

Government of Ontario Assistance to SMEs in the First Decade of the 21st Century

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Abstract

Official programs designed to assist SMEs in Canada, whether they be administered by the federal or provincial levels of government, have steadily evolved during the past thirty years. Today, in the 21st century, there is an emphasis on “value for money.” At the same time, there has been an increased focus on the needs of young would-be entrepreneurs and individuals who are disadvantaged in some way.

The Importance of Ontario within the Canadian Federation

Ontario is the most populous of the ten provinces which make up Canada. Its current population is 12.6 million, or thirty-nine percent of Canada’s total population of 32.5 million on July 1, 2006. Quebec, with 7.6 million people, is the second most populous province. Ontario thus has a larger population than that of eighteen western and central European countries.

Ontario’s Role in the Canadian Economy

In the past decade (1996-2006), moreover, Ontario’s share of Canada’s population has increased from 38 to 39 percent, despite economic problems caused by the dot-com crisis of 2000-2004, and despite an even greater percent increase for the booming, oil-rich Canadian province of Alberta. Although Alberta now enjoys a higher weekly gross domestic product (GDP) per capita of \$801 than Ontario’s \$788, the latter province nevertheless accounts for the single largest portion of Canada’s total GDP.

Increased 1990s Emphasis on Value-for-Money SME Programs

A survey conducted in the mid-1990s (Jenkins, 1996) indicated that, in the 1990s, Government of Ontario programs designed to assist small and medium-sized enterprises (SMEs) were “..more effective and efficient (i.e. (they) provided more “value-for-money”) than did their 1976 counterparts.” (Jenkins, 1976). It was further concluded that, in the mid-1990s there was increasing emphasis on efficiency in SME-oriented programs.” Today, in 2006, “ ‘..value for money’ in SME assistance programs has become essential” (McLaughlin, 2006)

Ontario’s SME Focus in the 21st Century

Canada’s federal government and each of the ten Canadian provincial governments continue, as in the past, to cooperate in offering programs designed to assist small businesses. Each Canadian province maintains Small Business Centres in major cities and towns. These are designed to provide information, to existing and would-be entrepreneurs, about every aspect of small business.

Existing, Continuing SME Assistance Programs

Several Canadian federal government SME programs which have been in existence for a number of years continue to play an important role in the encouragement and assistance of small business. Each of these is funded by the federal government, but officials of the provincial Small Business Centres provide information to those individuals obtaining the loans, or are involved in facilitating other financial assistance described. Each program will now be discussed.

1. The Canada Small Business Financing Program (CSFB)

This program approves loans of up to \$250,000 to buy or lease property relating to the SME. The loans are actually made by banks and other financial institutions, but the federal government guarantees 85 percent of each loan. However, as will be discussed below, this program has incurred significant losses in recent years. Canadian banks in general have been critical of the program and a number have opted out of the program.

2. The Capital Leasing Project

This program makes up to \$250,000 available to a small business owner to buy or lease equipment. Once again, these loans are made through commercial banks and are 85 percent guaranteed by the federal government.

3. The Business Development Bank of Canada

This organisation, a subsidiary of the Canadian federal government, makes loans of up to \$125,000 for such purposes as installing newer, more efficient machinery or a computerized inventory order system. It also makes loans available for businesses which are a part of the Canadian tourist industry.

4. The Program for Export Market Development (PEMD)

Canada has been an exporting country since its establishment as a separate North American nation in 1867, Canadian federal and provincial governments have always been eager to increase Canadian exports. The PEMD program provides conditionally repayable assistance in support of a variety of actions designed to help Canadian firms expand into new export markets. Preference is given to medium-sized enterprises (firms with sales of more than \$250,000 but less than \$10 million annually, and with more than 100 employees in the manufacturing sector or more than 50 employees in the service sector).

PEMD programs include a grant of \$5,000 - \$50,000, on a 50-50 basis, to assist medium-sized firms to engage in sound international marketing activities, such as materials and the rental of a booth at trade fairs. A maximum of \$ 7,500 is provided to assist firms, with little export experience, to visit a potential market or participate in an international trade fair.

