

# PLACE-BASED POLICY OPTIONS FOR ENTREPRENEURSHIP IN A POST-COVID CANADA



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# TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	04
OVERVIEW .....	07
OUR APPROACH .....	09
RECOMMENDATIONS .....	11
<b>INSTITUTIONAL SUPPORTS</b>	
Entrepreneurship supports should be designed and delivered in a 'bottom-up', intergovernmental approach in order to be more responsive to local economic assets, capacities, and goals. ....	11
<b>HUMAN CAPITAL</b>	
Encourage continuous learning and skills development by incorporating micro-credentialing as a requirement for government business grants and financing applications. ....	16
Expand existing immigration programs to create a specialized stream dedicated to business succession in order to connect business owners in rural and remote communities with newcomer talent. ....	20
Allow student loan borrowers to defer loan repayments and freeze interest charged for a period of 5 years to enable marginalized youth to engage in entrepreneurship. ....	22
Create a new stream under the Youth Employment and Skills Strategy to provide placements for youth in ex-urban small businesses to facilitate reverse mentorship and business skill development. ....	24
<b>MARKET ACCESS</b>	
Senior governments should craft policies that cause local-level public purchasers to develop entrepreneurship-focused procurement policies. ....	27
CONCLUSION .....	31



## EXECUTIVE SUMMARY

The September 2020 Speech from the Throne represents a milestone in Canada’s federal economic response to the ongoing COVID-19 pandemic, and the efforts of policymakers to help Canadians weather the storm caused by shutdowns and slowdowns. Many of these policies—and their counterparts enacted by the provinces—have been focused on helping workers and businesses stay afloat and keep the lights on, while making vague promises to “build back better” once the virus was at bay.

Several of these policies and rapidly deployed programs have provided relief and support to small businesses. And understandably so: almost 70% of Canadians are employed by a small business, and in the preceding four years, small businesses accounted for the majority of net employment growth. In rural Canada, the economic and community role of small businesses is even more pronounced.

But as Canadians look forward to this period of economic recovery and governments herald a new normal, few signals have been given about its policy landscape, and even fewer about the role of small business and entrepreneurs in the post-COVID strategy. With the horizon now in sight, how can governments move quickly to put a shot in the arm of small businesses and entrepreneurs that are operating in disparate and localized challenges and conditions?

In this report, we advocate for six policy options that move Canada’s entrepreneurship and small business supports from strength to strength. They do so by leveraging and working within existing structures, policies, and priorities in a manner that can address numerous goals at the same time. In setting out these options, we have attempted to craft policies that offer a place-based framework responsive to local assets, opportunities, and priorities across Canada, without being prescriptive about the innumerable aspirations and opportunities that dot the map.

While recognizing a strong cultural and fiscal foundation for entrepreneurship which will follow Canada into its period of recovery, our proposals primarily support three dimensions of a healthy entrepreneurial ecosystem—human capital, market access and institutional support. We address these through six enabling policies, which can be summarized as follows:



### **RECOMMENDATION #1:**

We recommend that entrepreneurship and small business support programming be designed and delivered in a “bottom-up”, intergovernmental structure in order to be more responsive to local economic needs. We propose to do this through the creation of new, regionalized economic development entities, which are funded by federal, provincial and territorial governments to implement economic development, small business, and entrepreneurship support programming based on localized strategic plans.



### **RECOMMENDATION #2:**

We recommend that Canada’s skills development and continuous learning goals for small businesses and entrepreneurs be addressed by incorporating micro-credentialing into government grants and financing for businesses, as a condition or requirement.



### **RECOMMENDATION #3:**

We advocate for the expansion of existing immigration programs to create a specialized stream dedicated to business succession—and to connect business owners in rural and remote communities with newcomer talent.



#### **RECOMMENDATION #4:**

We recommend that government student loan borrowers be permitted to defer their repayments and pause interest accumulation for a period of five years in order to enable marginalized youth to engage in entrepreneurship.



