technical note on the separation of public and private sector employment is available upon request by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

Note 4: Minor discrepancies between total net employment change and the sum of changes by size are largely due to small differences between aggregate and the sum of disaggregated source data.

Figure 5: Percent Contribution to Year-over-year Net Private Sector Employment Change, by Size of Business Enterprise, Quarterly, 2001 Q1 to 2003 Q4[1,2,3]



Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), September 2004, and calculations by Industry Canada.

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data in this figure also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners) and beer and liquor stores.

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Note 3: Differences between these data and those published in previous versions of *Key Small Business Statistics* are largely due to revisions to the historical SEPH data. A small proportion of the differences is the result of refinements in the methodology used to separate the private and public sectors. A technical note on the separation of public and private sector employment is available upon request by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

How much do employees of small businesses earn?

Statistics Canada's *Survey of Employment, Payrolls and Hours* (SEPH) publishes average weekly earnings at the enterprise level based on weekly payroll data. Data include gross pay, as well as overtime and bonuses, commissions and other special payments, before major deductions such as income taxes, employment insurance contributions, etc., but exclude taxable allowances and benefits, and employer contributions to employment insurance, pension plans and other welfare plans. Average weekly earnings are derived by dividing total weekly payrolls by payroll employment (see **How many people work for small businesses?**). SEPH excludes self-employed persons not on a payroll, and does not cover the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data shown below also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners) and beer and liquor stores.

In 2003, an average worker in Canada's private sector earned approximately $700 per week (Table 8 and Figure 6). Generally, employees' weekly earnings were positively related to the size of the business: employees working for businesses with fewer than 100 employees earned below the average with weekly earnings of $597, whereas those working for medium-sized firms (more than 100 but fewer than 500 employees) and large firms (more than 500 employees) earned above the average with weekly earnings of $719 and $794 respectively. In service sector firms with 5 to 19 employees, however, weekly earnings were lower than in smaller enterprises in this sector. This is primarily due to the fact that 40% of total employment in these firms is found in the three lowest-paying industries, namely retail trade; accommodation and food services; and arts, entertainment and recreation.

On average in 2003, employees in the goods-producing sector were paid $262 more per week than those working in the service-producing sector. The difference in earnings between the two sectors was greatest in large firms, at approximately $330 per week, or an annual average differential of $17 160. However, goods-producing employees also worked longer hours, so on a per-hour basis the difference in earnings would be less pronounced.

Table 8: Average Weekly Earnings by Firm Size (Number of Employees) in the Private Sector, 2003[1]

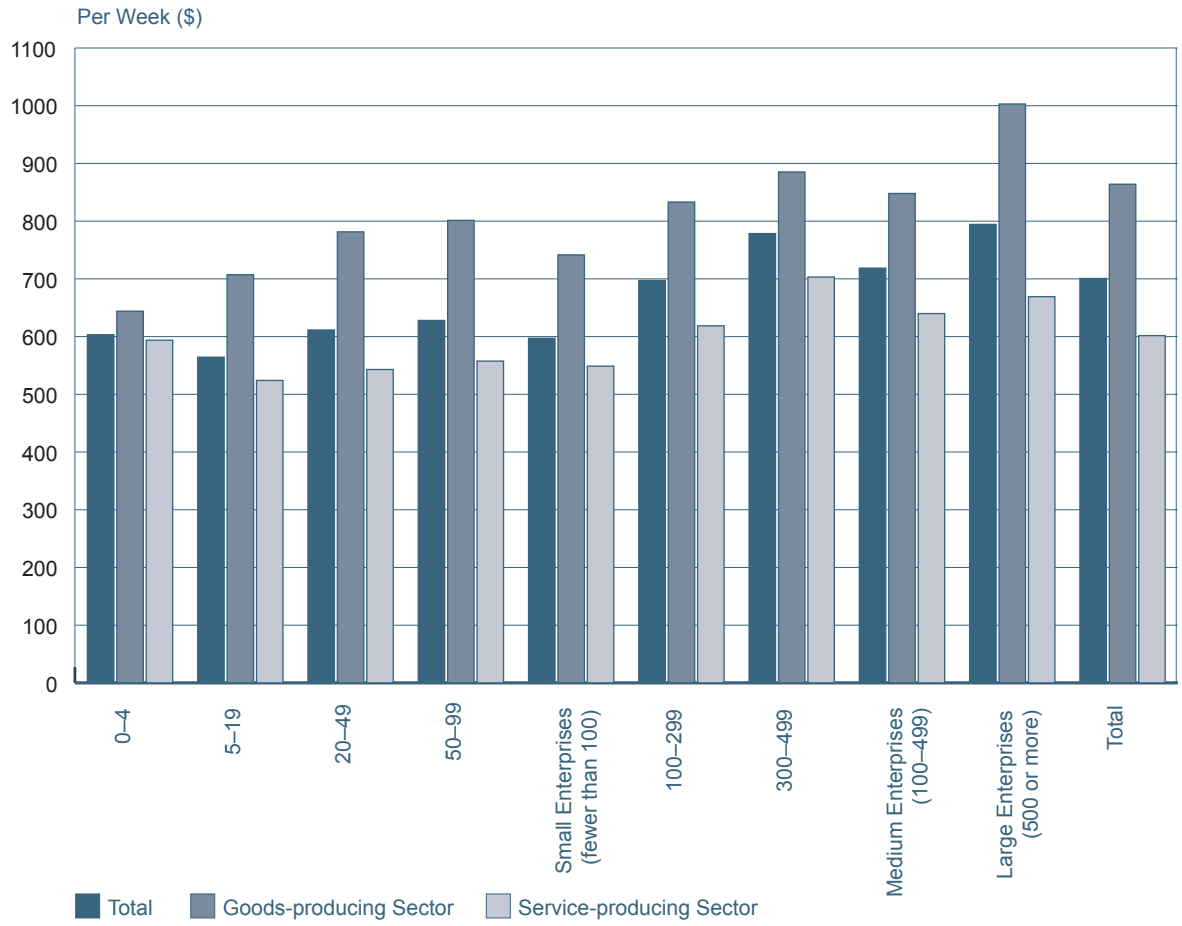
Number of Employees	Private Sector	Goods-producing Sector[2]	Service-producing Sector[2]
0–4	$603.25	$643.99	$593.77
5–19	$564.29	$707.28	$524.07
20–49	$611.41	$781.49	$542.96
50–99	$627.97	$801.35	$557.55
Small Enterprises (fewer than 100)	*$597.05*	*$741.54*	*$548.77*
100–299	$697.22	$833.15	$618.68
300–499	$778.48	$885.23	$703.17
Medium Enterprises (100–499)	*$718.61*	*$847.96*	*$639.87*
Large Enterprises (500 or more)	*$794.35*	*$1002.93*	*$669.23*
Average	**$700.66**	**$863.98**	**$601.66**

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), September 2004, and calculations by Industry Canada.

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data in this table also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners) and beer and liquor stores. A technical note on the separation of public and private sector employment is available and can be obtained by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

Note 2: By conventional Statistics Canada definition, the goods-producing sector consists of North American Industry Classification System (NAICS) codes 11 to 31–33, while NAICS codes 41 to 91 define the service-producing sector.

Figure 6: Average Weekly Earnings in the Goods-producing and Service-producing Sectors by Firm Size, in the Private Sector, 2003[1,2]



Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), September 2004, and calculations by Industry Canada.

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data in this table also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners) and beer and liquor stores. A technical note on the separation of public and private sector employment is available and can be obtained by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

Note 2: By conventional Statistics Canada definition, the goods-producing sector consists of North American Industry Classification System (NAICS) codes 11 to 31–33, while NAICS codes 41 to 91 define the service-producing sector.

What is the contribution of small businesses to Canada's Gross Domestic Product?

Gross Domestic Product (GDP) is a key measure of economic production, which can be used to compare any two industries' value added. Value added is the value that an industry, through its activities, adds to its inputs. The main advantage of the GDP concept is that it avoids double-counting. Because it measures unduplicated value added, GDP is considered more useful for gauging economic performance than, say, revenue, business counts or even employment.

The Organisation for Economic Cooperation and Development (OECD) has published estimates of the contribution to GDP by small businesses in member countries. Its 2000 Canada profile (based on 1998 data) states that 43% of private sector GDP can be attributed to SMEs, where SMEs are defined as businesses with fewer than 500 employees.

In Canada, the Government of British Columbia's statistical service (BC Stats) has developed a method to determine the small business contribution to GDP by province, using the income-based approach of the System of National Accounts.[5] The percentage of small business's contribution to GDP for Canada and each province from 1993 to 2003 is shown in Table 9.

BC Stats' definition of small business is limited to businesses with fewer than 50 employees, plus those operated by the self-employed with no paid employees. By this definition, it is estimated that, in 2003, small businesses accounted for approximately 24% of Canada's GDP. The percentage varies from a low of 15% in Newfoundland and Labrador to a high of 30% in British Columbia.

