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Financing SMEs in Canada: Barriers Faced by Women, Youth, Aboriginal and Minority Entrepreneurs in Accessing Capital

Phase 1: Literature Review

Research Paper prepared for the Small Business Policy Branch
Industry Canada as part of the
Small and Medium-sized Enterprise (SME) Financing Data Initiative
by

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Aussi offert en français sous le titre *Financement des PME au Canada : Obstacles auxquels se heurtent les entrepreneurs des groupes de femmes, des jeunes, des Autochtones et des minorités qui cherchent à obtenir du capital — Phase 1 : Revue de la literature.*

EXECUTIVE SUMMARY

This report presents a review of existing literature pertaining to access to financing by Canadian SMEs that specifically evaluates barriers that may exist as a result of business owner characteristics. These are the results of Phase 1 of a project whose overall objective is an examination of obstacles to small business financing for various profiles of business owners in Canada, with particular emphasis on discrepancies attributed to gender, youth, aboriginal, visible minority, and language minority business ownership.

The existing research is compiled and categorized in terms of business owner profile, stage, type, and source of financing (seed, start-up etc./equity or debt/angel, venture capital, bank etc.). If indicated in the particular studies, the region for which the study pertains, economic sector, business age or sector maturity are also discussed.

There are very few statistically-based empirical studies that examine barriers to financing based on owner characteristics in the published literature. As a result, a portion of the information reviewed in this report is anecdotal in nature, and conflicting opinions exist within this information as to the presence or absence of biases based on owner characteristics.

The findings of Phase 1 indicate that the specific barriers faced by each group vary depending on factors such as overall risk associated with the venture, stage and type of financing, and industry, rather than a generalisation of financing biases and barriers based on such factors as gender, age or minority status. In general any ownership bias is less for later stage financing. For these stages, the business is mature enough that the risks are lower, and the investment truly is being made on the basis of the strength of the existing business rather that the characteristics of the founder. For earlier stage financing, where the business is less mature and the risks higher, the investment is being made as much in the owner/founder as the business proposition itself.

Networking opportunities, mentoring programs, training programs for inexperienced entrepreneurs, and early stage financial support through microloans for those owners with limited credit histories are essential programs to mitigate financing barriers faced by SME owners regardless of minority status.

All of the groups reviewed tended to have a large majority of new or microbusinesses in traditional, low growth industries (service and retail). As a result, the financing data summarised for each group based on owner characteristics may mask other factors affecting access to financing for SMEs in general. The data suggests that SMEs competing in non-traditional and high growth industries face similar barriers to any other company in that industry; small and young companies face similar barriers regardless of ownership characteristics; and access to equity financing is very difficult if the SME owner lacks established networks. The data demonstrates this to be the case for women entrepreneurs, and although no data was found examining other groups, it is possible that these findings may be generalised to other owner profiles such as youth and minorities.

Based on the information compiled and categorized in this review, a comprehensive gap analysis will be presented for Phase 2 of the project. The primary focus of this project is to evaluate information regarding barriers to SME financing encountered by particular profiles of business owners (women, youth, Aboriginals and ethnic and language minorities) and to provide a gap analysis of existing information in order to facilitate future research and data collection in this area.

Examination of existing, available data indicates that while each of these profile groups may face particular barriers to financing, there are also significant barriers to financing encountered by certain profiles of SMEs in general. For example, size of SME, industry sector, geographic location, and stage of business development all appear to have an effect on financing available to individual SMEs. As such, while the focus of this project remains on evaluating financing barriers faced by various business owner profiles, it is helpful to contextualize these findings by situating them within the broader context of SME financing.

TABLE OF CONTENTS

PROJECT OVERVIEW — 1

INTRODUCTION: SME FINANCING OVERVIEW — 2

- DEFINITION OF SME MARKET IN CANADA — 2
- CAPITAL STRUCTURE CONSIDERATIONS FOR SMEs — 2
- CAPITAL SUPPLY CONSIDERATIONS — 2

DEBT FINANCING OF SMEs IN CANADA — 4

- BANKS AND LENDING INSTITUTIONS — 4
- GOVERNMENT PROGRAMS — 5

CAPITAL STRUCTURE OF CANADIAN SMEs — 6

- SOURCES OF FINANCING — 6

WOMEN ENTREPRENEURS — 9

- SECTOR DEMOGRAPHICS — 9
- EXISTING RESEARCH STUDIES — 9
  - CANADIAN RESEARCH — 9
  - INTERNATIONAL RESEARCH — 10
- OVERVIEW OF EXISTING CANADIAN WOMEN ENTREPRENEUR FINANCING PROGRAMS — 13

YOUTH ENTREPRENEURS — 14

- SECTOR DEMOGRAPHICS — 14
- EXISTING RESEARCH STUDIES — 14
- OVERVIEW OF CANADIAN YOUTH BUSINESS LOAN PROGRAMS — 16

ABORIGINAL ENTREPRENEURS — 17

- SECTOR DEMOGRAPHICS — 17
- EXISTING RESEARCH STUDIES — 17
- OVERVIEW OF EXISTING CANADIAN ABORIGINAL BUSINESS FINANCING PROGRAMS — 19

VISIBLE MINORITY ENTREPRENEURS — 20

- SECTOR DEMOGRAPHICS — 20
- EXISTING RESEARCH STUDIES — 20

LANGUAGE MINORITY ENTREPRENEURS — 22

- SECTOR DEMOGRAPHICS — 22
- EXISTING RESEARCH STUDIES — 22

CONCLUSIONS — 23

ACRONYMS LIST — 24

REFERENCES — 25

PROJECT OVERVIEW

In 1998, the MacKay Task Force on the Future of Canadian Financial Services Sector identified deficiencies in the existing data pertaining to financing of Canadian SMEs as a major impediment to public policy decision making. In 1999, in response to this, Industry Canada, Statistics Canada, and the Department of Finance were given a mandate to undertake a comprehensive program of information collection and analysis.

As a part of this program, Industry Canada has requested a review of existing literature pertaining to access to financing by Canadian SMEs that specifically evaluates barriers that may exist as a result of business owner characteristics. The groups that are evaluated in this review are youth entrepreneurs, Aboriginal entrepreneurs, and female entrepreneurs. Barriers faced by visible minority and language minority entrepreneurs were also researched; however no existing Canadian data was found that specifically evaluates barriers faced by these groups in accessing financing for their ventures.

The overall objective of this project is to compile available research, reports and data on the barriers faced by particular groups of SME owners, and to identify the broad themes emerging from the research in this area, as well as highlighting areas of dissent. Phase 1 comprises a literature review of existing, available sources of information, drawing on Canadian data as much as possible, and supplementing this with American data in cases where Canadian research is thin or non-existent. Phase 2 will include a more detailed analysis of the information compiled and draw on the Phase 1 results to perform a gap analysis. This will highlight gaps in existing, available data pertaining to particular SME business owner profiles, and provide recommendations for future data collection and research on the topic of barriers to SME financing.

This report comprises Phase 1 of the project and is the compilation of existing research, reports and data found in academic journals, books, government reports, qualitative studies and popular press pertaining to financing of SMEs in Canada with a focus on business owner characteristics. Material used in this literature review tends toward studies which are national (or at least regional) in scope, and were publicly accessible. Information was found through a combination of database searches for academic journals and website searches of government departments and agencies as well as professional and trade associations and publications.