Capital projects bidding programs assist medium-sized and large Canadian engineering, manufacturing, architectural and management consulting firms who may collaborate in the proposal or preparation of proposals – against international competition – for major capital projects outside Canada. PEMD contribution is a minimum of \$5,000 and a maximum of \$50,000.

The Trade Association Activities Program assists national, sector-specific industrial associations to undertake international trade activities for the generic promotion of the industry's products and/or ser-

vices. Financial assistance is provided on a cost-sharing basis.

5. The Export Development Corporation

This is a commercial financial institution offering a full range of trade finance services designed to help exporters and investors.

6. The Industrial Research Assistance Program (IRAP)

IRAP provides scientific and technical advice, assistance and information to both the Canadian manufacturing industry and the small business community. It applies to firms with 500 employees or less. It provides limited funding for projects designed to enhance a company's technical capability. It consists of two program elements.

Technology Enhancement (TE) Smaller Scale Projects, often of a preliminary nature. IRAP funds up to 50 percent of eligible program costs; financial support of up to 50 percent of the cost of subcontractors or consultants, for a maximum of up to \$15,000 per project. Research Development Larger Scale Projects are more complex research development Activities carried out over a longer period. (These activities, though more costly, are often carried out by medium-sized firms). IRAP funds 50 percent of eligible project costs; support will normally cover the cost of staff salaries. Support for such projects will normally range from \$15,000 to \$350,000 for a period of up to 36 months.

It will be clear from the above review of current programs designed to assist Canadian SMEs that the federal government, (The Government of Canada, based in Ottawa) continues to offer a significant number, and range of programs designed to assist Canadian SMEs. However, because each SME is geographically based in a particular Canadian province, the governments of the provinces involved work closely with the federal government. Through their provincial Small Business Centres, moreover, the various provinces provide one-on-one assistance to entrepreneurs. Because, as we have seen, Ontario's economy is the largest of any Canadian province, its provincial government's Small Business Centre officials play an important role in its economy. In addition, as we shall see, certain provinces have introduced additional programs which impact on Small Business.

Recent Developments

Despite budget constraints at both levels of government, federal taxes on small businesses have been reduced in 2005-2006.. (Government of Ontario "Business Tip of the Day", 2005). A 2006 review of SME programs offered by the Government of Ontario, however, indicates that a further shift in emphasis has occurred. The provincial government, working in cooperation with the federal government, has adjusted its SME policies as a result of the following developments.

1. Continuing, significant losses incurred by the federal government's Canada Small Business Financing Program, primarily because riskier clients have been attracted to the program. As noted earlier, although financial institutions grant the loans, the Government of Canada guarantees up to 85 percent of any loan made. The low-interest-rate environment of recent years has permitted more, high-risk, would-be entrepreneurs to "... borrow outside the program, often using the increased value of their homes as equity, or even using their credit cards to avoid paperwork" These losses have meant an increased emphasis on accountability.

2. An increased desire, on the part of both the federal and Ontario governments, to provide more entrepreneurial opportunities to less-advantaged members of society. While many other programs – offered either by the federal or Ontario governments, or jointly – continue to be offered to existing, or would-

be, entrepreneurs, there is now an increased emphasis on what might be called humanitarian assistance (London, Ontario Small Business Centre, 2006).

This new emphasis focuses on youth, on the eligible unemployed, on disabled individuals and on so-called “disadvantaged” individuals such as aboriginal Canadians (Inuit, Canadian Indian and “Metis” (or mixed Canadian Indian and Caucasian) peoples. Details follow (Waterloo Region Small Business Centre, 2006).

Programs Aimed at Youth

1. Canadian Youth Business Foundation Programs

These programs are funded by the federal government and are administered by the Canadian Youth Business Foundation in Ottawa, the federal capital. Individuals aged 18-34, who have produced a business plan are eligible for loans of up to \$15,000. Local Small Business Centre personnel are available to provide additional information.

2. Venture Creation Program

This program, funded by the federal government, is administered by local Small Business Centres and is designed to assist individuals aged 16-30 who have graduated from secondary (“high”) school but have not been able to attend college or university. A 28-week program develops, in those attending, the ability to develop a business plan. They are then eligible for a loan of up to \$7,000. A number of successful small firms have come into existence as a result of this program.