5. A background note describing the method in somewhat greater detail is available upon request; please contact **Customer Services** at **prg-sbpb@ic.gc.ca**.

Table 9: Small Business Contribution to GDP by Province, 1993 to 2003[1,2]

Province	Contribution to GDP (percent)										
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Newfoundland and Labrador	21	20	21	21	21	19	17	17	18	16	15
Prince Edward Island	34	33	34	28	27	26	25	30	28	31	27
Nova Scotia	24	24	27	26	24	23	22	25	24	24	24
New Brunswick	26	25	27	25	24	23	22	23	23	24	24
Quebec	26	26	27	26	24	23	23	25	25	26	26
Ontario	22	22	24	23	22	22	22	22	23	23	23
Manitoba	24	24	25	26	24	22	21	21	22	23	23
Saskatchewan	29	27	29	31	26	27	25	22	23	24	23
Alberta	26	25	28	26	26	27	24	22	23	27	24
British Columbia	32	31	32	31	30	29	27	27	28	30	30
Canada	**25**	**24**	**26**	**25**	**24**	**24**	**23**	**23**	**24**	**25**	**24**

Source: BC Stats.

Note 1: In these data small businesses comprise businesses with fewer than 50 employees, plus those operated by the self-employed with no paid employees.

Note 2: Differences between these data and those published in previous versions of *Key Small Business Statistics* are due to revisions made to the overall GDP estimates.

Who is self-employed?

Self-employed workers are people who earn income directly from their own business, trade or profession rather than earn a specified salary or wage from an employer. Statistics Canada defines the self-employed as working owners of an unincorporated or incorporated business, persons who work on their own account but do not have a business and persons working without pay in a family business.

How many people are self-employed?

In 2003, self-employed workers represented approximately 14% of the total labour force in the Canadian economy. The number of self-employed peaked at about 2.5 million in 1999 and stood at just over 2.4 million in the fourth quarter of 2003 (Table 10). In recent years, slightly over one third of self-employed workers have been female; the share of female self-employment rose steadily from 1976 to 1998, from 26% to 36%, and has remained at around 35% since 1999.

Table 10: Total Number of Self-employed Persons (Thousands) by Sex, Yearly and Quarterly, 1976–2003[1]

Year and Quarter	Total	Male	% of Total	Female	% of Total
1976	1 193.3	879.3	74	313.9	26
1977	1 226.2	892.8	73	333.4	27
1978	1 283.6	924.6	72	359.1	28
1979	1 336.2	951.3	71	384.9	29
1980	1 385.9	986.3	71	399.6	29
1981	1 442.5	1 031.6	72	410.9	28
1982	1 503.7	1 069.9	71	433.8	29
1983	1 551.3	1 099.6	71	451.8	29
1984	1 569.0	1 095.4	70	473.6	30
1985	1 685.1	1 162.8	69	522.3	31
1986	1 656.0	1 164.6	70	491.5	30
1987	1 695.6	1 183.2	70	512.5	30
1988	1 772.2	1 231.2	69	541.0	31
1989	1 803.4	1 242.5	69	560.9	31
1990	1 842.7	1 265.7	69	577.0	31
1991	1 887.4	1 303.9	69	583.4	31
1992	1 919.3	1 309.0	68	610.3	32
1993	2 027.1	1 372.3	68	654.8	32
1994	2 036.3	1 356.0	67	680.2	33
1995	2 097.8	1 391.6	66	706.2	34
1996	2 169.4	1 426.4	66	743.0	34
1997	2 353.7	1 524.5	65	829.2	35
1998	2 425.2	1 562.2	64	863.0	36
1999	2 462.9	1 600.5	65	862.4	35
2000	2 421.4	1 568.5	65	852.8	35
2001	2 309.2	1 525.9	66	783.3	34
2002	2 346.0	1 525.2	65	820.7	35
2003	2 412.7	1 586.7	66	826.0	34
2001 Q1	2 305.0	1 520.5	66	784.5	34
Q2	2 324.3	1 534.8	66	789.6	34
Q3	2 319.9	1 550.2	67	769.8	33
Q4	2 287.5	1 498.3	65	789.2	35
2002 Q1	2 274.7	1 475.6	65	799.1	35
Q2	2 345.6	1 527.9	65	817.7	35
Q3	2 381.0	1 556.3	65	824.7	35
Q4	2 382.7	1 541.3	65	841.4	35
2003 Q1	2 359.8	1 542.5	65	817.2	35
Q2	2 408.4	1 595.2	66	813.1	34
Q3	2 450.1	1 608.9	66	841.2	34
Q4	2 432.7	1 600.3	66	832.4	34

Source: Statistics Canada, *Labour Force Survey*, January 2004.

Note 1: Figures for men and women may not add up to total due to rounding.

Table 11 shows a breakdown of the self-employed in five categories from 1976 to 2003. On average in 2003, of 2.4 million self-employed workers, 64.9% had no paid help, 33.6% worked with paid help and 1.5% were unpaid family workers. Both self-employed workers with and without paid help are further categorized according to whether their businesses[6] were incorporated or not. Of those who worked without paid help, 1.2 million or 77% were unincorporated; this category accounted for half the total number of self-employed in Canada.

The number of self-employed persons in 2003 was 2.8% greater than in 2002. All sub-categories that make up this overall category showed higher numbers, except for independent workers with unincorporated businesses and paid employees, whose numbers decreased by 1.8%.

6. While the term "incorporated activities" generally refers to businesses, this is not necessarily the case when we speak of "unincorporated activities." According to the definition used by Statistics Canada's *Labour Force Survey*, self-employed workers involved in unincorporated activities are "active owners of a business, farm or unincorporated professional office and independent workers who do not have a business as such (child-care workers, newspaper delivery agents, etc.)."

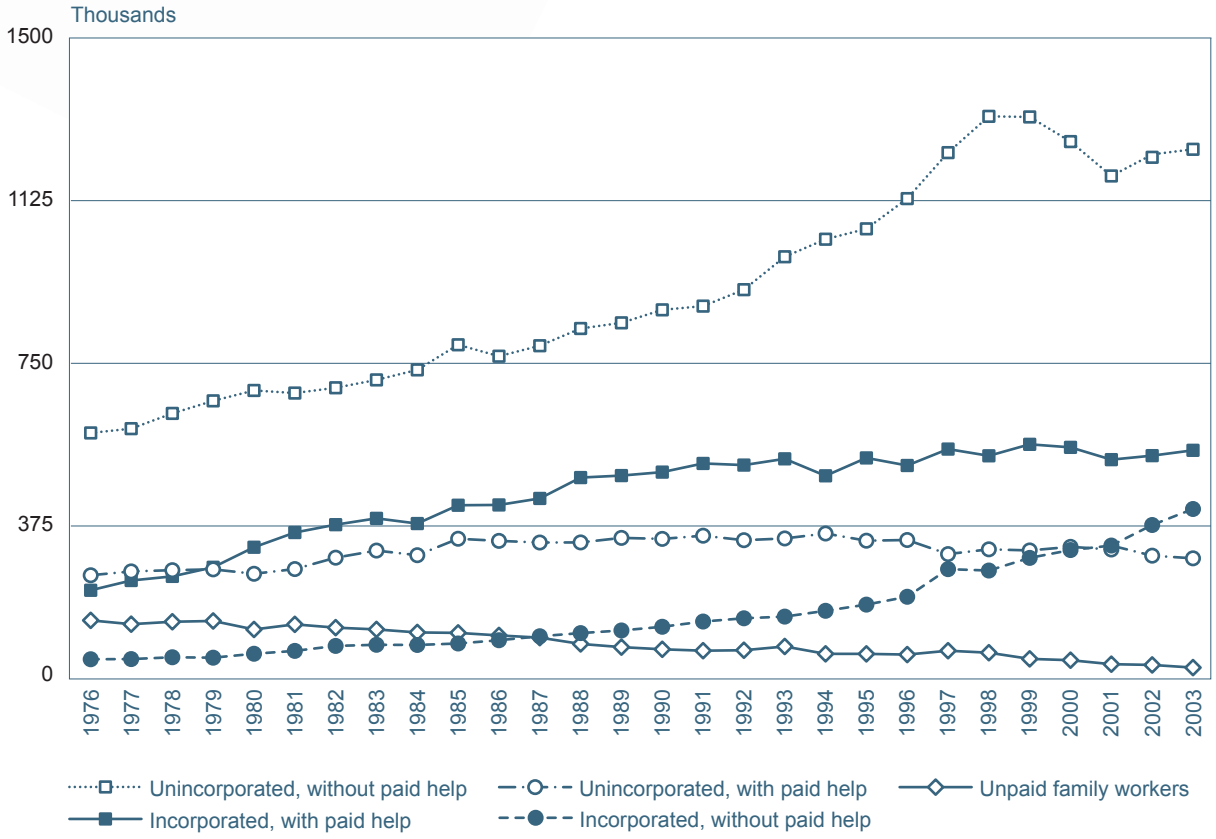
Table 11: Average Annual Number of Self-employed Persons by Category (Thousands) and Average Annual Growth Rates (Percent), 1976–2003