INTRODUCTION: SME FINANCING OVERVIEW

DEFINITION OF SME MARKET IN CANADA

A variety of definitions exist for the Small to Medium Size Enterprise (SME) market; in general these definitions are based on total annual sales, total value of capital assets and / or number of employees. A very broad definition has been assumed for the purposes of this report, at the request of Industry Canada, and will include SMEs with up to 500 employees and annual sales of less than $50 million.

CAPITAL STRUCTURE CONSIDERATIONS FOR SMES

All business ventures, regardless of size, maturity, geographical location, and industry sector, require money (capital) in order to initiate, maintain, and / or expand operations. Capital may be acquired via debt or equity financing and may take the form of any number of financial instruments.

Debt instruments used by a SME may include bank term or demand loans, private loans, operating lines of credit, credit cards, leases, supplier credit contracts and government-backed loan programs.

Equity investments in SMEs are typically reflected through ownership of one or more classes of shares in the venture. These investments may include personal investment by the entrepreneur, private investments (love money) by friends and family, angel investments, venture capital investment (VC), and in the case of publicly traded companies, public market equity. In the case of established companies, retained earnings may also be used to re-invest in the venture.

A new venture requires "seed money" to initiate operations; "start-up money" to purchase basic equipment and assets; "working capital" to ensure sufficient cash flow for ongoing operations; and "expansion capital" to acquire additional resources and make investments in new technology and business opportunities as the company grows and prospers.

Depending on the stage of business maturity and sector, a SME chooses financial instruments that are appropriate for the venture. Most companies choose a mixture of debt and equity financing and this capital structure will vary over time to meet the long-term as well as the short-term financing needs of the firm. Some industries, such as biotechnology or other industries with long product development lifecycles and potentially high returns on investment would be expected to utilise a higher proportion of equity financing during product development phases, and in particular from sources such as angel and VC investors. Mature industries may not attract this profile of investor, as the potential returns are lower, and may be more likely to use conventional debt instruments.

CAPITAL SUPPLY CONSIDERATIONS

A number of factors influence the decision of an investor (institutional or private) to make an investment in a SME. In general, the supply of capital is influenced directly by the relative risk and return on the investment with respect to the existing economic climate, the relative supply and demand of good investment opportunities and the transaction costs associated with making the investment.

In the case of active, value-added investments provided by angel or VC investment, geographic location often is an additional factor in the supply of capital as these investors prefer to be within close proximity of their investments.

In order to evaluate the relative risk of an investment, an investor will consider the business venture track record, credit history, and collateral. The investor will also consider the track record, credit history, collateral, and business expertise of the entrepreneur. This is especially true in the case of a new venture that does not have a stand-alone history. In this way, an investor can mitigate their risk of default on the investment by the SME by a variety of measures, including examination of personal credit histories, obtaining personal guarantees signed by the entrepreneur, and assignment of personal assets to the creditor in the event of default.

Other factors that will influence the supply of capital for SMEs include:

- Overall economic climate
- Investment institution trends and business strategies
- Investee company business sector (Is the venture in a growth industry vs. mature industry? Is the venture in knowledge based vs. traditional sector?)
- Investee company size, maturity and net worth
- Investee company business plan and overall business opportunity

It is important to note that all supply considerations are common to any SMEs seeking capital. The following sections investigate whether there are any additional or unique barriers and biases faced by youth, Aboriginal, minority and women entrepreneurs.

DEBT FINANCING OF SMEs IN CANADA

BANKS AND LENDING INSTITUTIONS

According to the Canadian Bankers Association (CBA), 50% of SMEs in Canada obtain debt financing from Canadian financial institutions and this amounted to approximately $71.2 billion loaned to 800,000 customers in 2000. Over the previous five years, the CBA data shows that outstanding debt financing by the seven major banks has increased by $5 billion, with loans extended to over 85,000 new customers (CBA, 2001).

Business Development Bank of Canada (BDC) commissioned a study by Groupe Secor to evaluate the supply of SME financing during the period of 1995 to 1999. During this period, the total value of all forms of debt financing grew by an average rate of 7% per year, reaching a total of $115 billion in 1999. This study considered debt financing to include credit, leasing and other traditional debt instruments and includes a wider range of financial institutions than the CBA data considered above (Groupe Secor, 2000, p. 3).

By contrast, a focus group study of SME entrepreneurs performed by the Angus Reid Group for the Business Development Bank of Canada found that access to financing is perceived by entrepreneurs and their professional accountants to have become more difficult to obtain over the past five years, particularly in the case of lending by chartered banks (Angus Reid, 2000, p. ii).

This is supported by the Secor study, which found that strong economic growth in Canada during the period of 1995 to 1999 (GDP average annual growth of 3.4%), coupled with increased capital expenditures by existing companies, and overall growth in the SME market (new entrants increased by an annual average of 1.3%), resulted in no notable change in the relative availability of debt financing for SMEs. The growth in supply in this market was fueled by economic growth, not by new supplies of capital (Groupe Secor, 2000, p. 3). And as suggested by the Angus Reid study, the "new" capital may have only been accessible by established companies. A study by the Canadian Federation of Independent Business in 2001 supports this, finding that the size of loans issued to small SMEs (less than 50 employees) during 1997 vs. 2000 remained relatively stable with a significant increase in the size of loans issued to larger firms (greater than 50 employees). Some of these perceived differences may be explained by the relative size and risk associated with individual loan requests. For example, established companies reported that they do not have difficulty in accessing bank debt financing as a result of their size and history with the lending institution. New ventures and new economy ventures on the other hand, have a more difficult time attaining loans as a result of not having a track record and tangible assets. Further exacerbated by the same issues, and in many cases coupled with an undeveloped credit history and absence of collateral, women, youth and Aboriginal entrepreneurs report that they have an extremely difficult time obtaining debt financing for their business (Angus Reid, 2000, pp iii-iv).

A study performed by Thompson Lightstone & Company (1998) for the CBA does not support the anecdotal findings of the Angus Reid report. Rather, two key findings of this report are:

> SME loan approval rates were 93% in 1998, an increase over the previous year; Approval rates for very small businesses (sales of less than $250,000 per year) were 90% (pp. 2-3);
> "Rigorous statistical analysis of the data reveals no evidence of any prejudicial loan approvals or turndowns on the basis of applicant demographics, gender, visible minority, region, or type or size of business" (p. 3);

An important point to note is that approximately 70% of SMEs did not approach financial institutions for new debt financing during the period analysed, and instead relied on other sources of capital. Use of alternative capital structures, particularly retained earnings, increased significantly from 40% to 51% during the year analysed (Thompson, 1998, p. 2). More data from this study is presented in a following section.

In the study of banking issues facing SMEs by CFIB, young firms (less than 10 years old) were more likely to have loan applications rejected (16% vs. 7.6%), and to pay higher interest rates (0.39%) (CFIB, 2001, p. 1).

GOVERNMENT PROGRAMS

There are numerous regional, provincial, and federal financing initiatives available to SMEs in Canada. Canadian Business Service Centres (CBSC), with office locations in all major centres across Canada, provide excellent links to these programs. Additionally, on-line links to the vast number of government and privately operated financing assistance programs are available through the CBSC's website (http://www.cbsc.org/); through Industry Canada's Strategis website (http://strategis.gc.ca/); through the Canadian Bankers Association website (http://www.cba.ca/); and via professional associations, government departments, regional economic development authorities and specialised entrepreneurship program delivery agencies. Many initiatives are designed for youth, Aboriginal, minority and women entrepreneurs and others may be accessed by any SME. The vast majority of the programs offer small loans (up to $25,000) to qualified applicants and many provide mentoring services and networking opportunities to the entrepreneur to increase the likelihood of success.