#### **RECOMMENDATION #5:**

We propose the creation of a new stream under the federal Youth Employment and Skills Strategy to provide placements for youth in ex-urban small businesses in order to facilitate reverse mentorship and skills development.



#### **RECOMMENDATION #6:**

We call for federal, provincial, and territorial governments to craft policies that cause local-level public purchasers to develop entrepreneurship- and small business-focused procurement policies. We suggest, as a starting point, that the requirement for such social procurement goals be mandated as a condition for municipalities to receive funding under the federal Gas Tax Fund.

Each of these is described in greater detail in the following pages.

While the Canadian regional dynamic will never be fully immunized from economic inequities, we believe that these proposals provide a workable, place-responsive, and efficient means of leveraging the post-COVID recovery as a catalyst for a stronger and locally adapted entrepreneurial ecosystem.

We thank the Action Canada and Public Policy Forum teams for their assistance and support with this project.



# OVERVIEW

In response to the federal government's September 2020 Speech from the Throne, critics noted a lack of focus on business and entrepreneurship. Writing for the Fraser Institute, Jason Clemens and Jack Fuss argued that the government's vision failed to address the central role entrepreneurs play in generating economic prosperity and spurring innovation.<sup>1</sup> In fact, the speech itself only referred to "small business" once, and made no mention of the risks that small business owners and entrepreneurs take to launch successfully and maintain their enterprise. These ventures have been further imperiled by the economic downturn triggered by the COVID-19 pandemic, and their struggle and importance to the economy calls for a response from government.

In this report, we identify policy options for governments that fit within existing priorities and programs and that can boost and stabilize entrepreneurship and small business in a post-COVID Canada. In light of the need for urgent policy responses and recognizing the limited resources in an already strained fiscal envelope, we hesitate to call for whole-scale revision to the policy landscape in the majority of our recommendations. Rather, we propose options that are broadly consistent with the longstanding Canadian policy theme of regionalized, place-based economic development and the immediate needs of the global pandemic. We identify options and recommend policy solutions that emphasize collaboration across levels of government, and that incentivize or nudge desirable entrepreneurial policy and activity by public sector organizations and local government actors.

For obvious reasons, the focus of governments over the past year has been on preventing business closures and job losses by delivering aid to businesses and workers in the form of rent relief programs, enhanced employment insurance-type programs, and wage subsidies. While they were delivered expeditiously and flexibly, these are “Band-Aid” solutions of a temporary nature. The full post-pandemic recovery will require more nuanced, constructive and sustainable shifts and adaptations to public policy, which are responsive to local economic opportunities, workforce needs and economic assets.

As such, in the pages that follow, we present six policy recommendations to foster and build up Canada’s entrepreneurial environment, drive new business creation, and support business transition and succession. Each of these options reflects an opportunity to craft policy that is place-sensitive and responsive to local needs and opportunities, while supporting policy goals for immigration, rural development, training and skills development. Our recommendations are crafted to consider internal migration trends, counteract the impacts of an aging population, demonstrate the possibilities of technology and training, and suggest ways to capitalize on economic opportunities and the assets of local economies.

In an article for the Public Policy Forum in June 2020, Sean Speer and Weseem Ahmed noted that in light of Canada’s economic trends and established urban-rural labour market gaps, there is a strong case for policymakers to reconsider how place-based policy may help mitigate the economic development challenges of disruption and demographics.<sup>2</sup> Each of these challenges has been exacerbated by a global pandemic. We hope the solutions we propose in this report may provide a helpful application of a place-based paradigm.