Year	Total	With Paid Help			Without Paid Help			Unpaid Family Workers
		Total	Incorporated	Unincorporated	Total	Incorporated	Unincorporated	
1976	**1 193.3**	444.3	204.8	239.5	613.7	45.5	568.2	135.3
1977	**1 226.3**	475.8	227.4	248.4	624.0	45.9	578.1	126.5
1978	**1 283.6**	488.1	236.9	251.2	663.4	50.1	613.3	132.1
1979	**1 336.3**	511.0	257.9	253.1	691.4	49.1	642.3	133.9
1980	**1 385.9**	547.1	304.2	242.9	724.5	58.2	666.3	114.3
1981	**1 442.7**	591.5	337.7	253.8	725.1	64.8	660.3	126.1
1982	**1 503.7**	636.4	356.3	280.1	748.8	76.3	672.5	118.5
1983	**1 551.4**	667.4	370.9	296.5	769.6	78.9	690.7	114.4
1984	**1 569.1**	644.7	358.9	285.8	817.0	78.5	738.5	107.4
1985	**1 685.1**	725.0	401.2	323.8	853.7	81.9	771.8	106.4
1986	**1 656.1**	720.8	401.9	318.9	834.8	89.4	745.4	100.5
1987	**1 695.6**	732.0	416.9	315.1	868.2	98.6	769.6	95.4
1988	**1 772.2**	780.4	465.1	315.3	910.9	101.5	809.4	80.9
1989	**1 803.5**	795.5	469.7	325.8	934.5	112.0	822.5	73.5
1990	**1 842.7**	801.2	477.7	323.5	973.0	120.5	852.5	68.5
1991	**1 887.3**	828.6	497.5	331.1	993.7	132.6	861.1	65.0
1992	**1 919.3**	813.8	493.6	320.2	1 039.2	140.1	899.1	66.3
1993	**2 027.0**	832.9	508.4	324.5	1 119.1	144.0	975.1	75.0
1994	**2 036.1**	805.1	469.2	335.9	1 173.0	157.4	1 015.6	58.0
1995	**2 097.8**	829.8	510.5	319.3	1 210.1	170.5	1 039.6	57.9
1996	**2 169.4**	813.9	493.0	320.9	1 299.2	189.8	1 109.4	56.3
1997	**2 353.7**	819.3	530.9	288.4	1 469.2	253.6	1 215.6	65.2
1998	**2 425.2**	814.8	515.4	299.4	1 549.8	250.4	1 299.4	60.6
1999	**2 462.8**	838.7	541.9	296.8	1 577.6	279.6	1 298.0	46.5
2000	**2 421.4**	840.0	534.9	305.1	1 538.1	297.0	1 241.1	43.3
2001	**2 309.2**	805.4	506.5	298.9	1 469.7	308.0	1 161.7	34.1
2002	**2 346.1**	803.4	511.0	292.4	1 508.8	327.7	1 181.1	33.9
2003	**2 412.8**	810.7	523.7	287.0	1 566.5	355.3	1 211.2	35.6
Average Annual Growth Rate, 1976–2003								
	2.6%	2.3%	3.5%	0.7%	3.5%	7.9%	2.8%	-4.8%

Source: Statistics Canada, *Labour Force Survey*, January 2004.

As shown in Figure 7, the various categories of self-employed workers experienced slightly different growth rates from 1976 to 2003, which means that the relative importance of these various categories changed slightly over time. The total number of self-employed workers in Canada increased at an annual rate of 2.6% during this period. Self-employed workers owning incorporated businesses registered the highest growth rates — 7.9% in businesses without paid employees and 3.5% in businesses with paid employees. A third category also showed a relative increase — 2.8% for self-employed workers owning unincorporated businesses with no paid employees. Lastly, two categories experienced growth rates below the 2.6% average rate for the group as a whole, which meant that their relative importance in the overall category of self-employed workers diminished. These two sub-groups were self-employed workers owning unincorporated businesses with paid employees (0.7%), and unpaid family workers (-4.8%).

Figure 7: Self-employed Persons (Thousands), by Category 1976–2003



Source: Statistics Canada, *Labour Force Survey*, January 2004.

How has self-employment contributed to job creation?

Generally, the increasing trend toward self-employment has supported total employment growth. Positive contributions to total net employment growth in the private sector have ranged from 3% to almost 200% per year between 1977 and 2003 (Table 12 and Figure 8).[7] During that time there have been just three years (1986, 2000 and 2001) when the net change in self-employment was negative. In 1982 and 1991–92, self-employment grew strongly, while total employment growth turned negative due to economic recessions. It is interesting to note that the two greatest changes in the number of self-employed persons relative to the overall change in private sector employment occurred at the end of these recessions (in 1983 and 1993) — 197% in 1983 and 127% in 1993. This is because, when job market conditions tighten, people who cannot find suitable employment tend to start their own businesses and become self-employed.

7. In Table 12, employment in the private sector is defined as the total of self-employed workers and private sector employees, regardless of business size. The definition of private sector employees in the *Labour Force Survey* used in Table 12 is not identical to the definition in the *Survey of Employment, Payrolls and Hours* data in Tables 5 to 7 but the differences are minor.

Table 12: Private Sector Total Net Employment Change and Net Self-employment Change, Year-over-year, 1977–2003[1,2]

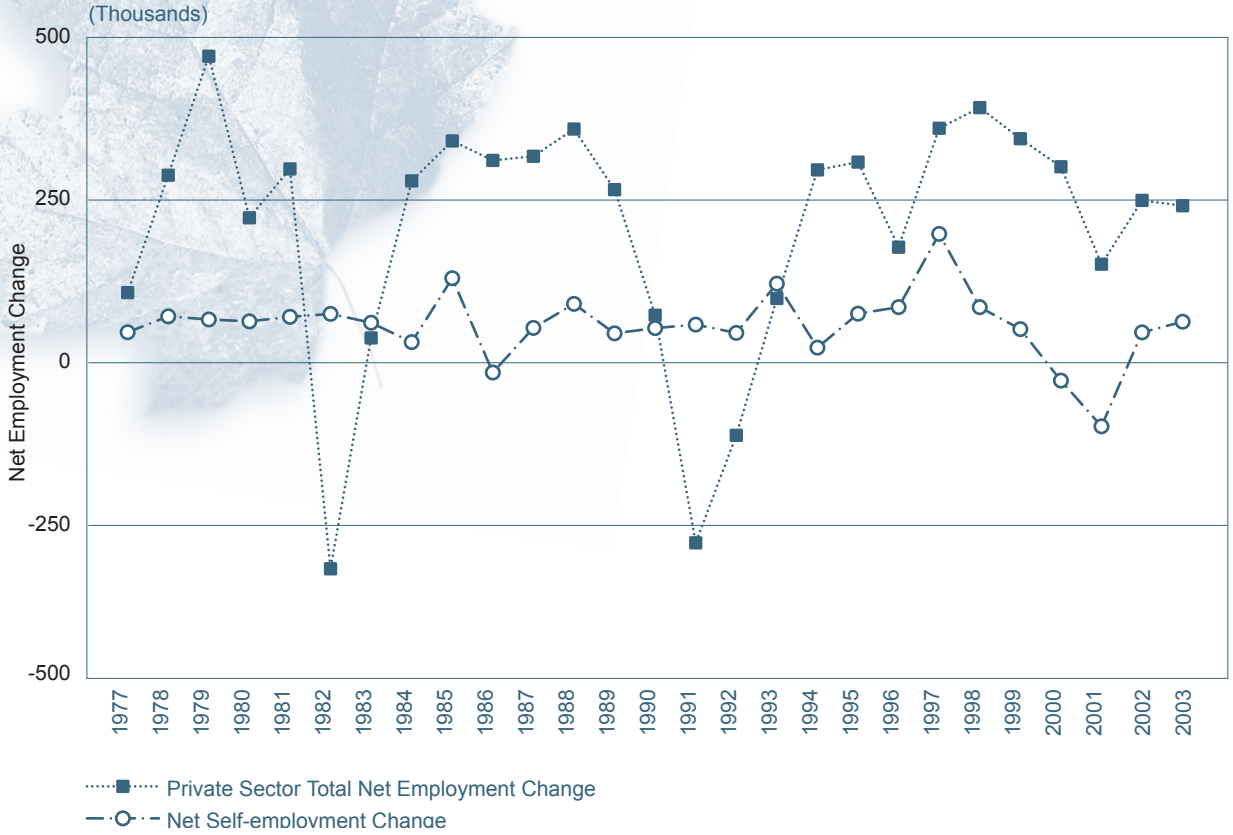
Year	Private Sector Total Net Employment Change (Thousands)	Private Sector Employees		Self-employed Persons	
		Net Change (Thousands)	% of Total Private Sector Employment Change	Net Change (Thousands)	% of Total Private Sector Employment Change
1977	94.1	61.2	65	33.0	35
1978	274.7	217.3	79	57.4	21
1979	457.8	405.2	89	52.6	11
1980	229.8	180.1	78	49.7	22
1981	284.4	227.8	80	56.6	20
1982	-331.4	-392.5	(-) 118	61.2	(+) 18
1983	24.2	-23.4	(-) 97	47.7	197
1984	265.9	248.2	93	17.7	7
1985	327.5	211.4	65	116.1	35
1986	297.6	326.7	110	-29.1	(-) 10
1987	303.9	264.2	87	39.6	13
1988	345.7	269.2	78	76.5	22
1989	252.6	221.4	88	31.2	12
1990	59.0	19.8	34	39.3	67
1991	-270.8	-315.5	(-) 117	44.7	(+) 17
1992	-125.8	-157.7	(-) 125	31.9	(+) 25
1993	84.8	-22.9	(-) 27	107.8	127
1994	282.9	273.7	97	9.2	3
1995	294.9	233.3	79	61.5	21
1996	164.0	92.3	56	71.6	44
1997	347.0	162.7	47	184.3	53
1998	378.8	307.3	81	71.5	19
1999	330.9	293.2	89	37.7	11
2000	287.6	329.2	114	-41.5	(-) 14
2001	137.8	250.0	181	-112.2	(-) 81
2002	248.8	212.0	85	36.8	15
2003	244.1	177.3	73	66.7	27