The Canadian Small Business Financing Act (CSBFA) comprises approximately $2 billion per year of new debt financing extended to Canadian SMEs through financial institutions. This program provides loan guarantees by the federal government to the lending institutions such that 85% of the principal is guaranteed. SMEs that have annual revenues of less than $5 million may borrow up to 90% of $250,000 to purchase real estate, equipment or to perform leasehold improvements (Industry Canada, 1998, p. 6).

CAPITAL STRUCTURE OF CANADIAN SMES

SOURCES OF FINANCING

The Canadian Bankers Association reports that in addition to financial institution debt financing used by 50% of firms, Canadian SMEs rely on the following financial instruments for their business ventures:

SOURCE OF FINANCING	% OF SMES USING THIS FINANCIAL INSTRUMENT
Retained earnings	51%
Business debt financing (from financial institutions)	50%
Supplier credit	48%
Personal savings	45%
Personal lines of credit	37%
Personal credit cards	36%
Leasing	28%
Personal loans	25%
Business credit cards	22%
Government lending agencies / grants	13%
Loans from employees, friends, relatives	13%
Public equity	2%
Venture capital	2%

(Reference: CBA, 2001 from Thompson, Lightstone & Company, 1998)

These data suggest some interesting implications, particularly for new ventures and those SMEs owned by individuals with a limited personal financial record, thus suggesting some intrinsic biases in the availability of capital for these SMEs.

The most common equity financing used by SMEs is retained earnings; 51% of SMEs utilize this financial instrument. Only established companies with a strong history of persistent profitability will be able to access this form of financing. It is important to note that these same companies will also be in a strong position to access debt financing via traditional institutional lenders as they have a track record and a solid balance sheet which a lender would view favourably in making a lending decision.

Supplier credit is used by 48% of Canadian SMEs. In order for a SME to access this form of financing, a credit history must be established between the entrepreneurial venture and their suppliers. More established companies would likely have a greater opportunity to access this type of financing than a new company.

Personal savings, personal credit lines, personal credit cards and personal loans are used by 45%, 37%, 36% and 25% of Canadian SMEs respectively. This has tremendous implications for entrepreneurs who have very limited or no personal assets. In particular, young entrepreneurs typically do not have access to this form of financing as a result of not owning any assets and having a limited credit history. Additionally, many youth enter their careers with sizeable student loan debts that would further restrict their ability to access personal credit for a business

venture. Many SMEs owned by women, Aboriginal and other minorities also might not be able to access this type of financing if they have limited personal credit histories and either no personal assets or in the case of many, joint-owned assets with a spouse. In the case of Aboriginal entrepreneurs, these individuals may not secure assets physically located on a reserve as collateral for loans and credit lines, thereby restricting access to these financial instruments.

Leasing and business credit cards are used by 28% and 22% of Canadian SMEs. According to the Secor report, leasing companies represent a growing source of non-debt financing for SMEs, having grown from 9% market share to 15% in the four years from 1994 to 1998. Additionally, financing by banks is evolving from debt in the form of term loans to products adopted from personal lending practices to include instruments such as credit. The Secor report describes this trend as the "…banks' strategy to treat SMEs as large personal financial service customers, rather than business customers." (Groupe Secor, 2000, p. 3) If this is the case, there is a strong possibility of a trend towards even more reliance on personal credit histories as a criterion by these institutions to approve financing applications from SMEs in Canada, with the same implications as detailed above for specific groups of entrepreneurs.

According to the CBA report on Small and Medium-sized businesses, government lending agencies and grants comprise financing of only 13% of SMEs in Canada. The reasons for this source of financing to be comparatively uncommon among SMEs are not readily apparent. One reason may be poor awareness of programs that are available, however comprehensive resources are available to inform entrepreneurs of the wide range of programs and assistance that may be utilised by SMEs. Centralised information databases and links to programs are readily accessed through Industry Canada's Strategis website, through the Canadian Business Service Centres and through a tremendous number of other regional economic development authorities, government departments and entrepreneur associations across Canada. Another reason may relate to some of these programs targeting very specific types of SMEs, entrepreneurs and in some cases restrictions on funding of very specific business activities. An example of this is the National Research Council IRAP programs where project funding is restricted to scientific or technical product research and development activities. This may lead to exclusion of many SMEs from these programs, but should favour the groups that the programs are targeted towards. A more detailed examination of selected national programs that target specific groups of entrepreneurs follows later in this report.

The CBA (2001) report goes on to state that loans from employees, family and friends are used by 13% of SMEs in Canada as another source of non-debt capital. This is also referred to as love money and is often used by early stage entrepreneurs as seed funds to start a business. It may be in the form of a loan or may take the form of an equity investment, for example in the case of angel investors. Barriers to access of this type of financing by SMEs are likely related to the relative strength of their informal personal networks, geographic proximity to these networks, as well as socioeconomic class and financial sophistication of the individuals within an entrepreneur's personal networks. As a result, many SMEs do not have access to this source of financing.

Not surprisingly, only 2% of SMEs utilize public equity markets as a source of financing for their ventures. Similarly, only 2% of SMEs are financed by venture capital, with a view to becoming public companies once they have grown to sufficient size and stability for the VC to exit via an IPO.

The CFIB (2001) study shows some differences in financing choices by members surveyed; this likely reflects a different sample population (e.g., the CFIB study was limited to CFIB members). In this study, bank lines of credit were used by 71.2% of SMEs, followed by business loans (41%), commercial mortgages (26.6%), personal loans (26.6%), supplier credit (23.7%), credit card balance (23.5%), account overdraft (22.4%), leasing (20.8%), internal financing (11.5%), love money (11.1%), government agency loans (7.0%) and factoring of receivables (5.2%). When stratified by age and size of firm, younger and smaller firms were more likely to use credit cards, and love

money for financing their businesses (CFIB, 2001, p. 4).

In summary, many of the financial instruments that are utilised by SMEs are significantly less accessible to new companies or to those entrepreneurs who have limited personal wealth, financial histories and business-savvy networks. A more detailed examination of how this may affect each business owner group (youth, Aboriginal, minority and women) is included in the following sections.

WOMEN ENTREPRENEURS

SECTOR DEMOGRAPHICS

According to an extensive report (BDC, 1999), one third of entrepreneurs in Canada in 1995 were women and this represented 5% of the total working population, or 675,000 women. The total number of women who were self-employed grew more quickly than self-employed men over the period examined; during the year 1995-96, the number of women entrepreneurs grew by 9% as compared to only 5% for male entrepreneurs. The most significant regional growth in the number of female entrepreneurs was observed in Alberta, Quebec, Ontario and BC. Alberta (35%) and BC (34%) had the highest percentage of self-employed women, slightly above the national average of 32.5%. Self-employed women tend to be younger than self-employed men; 30% of women younger than 35 were entrepreneurs as compared to 23% of men in the same age group. Women entrepreneurs were most frequently working in the service sector (61.5%), followed by retail and wholesale trade (17.5%), agriculture (9.9%), and finance / insurance (approximately 5%). Very few women operated businesses in the manufacturing, construction, transportation or communications industries. Almost half of the service sector businesses in Canada were owned by women (49.9%), 30.2% of wholesale or retail trade businesses, 27% of finance / insurance businesses, 24.1% of agriculture businesses, and 21.3% of manufacturing businesses were owned by women (BDC, 1999). With respect to growth and stability, businesses owned by women were comparable to businesses owned by men (BDC, 1997; Cliff, 1998).