THE FULL POST-PANDEMIC RECOVERY WILL REQUIRE **MORE NUANCED, CONSTRUCTIVE, AND SUSTAINABLE SHIFTS AND ADAPTATIONS TO PUBLIC POLICY** WHICH ARE RESPONSIVE TO LOCAL ECONOMIC OPPORTUNITIES, WORKFORCE NEEDS, AND ECONOMIC ASSETS. ””

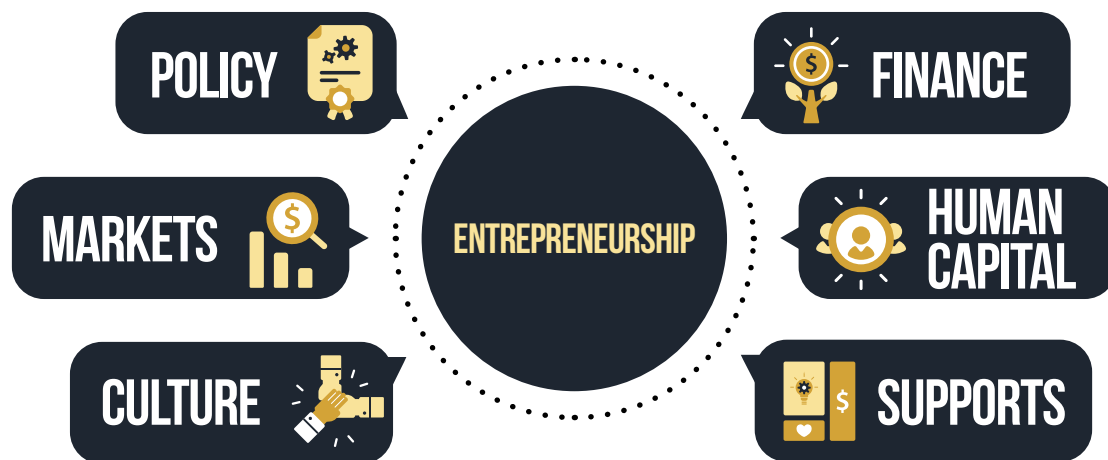


# OUR APPROACH

Writing for Forbes in 2011, Daniel Isenberg conceptualized an entrepreneurial ecosystem which organizes the conditions for entrepreneurship into six domains: a conducive culture, appropriate finance, enabling policies, quality human capital, venture-friendly markets for products and a range of institutional supports.<sup>3</sup> This is, in our view, a useful model for assessing the landscape for entrepreneurial activity in a given jurisdiction or region.

In crafting our proposals, we believe two of these domains are in good health:

- 1** **First**, we have started from the position that Canada presents a strong cultural foundation for entrepreneurship already. Statistics Canada reported that in 2017, almost 70% of Canadians were employed by a small business, and in the preceding four years, small businesses accounted for the majority of net employment growth.<sup>4</sup> A recent survey by GoDaddy also shows that this appetite for entrepreneurialism is growing among working-age Canadians, and that a commanding majority of Canadians value businesses with 25 or fewer employees.<sup>5</sup>
- 2** **Second**, the fiscal environment for start-ups in Canada provides abundant opportunity. A full review is beyond the scope of this report, but it is clear that federal and subnational governments across Canada pledge significant portions of their budget to providing support for small business and innovation, both through direct programs and indirectly, through taxation and arms-length agencies.





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With this in mind, we have prioritized the remaining domains from Isenberg's ecosystem—human capital, market access and institutional supports—and have outlined enabling policies responsive to each of them. These domains provide significant promise for rapidly deploying policy enhancements that promote favourable conditions for entrepreneurship across Canada, in a manner that ameliorates place-based needs. In our view, they are also the domains with the greatest variability by region.

Our investigations have consisted of consultations with subject-matter experts and a review of governmental, policy, and academic literature. We hope to refine options for government that will move Canada's entrepreneurial ecosystem from strength to strength by building on existing policies and structures in a manner that facilitates locally responsive strategies and program delivery and provides manageable frameworks to meet localized business needs.

To the extent that any of our observations or assumptions are anecdotal in nature, we submit that this work is intended to facilitate dialogue and idea-sharing among those looking to develop workable and practical policy solutions. Each of our policy options, and the resources that inform them, recognize the key role of entrepreneurialism and small business to the Canadian economy and Canada's pandemic recovery.