Source: Statistics Canada, *Labour Force Survey*, January 2004.

Note 1: (-) indicates a negative contribution to Total Net Employment Change;
(+) indicates a positive contribution, despite a negative Total Net Employment Change.

Note 2: Net change figures may not add up to total net change due to rounding.

Figure 8: Private Sector Total Net Employment Change and Net Self-employment Change, Year-over-year (Thousands), 1977–2003



Source: Statistics Canada, *Labour Force Survey*, January 2004.

Do the self-employed work longer hours than employees?

The evidence is strong that the self-employed work longer hours than employees; this has been the case since at least 1987. The self-employed worked 40.8 hours per week in 2003 compared with 35.5 hours for employees, on average. Even more striking is the large difference in those who usually worked over 50 hours per week in 2003: 33% of self-employed persons worked over 50 hours compared with only 5% of employees (Figure 9). Clearly, the self-employed usually work longer hours than employees.

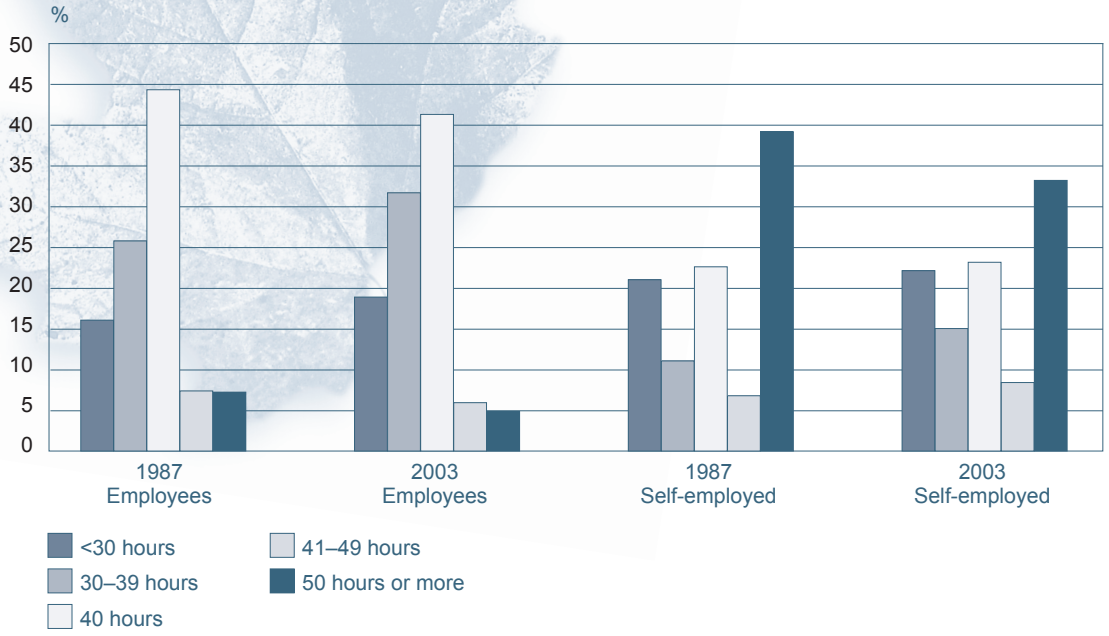
When it comes to working part-time (less than 30 hours per week), the self-employed are very similar to employees; 22% of the self-employed and 19% of employees worked part-time in 2003.

These differences between the self-employed and employees persisted over the 1987–2003 period, although there has been some abatement of the tendency of the self-employed to work over 50 hours per week since 1999. As well, there has been a small rise in the proportion of those working part-time, both among the self-employed and among employees.

As shown in Figure 10, there are also major differences between men and women in usual weekly hours worked: men are more likely to work long hours, while women are more likely to work part-time. On average, self-employed men worked 44.7 hours per week in 2003, compared with only 33.3 hours for self-employed women. Furthermore, 39% of self-employed men worked over 50 hours in 2003, compared with only 20% of self-employed women. The same pattern applies among employees, although at much lower levels: 7% of male employees worked over 50 hours in 2003 compared with only 2% of female employees.

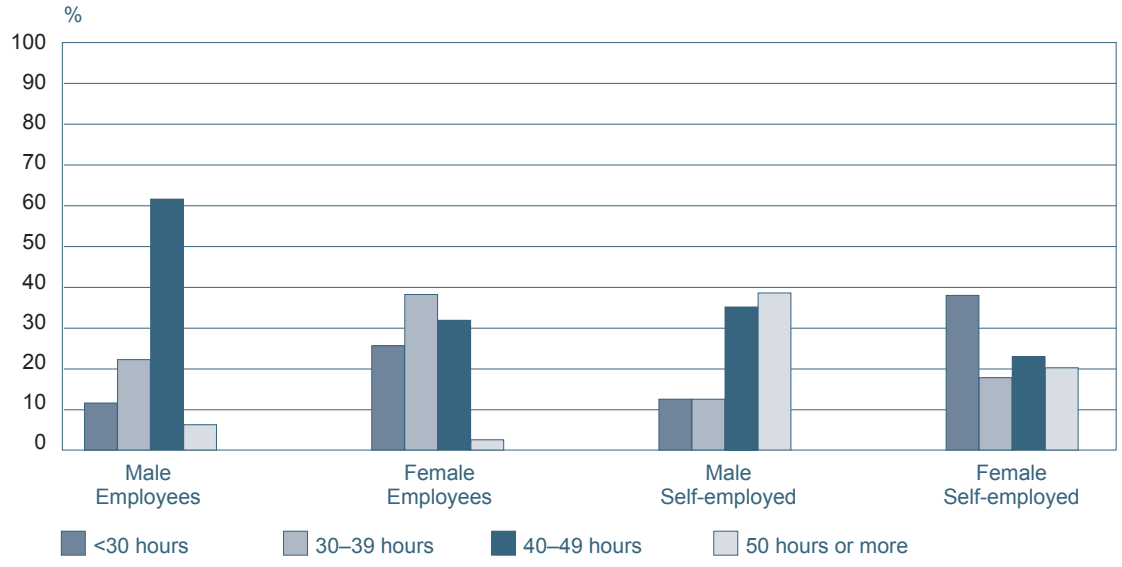
Females are more likely to work part-time, whether they are self-employed or are employees. Among the self-employed, 38% of women worked part-time (less than 30 hours) in 2003, compared with 13% of men. Among employees, 26% of women worked part-time in 2003, compared with 11% of men.

Figure 9: Percentage Distribution of Usual Weekly Hours of Employees and Self-employed, 1987 and 2003



Source: Statistics Canada, *Labour Force Survey*, January 2004.

Figure 10: Percentage Distribution of Usual Weekly Hours Worked, by Class of Worker and Sex, 2003



Source: Statistics Canada, *Labour Force Survey*, January 2004.

How many small business entrepreneurs are women?

There is no easy way to precisely determine the number of entrepreneurs in Canada, much less the number of women entrepreneurs. However, it is possible to estimate the number using available data on self-employment and business ownership.