EXISTING RESEARCH STUDIES

CANADIAN RESEARCH

Women entrepreneurs comprise a large portion of SME owners in Canada (36%) and the United States (38%) with strong similarities in the two markets (NFWBO, 1998). As a result, a significant research effort exists in the literature examining and evaluating the issue of gender bias on a variety of topics pertaining to SME financing. Although the literature examined in this section pertains specifically to financing of SMEs owned by women, there are some common themes that may be considered with respect to the other minority groups examined in previous sections of this report.

Anecdotally, women entrepreneurs report that they have a difficult time securing adequate financing for their ventures. The significant question is whether this bias is one of gender discrimination or if it is due to other factors such as choice of venture, business expertise of the entrepreneur, size of venture or maturity of the company. Another possibility for the perceived discrimination may be due to factors pertaining to personal and social networks of the entrepreneur (or lack thereof).

The CFIB website reports that there is a “financing double standard” basing this conclusion on a study performed in 1995 that paired women owned firms with similar firms owned by men. Their findings were that women-owned firms were 20% more likely to be turned down for financing by a bank and were likely to be charged an interest rate at least 0.5% higher than similar firms owned by men (CFIB, 1995).

An extensive study of “gender, structural factors and credit terms between Canadian small businesses and financial institutions” found that “after accounting for structural differences between male and female business owners, no difference remained in the rate of loan rejections; nor did any differences persist in other objective measures of

credit" (Fabowale et al., 1995). This is supported by later work performed by some of the same authors (Haines et al., 1999) and bears out the results of earlier work by Statistics Canada (Statistics Canada, 1994). The structural attributes of a business, such as form, size, industry and track record are a proxy for risk from a lending perspective and these structural attributes were found to be closely correlated with gender. On average, women owned businesses have lower sales volumes, less capacity, less capital, less collateral, and the owners have less business management experience than male owned businesses (Fabowale et al., 1995). This likely contributes to the perception of gender bias in financing access among female business owners.

More recent work examined access to capital and terms of credit in the US and found that there was no discrimination by lenders when evaluating risk. Female entrepreneurs used internal funds (retained earnings), love money or credit cards most often, and tended to ask for smaller loans which carry higher interest rates when they sought outside capital (Coleman, 2000). This confirmed the findings of another previous study which compared access to debt financing and terms of credit between male and female-owned firms from 1987 and 1993 (Haynes and Haynes, 1999).

With respect to sources of capital, a study by the National Foundation of Female Business Owners in Canada was performed in 1999. The primary sources of financing for this group were reported to be retained earnings (59%), credit cards (56%), private sources (47%) and bank loans (39%). Within private sources, women surveyed utilised personal savings (79%), friends and family (35%), and family savings (32%). A majority of women entrepreneurs have bank credit (67%); as expected, this number is much smaller for women who have been in business for less than 3 years (54%). By comparison, 82% of small businesses (revenues of >$100,000 or >5 employees) have bank financing whereas only 50% of micro-businesses (revenues <$50,000 and no employees) have some form of bank financing. Bank financing is typically used for working capital (75%) and expansion (46%) and a minor portion is used for re-financing or debt reduction (18%) (NFWBO, 1999, pp. 8-9).

International Research

A broad compilation of issues pertaining to world-wide financing for women entrepreneurs in SMEs has been the focus of several workshops and meetings by the Organisation for Economic Co-operation and Development (OECD) over the past few years. A summary background report, based on surveys sent to member company financial institutions, women's entrepreneur associations and federal governments provides a comprehensive view of the issues pertaining to financing of women-owned business from a multi-national perspective. In general, the OECD group is concerned with uncovering the existence of funding gaps and their causes, determining the best practices for government policy in encouraging access to capital by women entrepreneurs, and, how to ensure that government programs are suitable to fill funding gaps without distorting the market. In particular, funding gaps were identified for start-up across the member countries surveyed, whereas expansion capital appeared easier to attain, knowledge of and access to risk capital (e.g. venture capital) was found to be deficient, and government and support programs were not meeting the needs of women entrepreneurs in several areas (OECD, 2000).

An interesting point made in the summary of the OECD work is that there are sub-categories of women entrepreneurs with different financing needs and access to capital issues related to which group they fall in. These groups may be defined as follows:

> Push group: women who have chosen to start a full-time or part-time business as an alternative to being unemployed. Characterised by limited growth potential due to limited business and management experience of the entrepreneur
>
> Pull group: women drawn to entrepreneurship by a desire to be independent to pursue their own goals; to have more control over their personal and professional growth; and to capitalise on their specific skills. This group tends to enter non-traditional business opportunities and is reported in Canada and the US to be growing comparatively quickly.

Third group: women who seek to balance family responsibilities with productive employment. Characterised by individuals seeking flexible arrangements to fulfil their personal and professional goals.

(OECD, 2000, p. 7)

Future study of financing needs of women entrepreneurs stratified into these three groups may reveal additional characteristics that may enable development of strategies by government and suppliers of financing to better meet the financing need of each group.

A review of public policy in the US pertaining to gender based funding programs of the Small Business Administration identifies some potential risks of public policy in market distortion (Walker and Joyner, 1999). The authors conclude that if such programs can reduce any form of discrimination then they are good; however if these programs encourage financing of riskier ventures that will have a higher likelihood of failure and subsequent higher default rates for the lender, then the program should proceed with caution. Additionally, resource allocation to these programs essentially requires that financing resources be withheld from other ventures that may be more worthy of the capital investment. In the absence of a clear case for existence of discrimination, the authors conclude that the free market mechanism should be relied upon, or that program-screening criteria ensure only those SMEs who exceed the minimum acceptable criteria for any venture obtain financing.

One study of women entrepreneurs in non-traditional industries (including transportation, construction, communications, manufacturing, aerospace, wholesale distribution, finance, high technology and entertainment) demonstrates that women entrepreneurs are very similar to their male counterparts in these industries with respect to global vision, strategic alliances, market focus and consumer service (Allen, 1996). The author concludes that it is not the gender of the entrepreneur that matters, but rather the type of business and the industry in which it operates. The women who owned businesses in non-traditional industries examined during this study were more likely to utilise bank loans as well as financial instruments such as leasing and accounts-receivable financing (factoring).

Another study compares the financing choices of men compared to women entrepreneurs in high growth industries. This study found that bank debt was used by more male entrepreneurs than female entrepreneurs (52% vs. 39%); external equity investors tended to be more concentrated in male-owned firms (49% vs. 28%) and personal credit was used by more women than men (32% vs. 21%) (Lynch, 2001).

The issue of equity financing for women entrepreneurs has been reviewed in a number of recent papers. An empirical study of venture capital investments between 1988 and 1998 provides some insight into the relative proportion of equity capital from the formal venture capital pool in the United States that has been invested in women-owned firms. This study found that of over 21,000 investments in 16,400 firms and close to $50B available for investment in 1999 alone. The overall capital investment in women-owned firms has averaged only 2.4% over the last 30 years (Greene et al., 2001). However, this value has been slowly increasing, with 4.4% invested in firms owned by women during 1998. Given that female entrepreneurs own approximately one third of all businesses in the US, this number is extremely low. Potential reasons cited by the authors for this include:

Comparatively slow entry of women into the types of industry sectors that historically attract risk capital such as venture capital. Rather, women have been predominantly involved in the service and retail sectors; in 1998, 70% of US firms owned by women were in these sectors, with an additional 10% in insurance and real estate.