Of note, this work was undertaken as part of the 2020/21 Action Canada Fellowship. This program typically provides opportunities for immersive learning in various locations across Canada, though such activities have been constrained by the same public health concerns that motivate our report and its recommendations. Despite limitations to our ability to carry out primary research, this report makes efforts to apply a place-based lens and arrive at productive and helpful insights for policymakers setting a post-pandemic recovery agenda.

# RECOMMENDATIONS

## Institutional Supports



**Entrepreneurship supports should be designed and delivered in a “bottom-up”, intergovernmental approach in order to be more responsive to local economic assets, capacities, and goals.**

Canada’s response to the COVID-19 pandemic has been diffuse and inherently place-based—all by design. To respond to the economic downturn precipitated by various stages of lockdown and business closures, the federal government implemented standardized financial support programs—such as the federal Canada Emergency Wage Subsidy (CEWS)<sup>6</sup> and Canada Emergency Response Benefit (CERB).<sup>7</sup> Importantly, supports were also distributed through local agencies, local governments, non-governmental entities, and Indigenous organizations. This enabled local organizations to design and implement programs and strategies and to distribute relief goods in a manner that suited the unique needs of their region or community.<sup>8</sup>

In doing so, central governments were able to ensure that the organizations with the most intimate knowledge of their community’s needs were directly engaged in the distribution of services. These offerings ranged from money that could be spent at local discretion to degrees of “program bend”, wherein local agencies could vary the requirements of supports and programs made available to the public by federal, provincial, and territorial governments.

The public policy wisdom of localizing strategy development and economic program delivery has long been recognized as a best practice in place-based policy. In rural development, this is evident in the shift over time from policies focused on improving productivity in fishing and farming to raising incomes and living standards, to an industrial and manufacturing focus, to a more recent focus on capacity-building and improving the social capital of a region. Regions with stronger internal capabilities are better equipped to find their own solutions based on local circumstances.<sup>9</sup>

Today, regional economic development is increasingly about mobilizing a region's economic assets to allow it to become more economically diverse and competitive. From a policy standpoint, designing the institutional structure to support these efforts is part of the equation.<sup>10</sup> While a patchwork of federal, provincial, and localized programs and funding streams are available to support entrepreneurial activities in Canada, the reality is that their coordination is poor, leaving gaps and inequities in support from region to region, which the federal government has acknowledged.<sup>11</sup> This causes poor alignment—across the board—in the programs offered between levels of government, and results in programs that are designed “top-down”, rather than with a focus on local priorities and economic assets.

We advocate for a new, cross-sectional, locally driven, and intergovernmental approach to address these shortcomings that reconceptualizes the role of existing agencies and levels of government. In doing so, we draw from the wisdom and experience of models that have been piloted in various jurisdictions, both in Canada and abroad:

First, tri-level arrangements, such as the urban development agreements (UDAs) in place in some Canadian cities between the municipal, provincial, and federal governments, provide one useful conceptual structure. UDAs marshal the strengths of different levels of government with the community and business sectors of a specific region or location. UDAs have been used to combat social problems, such as poverty. However, their appeal in the



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entrepreneurship context is their ability to facilitate knowledge flow “upward” from local governments and grassroots organization, as opposed to “downward” from federal and provincial authorities. UDAs address the criticism that policy impact is limited when there is poor coordination by different levels of government. UDAs do this by rallying participants around common objectives as opposed to broad top-down strategies.<sup>12</sup>



**Urban agreements in place in cities such as Winnipeg, Vancouver, and Regina share several common features. These include that:**

1. The target is a geographic region, and the methodology of the participants builds from a bottom-up understanding of local needs, assets and capacities;
2. Strategic plans are forged through intergovernmental dialogue and community consultations that identify specific projects; and
3. Roles and responsibilities for management and administration must be defined at the outset, and this is typically driven by a committee with representation from different levels of government.<sup>13</sup>