Statistics Canada's *Labour Force Survey* reports there were 826 000 self-employed women in Canada in 2003, accounting for about one third of all self-employed persons. (While not all of the self-employed would identify themselves as entrepreneurs, the number of self-employed women provides an upper limit for the number of female entrepreneurs.[8]) Over the past 10 years, the number of self-employed women has grown by 26%, compared with 16% growth in male self-employment.

Another way to count entrepreneurs is through business ownership. The report entitled *Small and Medium-sized Enterprise (SME) Financing in Canada* (2002)[9] distinguishes four types of business ownership based on gender: majority female ownership, equal partnership between male and female owners, minority female ownership and no female ownership.

Based on this report, it is estimated that 45% of SMEs or about 647 000 businesses had at least some degree of female ownership in 2000. Of those, some 211 000 were majority owned by women, while 272 000 were owned by an equal partnership between male and female owners.

The report found that SMEs majority owned by women were less likely than other SMEs to employ more than 20 employees and also had started up more recently than firms that are majority owned by men. A large number of SMEs owned by women operated in the wholesale, retail and professional services industries. Women owners of SMEs also tended to have fewer years of experience in the industries in which they operated compared with their male counterparts.

8. Some entrepreneurs, especially if they are on the payroll of their own businesses, may not identify themselves as being self-employed; however, this number is likely to be smaller than the number of self-employed who are not entrepreneurs.

9. Government of Canada, *Small and Medium-sized Enterprise (SME) Financing in Canada*, 2002, available at **http://strategis.gc.ca/fdi**. The report is based in part on Statistics Canada's *Survey on Financing of Small and Medium Enterprises*, 2000.

Are women who are majority owners in a business refused bank credit more often than men?

The report, *Small and Medium-sized Enterprise (SME) Financing in Canada* (2002),[10] suggests that women entrepreneurs do not face greater difficulty than men in obtaining bank credit. In the case of SMEs that are majority owned by women, 17% requested debt financing and 82% of requests were approved, while for SMEs majority owned by men, 23% requested debt financing with an 80% rate of approval.

That said, certain characteristics of SMEs majority owned by women appear to make them less likely to request debt financing. Whether businesses apply for financing or not varies greatly across industries and size of the business.

As already noted (see **How many small business entrepreneurs are women?**), SMEs majority owned by women tend to be smaller and younger relative to SMEs owned by men. In addition, SMEs owned by women are more likely to operate in the wholesale, retail and professional services industries.

Report results showed that SMEs with fewer than five employees had the lowest rate of requests for debt financing and approval rates. SMEs that operated in the wholesale, retail and professional services industries also had lower-than-average rates of requests for debt and lease financing.

Women SME owners who required financing but did not often apply cited difficulties in the application process and the likelihood of their requests not being approved as reasons for not applying. In contrast to these perceptions, the survey found that women owners of SMEs who did apply for debt financing were not required to provide any more documentation to suppliers of credit than were owners of SMEs in general.

The report's results support the conclusion that it is not the gender of a business owner, but rather the sector in which a business operates and its size and age that determine access to financing.

10. Government of Canada, *Small and Medium-sized Enterprise (SME) Financing in Canada*, 2002, available at **http://strategis.gc.ca/fdi**. The report is based in part on Statistics Canada's *Survey on Financing of Small and Medium Enterprises*, 2000.

Do SMEs innovate as much as large firms?

In a world with limited resources, the fastest way to boost productivity and economic growth is to innovate. Innovation is often thought to be synonymous with high technology inventions, but innovative behaviour encompasses much more than that. The government's January 2001 White Paper on Canada's Innovation Strategy defines innovation as "the creative process of applying knowledge and the outcome of that process."[11]

One indicator of innovative behaviour is the amount of research and development (R&D) expenditures a firm undertakes. R&D is not necessarily easy to measure, especially in the context of SMEs. However, certain data can be obtained, either through surveys or from tax records of firms that claim tax credits for R&D expenditures. Statistics on Scientific Research and Experimental Development tax credits reveal two telling facts about innovation by SMEs: they spend far less than large firms do in terms of absolute amounts; but, as a percent of revenue (R&D intensity), spending on innovation by SMEs far outstrips that of larger firms.

In 2001, according to Statistics Canada, nearly 9000 firms spent approximately $13 billion on R&D, as shown in Table 13. Of the total R&D spending, close to 20% came from some 7650 firms with fewer than 100 employees, or an average of $0.31 million per SME. On the other hand, just 316 large firms accounted for 64% of total R&D expenditures, an average of $26.8 million per firm. However, the proportion of R&D expenditure as a percentage of company revenue generally decreases with firm size.

11. Government of Canada, *Achieving Excellence: Investing in People, Knowledge and Opportunity*, January 2001, p. 4.

Table 13: Scientific Research and Experimental Development Expenditures by Number of Employees, 2001

Number of Employees	Number of Companies	R&D Expenditures ($ millions)	Average Expenditure per Company ($ millions)	% of Performing Company Revenues
Non-commercial	21	180	8.6	—
1–49	6 746	1 372	0.2	5.5
50–99	907	998	1.1	7.0
100–199	568	1 128	2.0	5.6
200–499	335	1 041	3.1	3.1
500–999	126	1 364	10.8	3.5
1 000–1 999	96	1 555	16.2	2.3
2 000–4 999	56	1 038	18.5	1.1
≥5 000	38	4 504	118.5	1.6
Total	**8 893**	**13 179**	**1.5**	**2.2**

Source: Statistics Canada, *Industrial Research and Development — 2003 Intentions*, Cat. No. 88-202-XIB, December 2003.

Note: For firms funding or performing less than $1 million in R&D and applying for a tax credit under the Scientific Research and Experimental Development program, the data are derived from administrative data of the Canada Revenue Agency. For firms spending more than $1 million, the data are obtained from a mail-out survey of all firms.

A broader gauge of innovative behaviour, but only among manufacturing firms, can be found in Statistics Canada's 1999 Survey of Innovation.[12] The survey found that 80% of SMEs innovated, only slightly less than 88% of large firms. SMEs are defined here as manufacturing firms with between 20 and 249 employees. An innovative firm is one that offered new or significantly improved processes, goods or services in the previous three years.

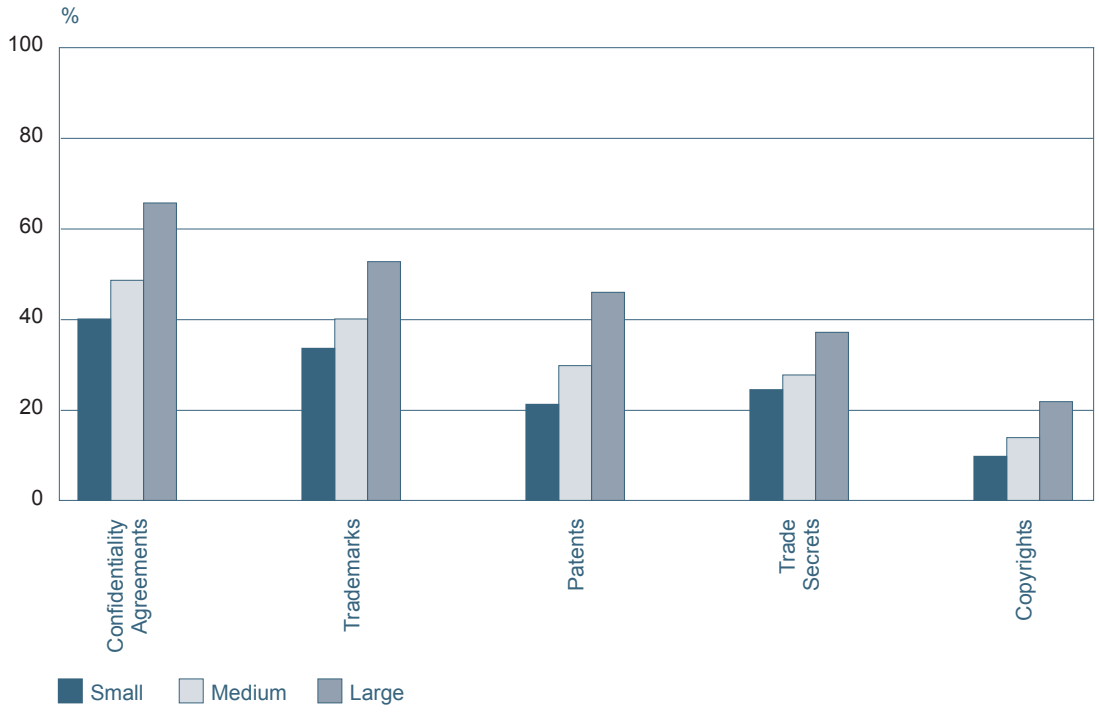
Innovating SMEs generally displayed the same characteristics as larger innovators; for example, the sales ratio of innovative products in SMEs and large firms differed little from the overall average of 27%. Furthermore, smaller innovators identified the same top seven objectives of innovation and ranked them in almost the same order as did large firms. (These were, in order of importance to SMEs: to improve product quality, increase production capacity, extend product range, reduce production time, improve production flexibility, increase speed of delivering products to the market and reduce labour costs.)