Potential structural barriers: ineffective or non-existent institutional or social network barriers may restrict access to equity risk capital.

Human capital barriers: leadership skills, management expertise, background and socialisation may be a factor

in restriction of access to venture capital.

Growth and product / market strategies: competitive and growth strategy differences may be a factor contributing to restriction of access (Greene et al., 2001, pp. 78-79)

A further study by the National Foundation for Women Business Owners in 2000, reveals that 65% of U.S. women who have received venture financing for their firms have received their first equity investment within the past 4 years (NFWBO, 2000). Data describing the size of the market is consistent with the previous study, with women owned firms receiving only 2.3% of the institutional investment money that is available and in small amounts with approximately 9% of the total number of deals being with these firms. Of the investors, women investors were more likely to invest in firms owned by women than their male colleagues (67% vs. 40%). Investment firms who had made previous investments in firms owned by women were much more likely to make new investments in other firms that were owned by women (75% vs. 38%) (NFWBO, 2000, p. 3).

This same study reveals that of the women studied, most equity financing was acquired through personal sources: 73% received investment from family and friends, 73% obtained capital from angel investors. Referrals are essential to enable a firm to access venture capital; a network of personal and professional associates is crucial to attaining risk capital whether it is from a private or institutional source (NFWBO, 2000, p. 3).

As a result of the apparent disparities in equity investment in women owned ventures, many specialised government, institutional, and private initiatives including incubators, support and mentoring programs, angel networks and VC funds, have began to appear in the US. A typical angel investor is someone who has made money in their own ventures and who is positioned to make future investments in the role of an active, value-added investor for new companies in their field of expertise and interest. Such is the case with the Women's Technology Cluster in San Francisco. One of the co-founders was a senior executive at Cisco Systems who created the incubator with a vision of the social contribution that women can make in their communities by being economically active. Strong connections to the finance world, coupled with mentoring and training for new women entrepreneurs provide a stronger probability for success.

Other initiatives include venture capital funds that are targeted specifically towards women entrepreneurs, such as Diva Capital and Inroads Capital Partners. Fuelling this growth are larger numbers of women who are now working in the investment and high technology sectors; as such interactions between women at higher levels of these organisations is improving access to equity financing for women. As an as yet untapped market, the rapidly growing pool of high tech companies owned by women represents a growth opportunity for investors and venture funds. It appears that the market mechanisms of supply and demand are beginning to move towards removing this capital gap, particularly in the US.

In summary, pooling SME financing data with respect to gender, without adequately controlling for other factors may lead to incorrect conclusions about barriers faced by a group based on a factor such as gender. The data reviewed in this section clearly states that gender is not a factor in acquisition of debt financing by a SME owner. This does not remove the factors that are intrinsic within certain groups of women entrepreneurs and self employed individuals in their quest for financing; some groups have a more difficult time because of the size, sector and growth potential of their business. In these cases, personal credit worthiness becomes a more significant factor and access to private financing sources becomes essential.

With respect to equity capital, the data suggest that a strong bias may be present and significant barriers to attaining risk capital by high growth companies owned by women exists within the US. No comparable data for Canada are available.

OVERVIEW OF EXISTING CANADIAN WOMEN ENTREPRENEUR FINANCING PROGRAMS

In general, there are very few specific programs for financing SMEs owned by women in Canada, with the exception of microloans that are available on a regional basis by a variety of organisations. One exception to this are the Women's Enterprise Initiatives of Western Diversification (programs available in BC, Alberta, Saskatchewan, and Manitoba) that will provide loans of up to $100,000 to SMEs owned by women. These groups also provide mentoring, training and support opportunities for women.

As mentioned previously, there are numerous regional, provincial, and federal financing initiatives available to all SMEs in Canada. Canadian Business Service Centres (CBSC), with office locations in all major centres across Canada, provide excellent links to these programs. Additionally, on-line links to the vast number of government and privately operated financing assistance programs are available through the CBSC's website (http://www.cbsc.org/); through Industry Canada's Strategis website (http://strategis.gc.ca/); through the Canadian Bankers Association website (http://www.cba.ca/); and via professional associations, government departments, regional economic development authorities and specialised entrepreneurship program delivery agencies. Many initiatives offer small loans (up to $25,000) to qualified applicants and many provide mentoring services and networking opportunities to the entrepreneur to increase the likelihood of success.

YOUTH ENTREPRENEURS

SECTOR DEMOGRAPHICS

According to 1998 data provided by Human Resources Development Canada, over 317,000 young Canadians between 15-29 years of age (8%) were self-employed with over half of this group falling between the ages of 25-29. The ratio of male to female entrepreneurs was 1.3 to 1 and male entrepreneurs were twice as likely to run full time ventures than females. 77% of the ventures were owned and operated by a single person. Most ventures (75%) were in the services sector with slightly more females to males (52% vs. 48%) working in this sector. In the goods producing sector (predominantly agriculture), male entrepreneurs comprised the majority of ventures (81% vs. 19%). (HRDC, 1998) Data from British Columbia indicate that the number of youth (aged 15-34) who are SME owners has grown by over 70% since 1995 (BC Stats, 2000, p. 15).

There are varying definitions of a youth entrepreneur. Some constituencies consider those younger than 30 to be youth, but other programs consider applicants who are up to 35 years of age.

EXISTING RESEARCH STUDIES

Very few studies containing empirical data are available in the literature describing youth SME financing, although significant anecdotal evidence of barriers to attaining financing can be found. Youth owned SMEs must overcome all of the same obstacles that any venture must overcome in their quest for capital. However, some of the obstacles are even more pronounced in this group as they do not have extensive career track records or significant personal assets to use as collateral. Compounding this is a strong likelihood of no personal credit history and often a large student loan debt.

As a result, many youth entrepreneurship publications and youth entrepreneurial associations recommend accessing capital from private sources, including personal savings, family and friends, and through angel investors. Anecdotal evidence from the Business Development Bank of Canada suggests that love money is the largest source of funding for youth entrepreneurs. According to a quote by a BDC account manager "Most start-ups I come across are at least partially funded this way" (Yearwood, 2000, p. 1).

A study by the Ontario Association of Youth Employment Centres (OAYEC, 2000) on the sources of start-up capital used by 47 new Ontario-based ventures in the information technology (IT) sector found (defining youth as ages 19-30):

46% used personal savings;

38% received money from family or friends (love money);

28% obtained loans or a line of credit from financial institutions; and

9% obtained youth business loans (p. 43)

Interestingly, only 9% of these ventures utilised youth business loans, even though the group was comprised of resourceful, well-educated (64% with post secondary training) IT professionals. Of the individuals surveyed, 40% were unhappy with government assistance, specifically "…inadequate entrepreneurial programs; costly loans via requirement for matching funds by lender; excessive red tape; trouble accessing information…" These may be implicit reasons that this source of capital was not more widely utilised. With respect to their interactions with

financial institutions, 66% of study participants had negative or mixed experiences. In particular, these issues were loan refusal, high interest rates and excessive service charges. Many participants of this study had utilised community agency services for training programs, networking and mentoring, with positive impressions (82%). In summary, the study found financial institutions and government practices to be constraining factors for these entrepreneurs. Lack of capital and financing were the resources that were missing for 40% of entrepreneurs when they started their ventures (OAYEC, 2000, pp. 35-36).