3. Young Entrepreneurship Programs

Young would-be entrepreneurs can, in this federally-supported program, obtain six weeks training at a local high school. During the six weeks of the program they are paid a start-up Allowance of \$240/week. This program is funded entirely by Ontario and/or the other provincial governments of Canada.

4. Summer Company Programs

These programs are the initiative of the Government of Ontario. They are available only to full-time students aged 15-29. Students are expected to create a business plan for a viable product or service. Individuals are eligible for an award of up to \$3000.

Programs Aimed at Eligible Unemployed

The Self-Employment Benefit Program (SEB) is a federally-sponsored program for unemployed individuals who are “employment insurance eligible”. This means the individual is either currently in receipt of employment insurance benefits or has established a claim for benefits in the last three years, or two years if a parental claim is involved.

Selected participants will receive income support for a contracted period of 32 weeks in business planning and skills development *workshops*, lasting eight weeks, one-on-one business services, networking opportunities and access to extensive business resources. This program begins with an information session arranged through an individual’s local Small Business Centre.

Programs Aimed at Disabled Individuals

The Opportunities Fund (OF) is a federally-managed fund for persons with disabilities who plan to start a full-time business program. The process begins with a careful assessment of the individual's situation at the Department of Human Resources, Skills and Development in Ottawa. Where appropriate, the fund can provide certain technical supports as well as income support, depending on personal circumstances.

Programs Designed to Assist Aboriginal Canadians

Canada has offered programs designed to assist Canadian aboriginal entrepreneurs for more than three decades (Jenkins, 1976), so aboriginal-focused programs are by no means new. Two current, federally-managed programs established to assist aboriginal Canadians are listed below.

1. Aboriginal Business Canada (ABC)

Aboriginal people residing in Canada may be eligible for start-up assistance of up to 25 percent of the total project cost up to a maximum of \$18,750. The applicant must contribute a minimum of 15 percent of the total project cost. The business must, in addition, create a minimum of one position with a minimum salary of \$15,000 per annum.

2. Tecumseh Development Corporation

Financial assistance may be available to Aboriginals for local small business start-ups, working capital or purchases of capital equipment. This is an alternative for business ventures that do not meet the criteria of conventional lending institutions. The maximum loan is \$120,000.

Twenty-First Century SME Policy Emphases in Ontario

Canadians have always claimed that Canada has a "kinder, gentler society" than the US where, it is implied, the "law of the jungle" prevails. Canada, unlike the US but like most European nations and Japan, provides free medical coverage to all its citizens. It also provides a somewhat larger "safety net" for those of its citizens who, often through no fault of their own, have fallen on hard times. Trade unions in Canada also enjoy certain benefits that their US counterparts do not.

Whether this "kinder, gentler" theory is justified or not, Canada, as indicated above, in the first decade of the 21st century, is clearly focusing increasingly on SBE programs aimed at younger age groups as well as on programs designed to assist individuals who are unemployed, or disadvantaged to some other degree, in order to help them establish, and effectively manage, small business enterprises. This new focus on assisting the disadvantaged, however, in no way replaces the need of both levels of Canadian government to obtain "value for money". Every entrepreneurial applicant must produce an effective business plan in order to be eligible for support.

Summary and Conclusions

The provinces of Canada, working closely with the country's federal government in Ottawa, have gradually revised and adapted their joint small business programs to adjust to changing socio-economic conditions. While a number of the major federal government SME programs of the 1990s still exist, there has been an increasing emphasis on providing programs to aid both younger and less advantaged would-be entrepreneurs since the 21st century began. There has also been an increased focus on "value for money". A sound, well-organized business plan must be produced by each would-be entrepreneur. Regional Small Business Centres, such as those established in Ontario, often play a vital role in counseling Canadian entrepreneurs-to-be in this first decade of the 21st century.

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Questions for Discussion

1. In countries with which you are familiar, has there been an increased emphasis on "Value-For-Money" in government programs designed to assist SMEs ?
2. In these same countries, has increasing attention been paid, by governments and the private sector, to programs designed to assist disadvantaged would-be entrepreneurs ?
3. Has increasing attention been paid to the needs of younger would-be entrepreneurs ?