Although innovative companies in the manufacturing sector exhibited similar characteristics regardless of their size, the magnitude of innovation did vary with size; for example, SMEs scored lower than large firms in all measures of involvement in innovative activities, novelty of the innovation, rate of collaboration, use of intellectual property rights and use of government support. As well, large firms were consistently more involved than were SMEs in innovative activities such as training, industrial design and engineering, acquisition of machinery and equipment, tool-up and production start-up, and R&D activities. Fewer SMEs introduced innovations that were world firsts or Canadian firsts — 41% compared with 61%

12. The 1999 Survey of Innovation covered approximately 6000 provincial enterprises in manufacturing industries and asked about their innovative activities during the three-year period between 1997 and 1999. The definition of innovation, based on the Oslo manual (OECD, 1996), was the introduction of new or improved products or processes. Only firms with more than 20 employees and at least $250 000 in annual gross business revenues were included in the survey.

for large firms. As for collaboration, 31% of innovating SMEs collaborated with other firms to acquire complementary knowledge and technologies, compared with 46% for large innovators. Figure 11 shows differences between small, medium-sized and large manufacturing firms regarding the use of intellectual property rights, while Figure 12 illustrates differences with regard to use of government support. In these figures, small refers to firms with at least 20 but fewer than 50 employees, while medium-sized firms are those with between 50 and 249 employees. While small, medium-sized and large firms scored their practices in the same order, as noted above, Figures 11 and 12 show the differences in the degree to which these practices were used, depending on the size of firm.

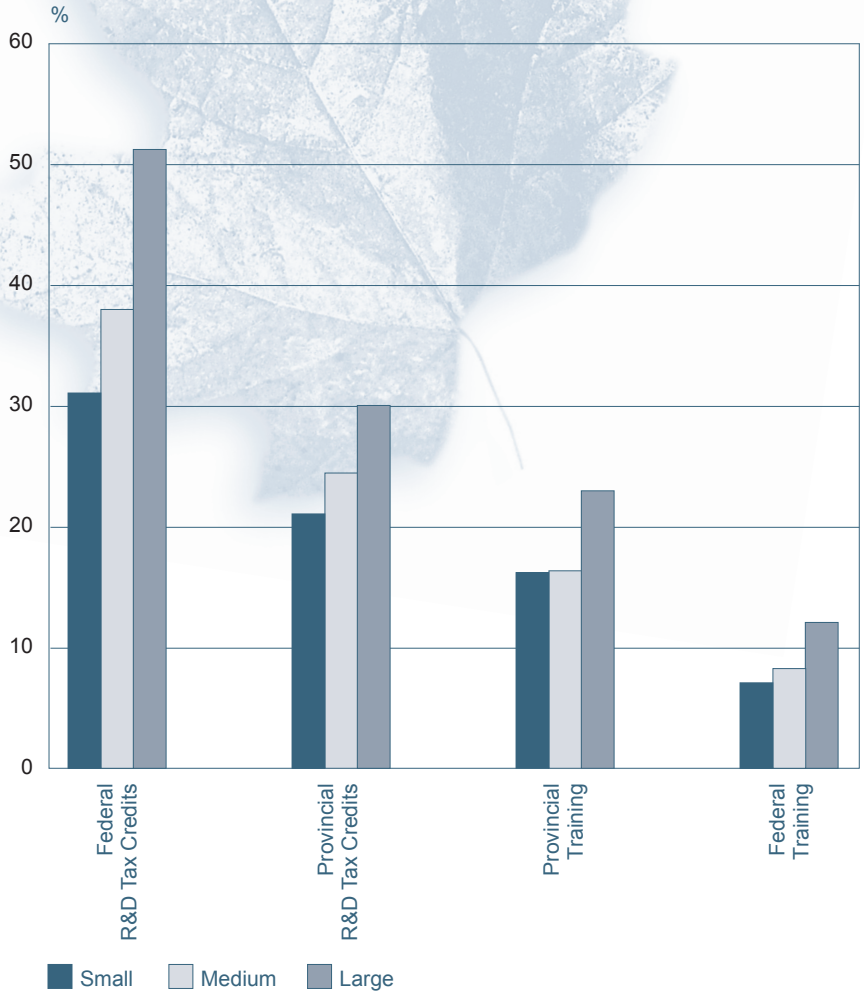
Figure 11: Use of Intellectual Property, 1999 (Percent of Innovative Manufacturing Firms)



Source: C. D. Le and D. Tourigny, *Innovation in Canadian Manufacturing SMEs*, Industry Canada, September 2003.

Note: Small firms are defined as having fewer than 50 employees, medium-sized as having between 50 and 249 employees, and large as having more than 250 employees. Only manufacturing firms with more than 20 employees and at least $250 000 in annual gross business revenues were included in Statistics Canada's 1999 Survey of Innovation, on which these data are based.

Figure 12: Use of Government Support, 1999 (Percent of Innovative Manufacturing Firms)



Source: C. D. Le and D. Tourigny, *Innovation in Canadian Manufacturing SMEs*, Industry Canada, September 2003.

Note: Small firms are defined as having fewer than 50 employees, medium-sized as having between 50 and 249 employees, and large as having more than 250 employees. Only manufacturing firms with more than 20 employees and at least $250 000 in annual gross business revenues were included in Statistics Canada's 1999 Survey of Innovation, on which these data are based.

How many small businesses use e-business?

Engaging in electronic business (e-business) is defined as leveraging "the Internet for providing or sharing information, or for delivering services, and/or realizing some or all of its revenues from Internet-based transactions and/or the manufacture and sale of Internet-related products or services."[13] In addition to on-line purchases and transactions (referred to as e-commerce), e-business includes portfolio management, business planning, and Internet- or Intranet-based communication between a business and its clients, suppliers and other partners.

Embracing e-business can offer many benefits to a firm, regardless of its size. Using the Internet as a business tool can improve coordination within the production process, improve communication with suppliers and customers, optimize supply sources and increase a firm's presence in the marketplace. However, the extent to which firms use e-business, and for what purposes, varies considerably depending on a firm's size.

Data on e-business are available from a variety of sources, which often do not agree. The reason for the discrepancies is that e-business survey results are very sensitive to sample selection and timing. The most reliable source of data on e-business is Statistics Canada's *Survey of Electronic Commerce and Technology* (SECT),[14] which covers more than 21 000 firms. It defines small firms as having fewer than 20 employees, medium-sized firms as having between 20 and 99 employees (499 for manufacturing) and large firms as having more than 100 employees (500 for manufacturing). Table 14 is based on this survey.

Having an Internet connection does not necessarily mean a business is embracing e-business, although being connected may serve as an indicator for the use of e-business because it is a minimum requirement for participation in almost any form of e-business. While the rate of small firms connecting to the Internet is increasing, they continue to lag behind medium-sized and large firms in terms of both connection rates and the ways in which the Internet is put to use in the business. The overall rate of firms connected to the Internet was 78% in 2003, but small firms, at 76%, lagged well behind the 94% and 97% of medium-sized and large firms connected to the Internet, respectively. However, small firms have been closing the gap in connection rates between themselves and medium-sized and large firms in recent years.

Web site ownership rates also increase with firm size. More than twice as many medium-sized firms owned a Web site (66%) than small firms (29%), while nearly three times as many large firms as small

13. *Fast Forward — Accelerating Canada's Leadership in the Internet Economy*. Report of the Canadian E-Business Opportunities Roundtable, January 2000, p.11.

14. The minimum level of revenue required to be included in Statistics Canada's *Survey of Electronic Commerce and Technology* (SECT) varies depending on the industry but ranges from $150 000 to $250 000 per year. Businesses with no full-time employees but that meet the minimum revenue criterion were included in the survey. Those without full-time employees included self-employed persons without paid help, seasonal businesses and virtual firms.

firms owned Web sites (77%). Over the past three years, the proportion of firms that own a Web site has increased across all firm size categories.

As firm size increases, there is clearly a higher percentage of firms that buy and sell on-line. Furthermore, the number of firms that buy on-line has been increasing in recent years and is now roughly five times the number of firms that sell on-line, and this holds true for all sizes of firms. However, the proportion of firms selling on-line has not changed since 2001. For instance, only 6% of small firms sell on-line, while 35% purchase on-line; for medium-sized firms, 14% sell and 50% purchase on-line; and for large firms, 16% sell and 61% purchase on-line. This likely reflects the higher costs that are associated with setting up operations to sell on-line relative to the low costs of purchasing on-line.