The British Columbia Ministry of Small Business, Tourism and Culture commissioned RA Malatest & Associates to co-ordinate the development of a Youth Entrepreneurship Strategy for British Columbia (RA Malatest, 2000). The resulting research and recommendations provide some insight into the organisation of program delivery and resources intended to assist youth entrepreneurs. Several relevant summary points from this report are detailed below:

1. Co-ordination / centralisation of program information:

   This study found that many programs targeting youth entrepreneurs do not reach their intended audience because there is a lack of co-ordination of programs, particularly with respect to start-up financing and mentorship programs. In some cases, competition between groups providing these services further complicated access to services. Over 75% of youth entrepreneurs surveyed stated that it was "very important" that one centralised resource be created to act as the clearinghouse for information on programs for youth entrepreneurs. Use of a "coach" or assigned individual who was familiar with all programs was also recommended as a way to improve access to services.
2. The use of the word "youth" in program nomenclature often made those in the 25-30 age group not aware that programs were available for their ventures.
3. Gaps in existing services were described:

   Lack of access to start-up funds: Only one third of those surveyed were able to access start-up funds for their venture in their community; one third were unable to obtain any start-up funds. Alternative sources of start-up funds had unreasonable approval periods (60-90 days vs. 24-48 hrs for most financial institutions).

   Follow-up / Post Start-up support: Most programs provide assistance in market research and start-up activities without long-term mentoring and support for the young entrepreneur. This was viewed by those surveyed as an essential part of the long-term success prospects for their venture.

   Restrictions on program eligibility: Resources for individuals on government assistance are broader than those offered to other youth entrepreneurs.

The Atlantic Canada Opportunities Agency (ACOA) commissioned a similar, albeit smaller focus group series with potential youth entrepreneurs (aged 20-28) throughout the Atlantic region (Omnifacts, 2000). This study also found awareness of government programs and initiatives to be lacking in the target group. Another similarity was the connotation of the word "youth" as being applicable to teenagers, not young adults.

A review of support programs for the development of young entrepreneurs was also prepared by the ACOA in 1995. At that time, a larger proportion of programs targeted "student entrepreneurs" rather than career "youth entrepreneurs" (ACOA, 1995).

The research reviewed above implies some important distinctions in the categories of young entrepreneurs. The demographic data states that 77% of young entrepreneurs are self-employed, with no employees. Compounding this is the high percentage (75%) of service sector businesses that these youth tend to start. These entrepreneurs are essentially owners of microbusinesses, with limited tangible assets, which have significantly different financing

needs than a rapidly growing SME that happens to be owned by a young person. This distinction in terminology is important to ensure that factors affecting one group are not buried in the data of the other group. The microbusiness group would be much more prone to personal credit issues in attaining financing than a youth owned SME with assets in an industry with strong growth potential. A more effective distinction of the financing needs of youth may be better characterised by sub-dividing the group based on venture size and sector attributes than by age.

OVERVIEW OF CANADIAN YOUTH BUSINESS LOAN PROGRAMS

The Youth Business.com website has a very useful database of links to regional financing, networking and mentoring resources for Canadian youth business ventures (http://www.youthbusiness.com/). Several of the national or large regional programs are mentioned below.

The Canadian Youth Business Foundation (http://www.cybf.ca/) provides seed money in the form of a repayable 3-5 year term loan of up to $10,000 services to qualified youth entrepreneurs across Canada. Additionally, mentors from the business community work with the young entrepreneur to enable business skill transfer and professional development for the entrepreneur. Data from their website indicates that 565 businesses have started with CYBF funds. According to the CYBF Manager of Loan Programs, 50% of new loan applications are approved upon initial submission and a further 35% are asked for additional information prior to approval (Yearwood, 2000).

The Business Development Bank of Canada (http://www.bdc.ca/) has an interest free Student Business Loan program whereby up to $3,000 and some business consulting services are available to young entrepreneurs for starting and operating a business venture during the summer months. BDC also have a Young Entrepreneur Financing Program for start-up entrepreneurs between the ages of 18 and 34. Term financing of up to $25,000 and 50 hours of tailor-made business management support help is offered to young entrepreneurs to ensure that commercially viable business proposals can get off the ground.

There are regional programs such as the Community Futures Development Corporations (http://www.communityfutures.ca/) that provide programs for young entrepreneurs in Western Canada, the Atlantic Canada Opportunities Agency (http://acoa.ca/) and Community Business Development Corporations (http://www.cbdc.ca/) in Atlantic Canada, the Ontario Association of Community Development Corporations (http://www.oacdc.com/) and the Financial Assistance program for Young Entrepreneurs (http://www.sij.qc.ca/) in Quebec.

Many other local and provincial programs were noted during this literature search. As was expressed in the studies examined above, there is a strong need to centralise the access to these youth entrepreneurship programs. The Youth Business.com website does a good job for the major programs across the country; however many local and provincial programs are not included in this database.

ABORIGINAL ENTREPRENEURS

SECTOR DEMOGRAPHICS

A 1998 report for the Canadian Bankers Association states that approximately 3% of SMEs in Canada had at least one Aboriginal owner (Thompson, 1998, p175). According to Aboriginal Business Canada, there were over 20,000 Aboriginal business owners in Canada in 1996. This represents 3.9% of the Aboriginal population, which is significantly lower than the percentage of all Canadians who own businesses (7.9%) but this number is growing at approximately 7% per year. The Yukon and Northwest Territory are slightly higher than the national average with approximately 8% growth per year. Aboriginal youth are approximately twice as likely as Canadian youth in general to become entrepreneurs and Aboriginal women are less than half as likely to start an entrepreneurial venture than Canadian women in general; however this number is growing more rapidly than any other group. While Aboriginal businesses cover all sectors of the economy, the most predominant sectors for entrepreneurial ventures are primary industries (such as logging, farming, mining, etc.); recreation and personal (includes casinos, photography, etc); construction; and retail / wholesale trade. The fastest growth sectors are health and social services (16.4% annual growth); communications (16.4%); education services (12.2%); recreation / personal (11.3%); business services (9.2%); followed by insurance and real estate (9.1%). (Aboriginal Business Canada, 2001)

EXISTING RESEARCH STUDIES

According to the 1998 CBA report, SMEs with Aboriginal owners have similar financing profiles to SMEs in general (Thompson, 1998, p175). The authors state that 89% of Aboriginal businesses use debt financing (compared to 90% of all SMEs) and 77% use equity financing (compared to 74% of all SMEs). These firms are just as likely to use debt financing from a bank (61% vs. 63% for all SMEs), but are more likely to use personal loans (38% vs. 25%) and government lending programs (12% vs. 7%) than all SMEs. Equity financing is reported to be of a similar profile to all SMEs (Thompson, 1998, p175).

Industry Canada and Aboriginal Business Canada performed an extensive study of Aboriginal owned business characteristics and strategies for growth in 1998 (Caldwell and Hunt, 1998). A number of other reports and documents were found during the literature review, however many utilised data contained in this core report, with no additional empirical research. The relevant attributes of this study are detailed below.

This study found that 56% of Aboriginal entrepreneurs had inadequate access to debt and / or equity capital to finance their businesses. With respect to debt financing, lack of collateral was mentioned by 40%, inability to use assets on a reserve as collateral (30%), no local financial institutions (27%) and lack of firm profitability (22%). Reasons for inadequate access to equity financing were lack of personal resources (58%), unavailability of venture capital (36%), inadequate retained earnings (32%), absence of community investment funds (31%), and inability of family / friends to invest (16%) (Caldwell and Hunt, 1998, pp. 10-11).