Table 14: Internet Access and Use by Firm Size (Percent), 2001–2003

		2001	2002	2003
Internet Access	Small	68	73	76
	Medium	91	92	94
	Large	94	99	97
	All Firms	71	76	78
Own Web Site	Small	24	27	29
	Medium	57	62	66
	Large	74	77	77
	All Firms	29	32	34
Sell On-line	Small	6	7	6
	Medium	12	13	14
	Large	15	16	16
	All Firms	7	8	7
Purchase On-line	Small	20	29	35
	Medium	30	47	50
	Large	52	57	61
	All Firms	22	32	37

Source:Statistics Canada, *Survey of Electronic Commerce and Technology* (SECT), 2004.

Note: Statistics Canada's *Survey of Electronic Commerce and Technology* (SECT), on which these data are based, defines small firms as having fewer than 20 employees, medium-sized firms as having between 20 and 99 employees and large firms as having more than 100 employees for all industries except manufacturing. The upper limit for the medium-sized category in the manufacturing industry is 499 employees while firms with 500 employees or more are defined as large.

What is the contribution of small businesses to Canada's exports?

Exporting is vital to Canada's economy, accounting for more than 40% of GDP in recent years. Exports can be a driver of economic growth and are strongly correlated with real GDP growth. Furthermore, exporting can provide a strategically important means of growing a firm by expanding its market beyond the confines of Canada's relatively small domestic market.

Before 2001, the Canadian Exporter Registry (which covers domestically produced merchandise and does not include services) tabulated data by value of exports, not by size of firm. According to this method, small exporters (defined as firms that export less than $1 million annually) only contributed 1.6% of the value of total exports in 2001. The implied conclusion was that small businesses do not make significant contributions to Canada's exports.

New exporter profiles tabulated the data by number of employees for 2002. This new method showed that nearly 85% of Canadian exporters were small businesses (defined as enterprises with fewer than 100 employees). More importantly, small businesses were responsible for 20% of the total value of exports in 2002, with an average value of $2.3 million. Medium-sized businesses accounted for 15% of the total value of exports in 2002 with an average value of $11.8 million, while large businesses accounted for 64% with an average value of $194.5 million in exports. It is clear from the new data that small firms do make a significant contribution to Canada's exports.[15]

However, the proportion of small businesses that export is lower than the proportion of small businesses in the overall economy. Only 1.4% of small businesses export, while 27.0% of medium and 37.7% of large businesses participate in exporting.

Table 15 shows the distribution of the value of exports, by size of firm and industry grouping, in 2002. In all industries outside of the manufacturing and the mining, oil and gas extraction/utilities, small businesses made the largest contribution to exports of any firm size category. In contrast, small businesses only contributed 9% of manufacturing exports while large firms contributed 75% of these exports.

15. Export data shown here are at the enterprise level. Tabulating export data at the establishment level results in an even higher contribution by small businesses, because small establishments of large firms are included in the count.

Table 15: Distribution of Total Value of Exports by Industry and Size of Business Enterprise (Number of Employees), 2002

Industry Grouping (NAICS)	Employer Businesses											
		Size of Business Enterprise — Number of Employees (Percent of Total)										
	Total Value ($ Millions)	Total	1–4	5–9	10–19	20–49	50–99	*Small (<100)*	100–199	200–499	*Medium (100–499)*	Large (500+)
Agriculture, Forestry, Fishing and Hunting	3 176	0.9	10.9	6.9	16.7	19.6	12.1	*66.2*	4.6	9.2	*13.8*	19.9
Mining, Oil and Gas Extraction/Utilities	25 739	7.5	0.2	2.4	0.2	7.2	0.3	*10.3*	4.7	8.1	*12.8*	77.0
Construction	810	0.2	14.5	14.5	7.7	23.1	21.1	*80.9*	8.6	8.4	*17.0*	2.1
Manufacturing	256 128	74.6	0.5	0.3	0.8	2.9	4.5	*9.0*	7.0	9.3	*16.3*	74.7
Wholesale Trade	23 209	6.8	8.9	6.9	12.4	18.2	21.2	*67.6*	8.3	13.0	*21.2*	11.1
Retail Trade	1 724	0.5	10.3	12.8	8.3	25.7	12.7	*69.7*	6.8	4.0	*10.8*	19.5
Transportation and Warehousing	8 600	2.5	2.4	1.2	1.5	2.2	78.8	*86.1*	0.4	3.7	*4.1*	9.8
Information and Cultural Industries/Finance and Insurance	15 689	4.6	81.2	1.6	0.9	1.5	2.5	*87.7*	2.3	3.9	*6.2*	6.2
Business Services	5 937	1.7	16.7	6.9	5.1	10.5	7.9	*47.1*	7.4	7.2	*14.6*	38.3
Other	2 395	0.7	3.2	1.2	4.4	7.5	4.5	*20.8*	2.4	3.7	*6.1*	73.1
Industry Aggregate Total	**343 406**	**100.0**	**5.2**	**1.3**	**1.8**	**4.7**	**7.3**	***20.4***	**6.5**	**9.0**	***15.5***	**64.2**

Source: Statistics Canada, Canadian Exporter Registry, July 2004.

Note: Figures may not add up due to rounding.

What sources of financing are used by SMEs at different stages of development?

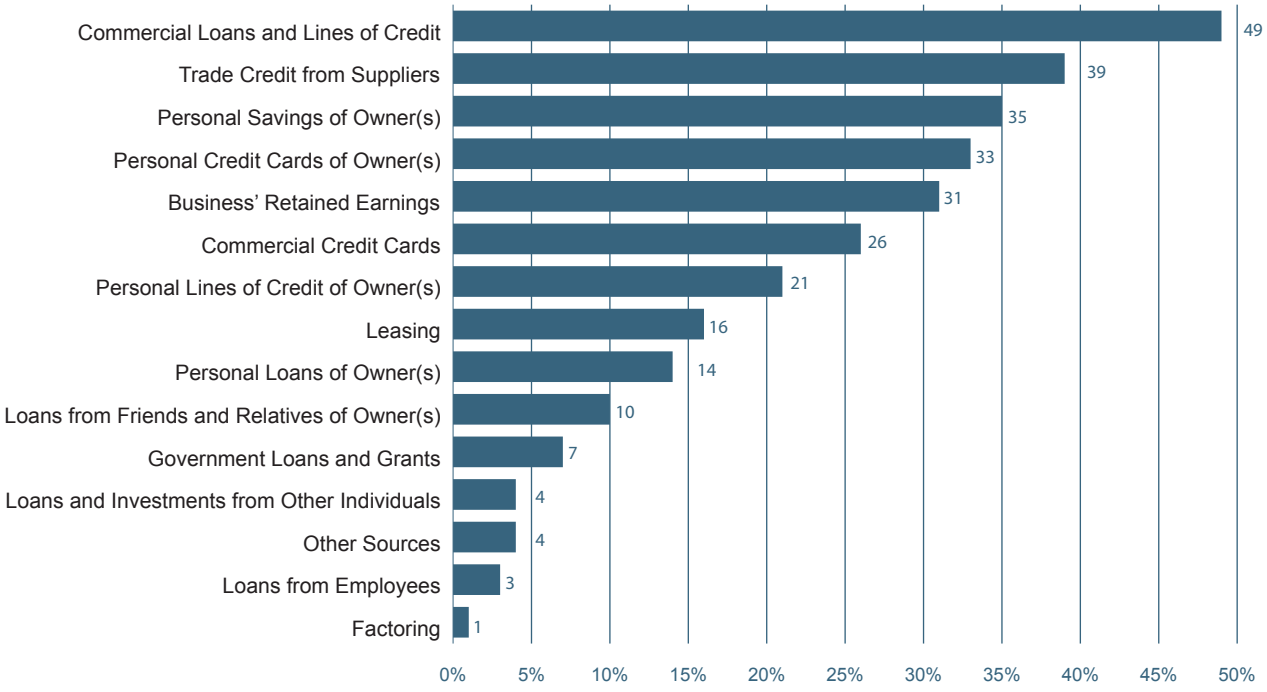
A firm's financing needs evolve as it grows: the sources of financing used by small and medium-sized enterprises (SMEs)[16] at the start-up stage of development are not the same as those used by established SMEs that have built up equity and collateral.[17] Sources of financing can be broadly categorized as formal or informal. Formal sources of financing originate from external suppliers/sources in the business of financial lending and include such instruments as commercial loans and lines of credit. Informal sources of financing are obtained from suppliers/sources not in the business of financial lending, are acquired from business activities (e.g. retained earnings) or are derived from owner(s) (e.g. personal savings).

16. Statistics Canada, *Survey on Financing of Small and Medium-sized Enterprises*, 2000, small and medium-sized enterprises (SMEs) were defined as for-profit enterprises with fewer than 500 employees and earn less than $50 million in annual revenues. Financing and leasing companies, cooperatives, subsidiaries of other firms, not-for-profit organizations, government offices, schools, hospitals and other public sector organizations were excluded.

17. ***Start-up SMEs*** were defined as businesses started from scratch by the owner(s) prior to the first sale of products or services, at any time between 1996 and 2000. ***Established SMEs*** were defined as firms started prior to 1998. ***All SMEs*** includes both start-ups and established firms.

In 2000, 49% of all SMEs preferred commercial financing products and 39% preferred trade credit to all other forms of financing; however, all SMEs also made substantial use of informal personal financing instruments. As seen in Figure 13, 35% of all SMEs financed their operations with personal savings, followed closely by retained earnings (31%). These data do not reveal whether the decision to use personal sources of short-term credit for business purposes is a matter of personal choice or reflects unwillingness of financial institutions to advance capital to small businesses.

Figure 13: Types of Financial Instruments in Use by SMEs in 2000[1]

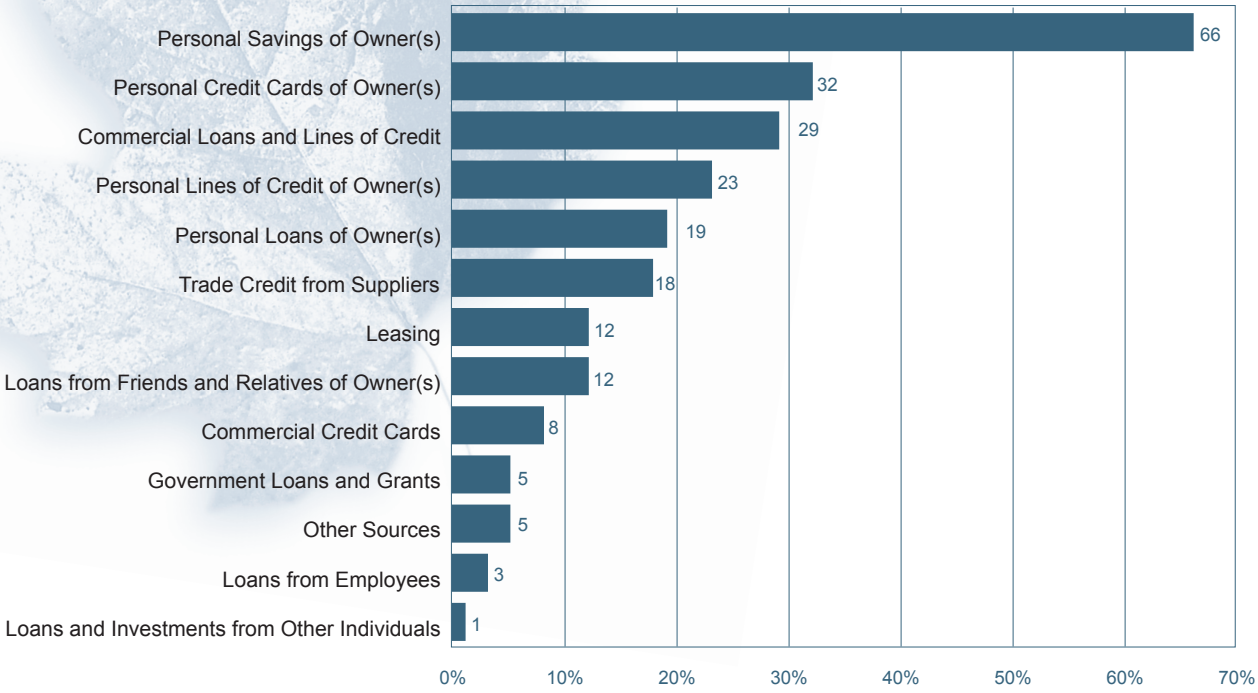


Source: Statistics Canada, *Survey on Financing of Small and Medium-sized Enterprises*, 2000.

Note 1: Includes any source used, regardless of whether it was authorized or obtained in a previous year.

Since start-up SMEs represent a degree of risk that many financial institutions are unprepared to take, these start-ups typically use informal sources of external financing and rely on owners' personal credit and savings to finance their operations. As shown in Figure 14, 66% of start-up SMEs used personal savings during start-up, compared with 35% of all SMEs. Owners of start-up SMEs also used their personal credit cards (32%), personal lines of credit (23%) or personal loans (19%) to finance their businesses. Start-up SMEs are less likely to use formal sources of external financing, such as commercial loans and lines of credit: only 29% used formal sources of external financing, compared with 49% for all SMEs. Informal sources of financing are often difficult to identify and obtain, and may require non-standardized terms for financing. Access to formal sources offers more transparency and comparability, allowing small businesses to shop for best price and terms.

Figure 14: Types of Financial Instruments Used by Start-up SMEs, 1996–2000



Source: Statistics Canada, *Survey on Financing of Small and Medium-sized Enterprises*, 2000.

Note: Reported by SMEs operating in 2000, in relation to their financing experiences of starting up their business, at any time between 1996 and 2000.

How many SMEs request debt financing?

In 2001, nearly one fifth (18%) of small and medium-sized enterprises (SMEs) made a request for new or additional debt from a credit supplier for business purposes. Of those requests, 80% were approved (see Table 16). These figures are down slightly from 2000, when 23% of SMEs requested some form of debt and 82% of requests were approved. From a regional perspective, SMEs in the Prairie provinces had the highest rates of requests and approvals for debt financing. This is likely because agricultural firms account for a high proportion of this region's economic activity and tend to have a high asset base and low long-term debt-to-equity ratios.

Table 16: Debt Request and Approval Rates by Size of Business, Sector and Region, 2001

	Request Rate (%)	Approval Rate (%)
CANADA	18	80
Size of Business		
0 employees	12	77
1–4 employees	21	80
5–19 employees	27	84
20–99 employees	23	X
100–499 employees	X	X
Sector		
Agriculture	30	94
Primary	16	87
Manufacturing	23	85
Wholesale and Retail	18	89
Professional Services	13	X
Knowledge-based Industries	14	77
Other	16	73
Region		
Atlantic	20	85
Quebec	15	78
Ontario	18	75
Manitoba, Saskatchewan and Nunavut	25	92
Alberta and Northwest Territories	21	80
British Columbia and Yukon	16	83

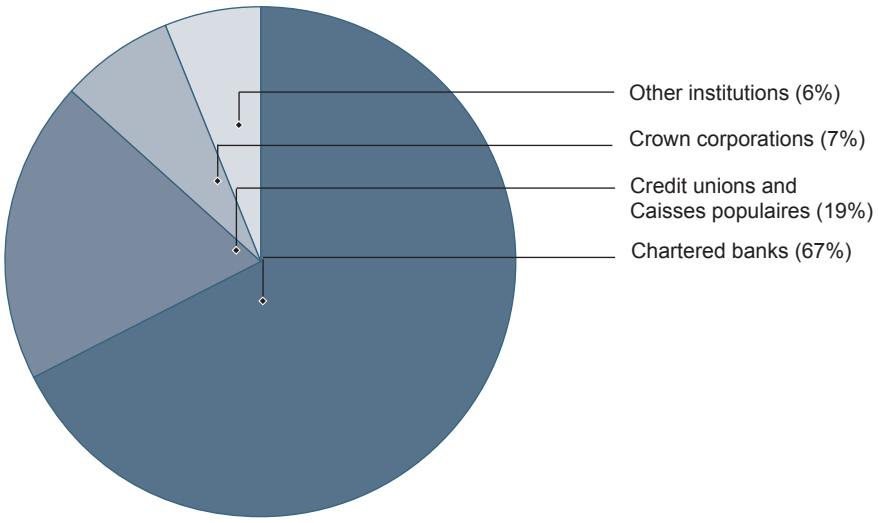
Source: Statistics Canada, SME Financing Data Initiative, *Survey on Financing of Small and Medium-sized Enterprises*, 2001.

Note: An "X" refers to estimates suppressed to meet the confidentiality requirements of the *Statistics Act* and/or for data quality reasons.

Who are the key suppliers of debt financing to SMEs?

Overall, chartered banks were the main suppliers of debt financing to small and medium-sized enterprises (SMEs) in Canada in 2001, serving 67% of the requests made by SMEs (see Figure 15). Nonetheless, smaller authorizations of less than $1 million represented a small proportion of overall lending by chartered banks (12%).[18] Other key suppliers of debt to SMEs included credit unions and Caisses populaires, which are primarily situated in the Prairie provinces and Quebec respectively. These institutions received 45% of requests for debt financing in the Prairie provinces and nearly half (47%) of such requests in Quebec. Crown corporations, such as the Business Development Bank of Canada, provided 7% of debt financing to SMEs.

Figure 15: Percentage of Total Requests for Debt by Type of Supplier in 2001



Source: Statistics Canada, SME Financing Data Initiative, *Survey on Financing of Small and Medium-sized Enterprises*, 2001.

Note: Figures may not add up due to rounding.

18. Statistics Canada, SME Financing Data Initiative, *Survey of Suppliers of Business Financing*, 2001.