Aboriginal entrepreneurs used the following sources of debt financing:

48% Personal loans from family and friends

30% Supplier credit

22% loans from Aboriginal lending institutions

20% Commercial bank loans (non-guaranteed)
15% Government guaranteed bank loans
11% Conditional sales agreements (p. 10)

These ventures used the following sources of equity financing:
88% Personal investment
31% Retained earnings
21% Family and friends
7% Community investment funds
5% Venture capital (p. 10)

Interestingly, Aboriginal businesses used more equity than debt in their capital structure when starting their business; 45% had 0% debt and all equity. However, 17% of all businesses studied had 100% debt and no equity at start-up. This represents two extremes of capital structure in Aboriginal businesses, and because non-stratified data was presented, interpretation of this financing data is difficult.

Less than $5,000 of start-up capital was required by approximately 32% of businesses; a further 32% required between $5,000 and $25,000. Only 12% required more than $100,000 in capital. Banks were the primary source of start-up capital (47%), followed by Aboriginal development corporations (24%), federal government (11%), family and friends (10%) and provincial / territory governments (7%) (Caldwell and Hunt, 1998, p. 10).

With respect to business sector, no significant difference was observed in the choice of financing instrument; the only exception being that government grants and contributions benefited a higher percentage of low-knowledge sector firms (19%) as compared to only 11% of medium knowledge firms (p. 19).

The overall conclusion of the Caldwell and Hunt report was that Aboriginal businesses are very similar to other small Canadian businesses, with some differences noted in on-reserve vs. off-reserve ventures. The most significant difference observed with respect to financing is the restrictions imposed by legislation pertaining to the inability of an entrepreneur to utilise on-reserve assets as collateral for debt financing. This has been recognised as a potential barrier to Aboriginal entrepreneur financing via the Small Business Loans Act (now known as the Canadian Small Business Financing Act), but no changes to the legislation have been made to date to permit this. Rather, "…consultation with Aboriginal leaders led to the conclusion that a SBLA type of program would best be developed for on-reserve lending under Indian and Northern Affairs Canada, which has the authority to take security on reserves" (Industry Canada, 1998, p. 10).

An interesting finding of the Malatest (2000) report was that Aboriginal youth entrepreneurs are much more aware of programs that will assist them in attaining capital for their venture than non-Aboriginal youth entrepreneurs (51% vs. 31%). However Aboriginal youth entrepreneurs were less optimistic with respect to finding training programs (49% vs. 65%) and the relevance of that training to enhance their ability to start a business (61% vs. 73%) than non-Aboriginal youth (RA Malatest, 2000, p. 37).

Utilisation rates of targeted financing programs appear much higher in the Aboriginal population than the overall average for Canadian SMEs; 22% of Aboriginal entrepreneurs utilised Aboriginal lending institutions and 7% utilised community development funds (Caldwell and Hunt, 1998, pp. 10-11), contrasted with only 13% of all Canadian SMEs utilising government loans and grants (Thompson, 1998).

Based on the data of the Caldwell study, 64% of new ventures required less than $25,000 in seed capital, and only 12% required more than $100,000 (Caldwell and Hunt, 1998, p. 10); the existing programs (listed below) deliver this level of support, and appear to be designed to meet the demands of Aboriginal entrepreneurs described. In some cases, the programs provide alternative mechanisms for securing on-reserve assets as collateral, which should mitigate this unique barrier for Aboriginal entrepreneurs

Again, as with youth entrepreneurs, an important distinction must be made with respect to size of venture and industry. The high growth sectors for Aboriginal businesses are non-primary industries and the financing needs of these ventures are significantly different than the microbusinesses that comprised a large portion of the 1998 sample. Self-employment as a result of a career development and training program produces entrepreneurs with different needs than entrepreneurs who own larger SMEs. Existing data does not enable clear separation of the capital structures, which implies the financing structure of Aboriginal firms. This may explain the dichotomy observed in the debt / equity rations of the firms studied with some firms having excessively high debt and others having higher than average equity.

Overview of Existing Canadian Aboriginal Business Financing Programs

The Aboriginal Business Canada website (http://abc.gc.ca) is a primary, centralised resource for access to financing, training and mentoring support programs for Aboriginal entrepreneurs. This initiative is part of Industry Canada, thereby ensuring linkage to the vast number of general financing programs that are also available for SMEs.

The First Nations and Inuit Youth Business Program website is an initiative of Indian and Northern Affairs Canada (http://www.inac.gc.ca/youth/index.html). It provides on-reserve seed capital in the form of micro loans and business advisory services to unemployed youth who wish to explore or develop a business opportunity.

The Business Development Bank of Canada (http://www.bdc.ca/) has an Aboriginal Banking Unit that provides capital for Aboriginal entrepreneurs who require seed capital (up to $25,000) and growth capital (up to $100,000). These loans may be secured by on-reserve assets and can be supplemented with business management counselling services. Money may be used for fixed assets, developing new markets or replenishing working capital depleted by capital expenditures. Partnerships and alliances with a variety of other organisations provide wider access to credit and support services.

Visible Minority Entrepreneurs

Sector Demographics

According to a study performed for the Canadian Bankers Association in 1998, 8% of SMEs in Canada have at least one visible minority owner (not including Aboriginal owners). These companies were more likely to be in the manufacturing and retail sector than SMEs in general, and were likely to be slightly larger than all other SMEs. These firms were less likely than all SMEs to be owned exclusively by women (5% compared to 14% of the general population) (Thompson, 1998, p178).

Some additional information was found in the literature for SMEs owned by minorities in the US. The demographics of the major minority groups in Canada are likely different than the groups examined in the research described below. The US sample included Hispanic, Black and Asian-owned businesses, while the other international literature examined a wide range of ethnic minorities in a broad geographical context.

Existing Research Studies

The 1998 CBA report states that SMEs with minority group owners were just as likely as all SMEs to use debt and equity financing, but were more likely than SMEs in general to gain full approval for their loan applications (94% compared to 86%). Another difference is that SMEs with minority owners are more likely to use love money as an equity source (16% used this source compared to only 9% of the general population). This report found, "no evidence of prejudicial loan approvals or turndowns on the basis of applicant … visible minority…" status (Thompson, 1998, p178).

In 1999, the United States Small Business Administration performed a study of minorities in business that provides some information comparing the financing choices of minority-owned US SMEs with all SMEs (US SBA, 1999, p19). This study found that 67% of minority owned businesses used some form of credit as compared to 76% of all SMEs. Smaller firms (those with 0-5 employees) owned by minorities were approximately 15% less likely to use credit than other SMEs of the same size. Stratification of the data by sector also shows that minority entrepreneurs engaged in the mining/construction and retail trade sectors were much less likely to use credit than non-minority entrepreneurs in the same sectors. With respect to sources of financing, the study found that commercial banks were the most likely source of debt financing (used by 26.6% of minority SMEs), but that bank loans were used more frequently by all SMEs (36.9%) than by minority-owned SMEs.

With respect to venture capital in the United States, only approximately $2B of the $90B available pool of capital in 2000 was invested in minority-owned firms (including women and visible minorities) (Williams, 2000, p. 2). The comparatively small investment in these ventures was attributed to the fact that venture capital deals are typically made through a network of peers (in this case predominantly white males). Very few minority members are involved in the venture capital community, and therefore few deals are made with these firms. A further discussion of this topic is provided in the section on women entrepreneurs. No data was available for Canadian venture capital investment in SMEs owned by minorities.

A compilation of research that has been performed by academic researchers pertaining to immigrant businesses in developed nations has been assembled in a book edited by Jan Rath (Rath, 2000). While this book does not specifically address barriers to financing by minority entrepreneurs, this compilation of literature reviews addresses a range of economic, political and social factors that influence immigrant entrepreneurs in their ventures. A

literature review performed by Leo-Paul Dana examines the factors that lead to entrepreneurship among a wide range of ethno-cultural communities (Dana, 1997). While published in a Canadian research journal, this study was not specific to ethnic minorities in Canada, and it does not directly examine potential barriers to financing by these groups. However, it might provide a starting point to identify variables which might be implicated in decisions related to financing decisions.

LANGUAGE MINORITY ENTREPRENEURS

SECTOR DEMOGRAPHICS

According to 1996 census data, the official language minority (French-speaking) population in Canada accounted for 6.7 million people or 24% of the population (Marmen, 1999, p16). The total number of francophones in Canada continues to increase, yet the overall proportion of official language minority residents in Canada is declining as other unofficial language minority immigrant populations grow rapidly. Over the five-year period (1991-96) prior to the census, over 1 million people immigrated to Canada with only 3% speaking French (Marmen, 1999, p16). The data also shows that 5.7 million (20%) of Canadians speak at least one language other than French or English, 2.8 million (10%) speak a non-official language at home, and 4.7 million (17%) had a non-official language as their mother tongue (Marmen, 1999, p 26).

Regionally, dramatic differences exist in the concentration of language minority populations in Canada. From a provincial perspective, New Brunswick is the most diverse official language province with 65% anglophone and 33% francophone residents. The Ottawa-Hull region has a comparatively high percentage of bilingual residents (44%), as does Montreal (approximately 50%) (Marmen, 1999, p3). Quebec is predominantly francophone with approximately 87% of the provincial residents speaking French and a high concentration of the anglophone population is located in the Montreal urban area. Nova Scotia, Newfoundland and Prince Edward Island have less than 7% non-anglophone populations (Marmen, 1999, p 8). Ontario and the Western provinces have higher proportions of non-official language minorities as a result of regional immigration by various ethnic groups to these areas. 1996 census percentages of non-official language minority residents in these regions follow: NWT (41.1%); BC (22.3%); Ontario (22.2%); Manitoba (20.8%); Alberta (16.4%); Saskatchewan (13.6%) and Yukon (9.4%) (Marmen, 1999, p29).

From an urban perspective, there are even more dramatic regional differences. Toronto has 37% non-official language residents, Vancouver (33.5%), Winnipeg (20.1%), Kitchener (20.1%), Hamilton (19.7%), Edmonton (19.6%), Windsor (19.6%) and Calgary (18.6%) (Marmen, 1999, p.30). In order of frequency, these language minority groups are Chinese, Italian, German, Spanish, Portugese, Polish, Punjabi, Ukrainian, Arabic, and Philipino, with regional concentrations of populations (Marmen, 1999, p 32).

Aboriginal language minority groups are also regionally concentrated across Canada. 58% of Cree speaking populations live in Manitoba and Saskatchewan; 97% of Inuktitut populations are located in NWT and Quebec; 91% of Ojibway populations are in Ontario and Manitoba (Marmen, 1999, p34). Other smaller groups of Aboriginal populations are also regionally concentrated in other areas of Canada.

Thus, from a language minority perspective, clear definition of the target population under study must be established, as the potential populations could comprise any combination of regional, ethnic and official language minority group.

EXISTING RESEARCH STUDIES

Due to the complexity of the population as described above, meaningful study of barriers to financing facing language minority entrepreneurs is difficult to disentangle. Regional studies do exist in the literature, but these studies are not specifically focused on financing barriers that are unique to language minority entrepreneurs. As a result, no literature is reviewed in this section.

CONCLUSIONS

It is important to note that there are few statistically controlled Canadian empirical studies that examine barriers to financing based on owner characteristics in the available literature. Peer-reviewed and published data based on controlled, statistical models provides solid data from which sound conclusions can be made. A significant portion of the information reviewed in this report is more anecdotal in nature and while many of the published reports contain statistics based on survey data, often these responses are not controlled, as they would be in an empirical report or study.

All of the groups reviewed tended to have a large majority of new or microbusinesses in traditional, low growth industries (service and retail). As a result, the financing data summarised for each group based on owner characteristics, may mask other factors that affect SME financing. The data suggests that SMEs competing in non-traditional and high growth industries face similar barriers to any other company in that industry; small and young companies face similar barriers regardless of ownership characteristics; and access to equity financing is very difficult if the SME owner lacks established networks. The data demonstrates this to be the case for women entrepreneurs; no data was found examining other groups, but these findings may be generalizable to other owner profile groups such as youth and minorities.

In spite of the anecdotal nature of some of the data obtained during this review, it is possible to conclude that barriers do exist for Canadian SME entrepreneurs to attain financing for their ventures. The specific barriers faced by each group reviewed in this report, vary depending on a wide range of factors. Specifically, the factors that appear most critical, based on the data reviewed, are the overall risk associated with the venture, stage and type of financing, and industry, rather than a generalisation of financing biases and barriers based on owner characteristics such as gender, age or minority status. In fact, utilisation of investment funds to support groups of entrepreneurial ventures based solely on owner characteristics, may lead to inefficiencies in the lending decision such that riskier ventures are funded at the expense of ventures that have a higher probability of becoming successful. Networking opportunities, mentoring programs, training programs for inexperienced entrepreneurs and financial support through microloans for those owners with limited credit histories are essential programs to mitigate barriers faced by SME owners across the board.

Based on the information compiled in this review, a comprehensive gap analysis will be performed in Phase 2 from which gaps in existing literature will be highlighted and a future research agenda can be built.

While the primary focus of Phase 1 and 2 are on barriers faced by specific business owner profiles (women, youth, Aboriginals, and ethnic and language minorities), the findings of Phase 1 indicate that future research on barriers faced by these groups need to be understood within the broader context of financing constraints encountered by SMEs as a sector.

Given that choice of industry sector, stage of business development, geographic location and size of SME all appear to affect access to financing, it should be helpful to identify which barriers affect certain types of SMEs in general, and which are specific to (or exacerbated by) particular owner profiles.

ACRONYMS LIST

ACOA:	Atlantic Canada Opportunities Agency
BDC:	Business Development Bank of Canada
CBA:	Canadian Bankers Association
CBSC:	Canadian Business Service Centres
CFIB:	Canadian Federation of Independent Business
CSBFA:	Canadian Small Business Financing Act (formerly Small Business Loans Act)
CYBF:	Canadian Youth Business Foundation
GDP:	Gross Domestic Product
HRDC:	Human Resource Development Canada
IPO:	initial public offering
IRAP:	Industrial Research Assistance Program
IT:	information technology
NFWBO:	National Foundation of Female Business Owners
OAYEC:	Ontario Association of Youth Employment Centres
OECD:	Organization for Economic Co-operation and Development
SBLA:	Small Business Loans Act (now called the Canadian Small Business Financing Act (CSBFA))
SME:	small to medium sized enterprise
VC:	venture capital

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