The literature specifically alludes to the application of the UDA model for more broad use in place-based policy to address challenges in “thematic groupings” of communities—such as cross-border cities or single-industry remote communities.<sup>14</sup>

Second, recent pilots of the “smart specialization” model have shown promise for harnessing regional economic assets and capacity towards localized economic goals. Smart specialization is not simply about focusing a region on a particular industrial area, but about creating the conditions to address missing or weak links between R&D and innovation resources and the sectoral structure of the economy.<sup>15</sup> The beauty of smart specialization is that it can be applied to a variety of regional economic contexts, whereas the focus on clusters tends to favour cities.<sup>16</sup>

Smart specialization is fundamentally based on a process of entrepreneurial discovery—that is, identifying what a region does best or has the best opportunity to pursue in terms of innovation. It is a place-based approach that builds on the assets and resources available to a region and on their specific socioeconomic challenges, to identify its opportunities for development and growth.<sup>17</sup>



SMART SPECIALIZATION IS A **PLACE-BASED APPROACH THAT BUILDS ON THE ASSETS AND RESOURCES AVAILABLE TO A REGION AND ON THEIR SPECIFIC SOCIOECONOMIC CHALLENGES** IN ORDER TO IDENTIFY ITS OPPORTUNITIES FOR DEVELOPMENT AND GROWTH. **””**

Taking this together, we recommend a restructuring of government entrepreneurship and business development support programming that adapts practices from both the smart specialization and UDA experience, thus empowering local economic actors to take a greater role in crafting enterprise support and economic development. This, in our view, is consistent with the institutional supports described by Isenberg to promote entrepreneurial activity.

To do this, we propose that governments and local stakeholders collaborate to map catchment regions of common economic circumstance and manageable geographic area and create new development corporations that include governance representation from civic, Indigenous, provincial, and federal governments. These organizations—which we have dubbed Local Economic Action and Planning corporations (or LEAPs)—would be funded by federal, provincial, and territorial governments based on their submission of a multi-year economic development strategic plans that address and are built on local workforce needs, economic assets, and business capacity.

LEAPs would be successors to existing local agencies, such as the federal Community Future Development Corporations in Ontario.<sup>18</sup> Traditionally, local agencies—particularly in less populous centres—provide a gateway to off-the-rack funding programs offered by federal, provincial and territorial governments, but are beholden to the program constraints of these funders. In contrast, LEAPs would be empowered to develop their own programming structures and funding streams, which would be funded annually based on milestones set out in their economic development strategic plan.

By equipping a regional or localized economic development corporation in this manner, local economic development policy and programming will necessarily become more responsive and accountable to local needs, while higher levels of government can designate broad baskets of funding for certain functional purposes. This leaves delivery in the hands of local decision-makers and strategies. This will also formalize the role of municipal

and Indigenous leadership in local economic development—actors which, in smaller centres, often lack the independent fiscal firepower to launch homegrown economic or entrepreneurship policy.

We do not envision this as policy of “downloading” or devolution, but of symbiosis. In this model, we see a specialized role for federal, provincial, and territorial governments in setting governance policy, supporting capacity building for LEAP personnel and boards, and evaluating strategic plans for funding. We can illustrate the distinct roles of LEAPs and federal, provincial and territorial governments through the process of strategic planning. In our model, the form of an economic development strategic plan should be prescribed by the funder. It should account for entrepreneurial skills development, local economic assets, and identifying strategic investments for key sectors. However, the exact content and specific programs and initiatives set out in this governing plan should be based on the local factors and priorities identified by the LEAP.

This model accounts for differential needs of different regions (indeed, the catchment area of a LEAP should be determined by the local communities it serves), and it allows for programming and funding structures to be responsive to local circumstances and economic assets. While an initial pilot of this restructuring could leverage the federal Regional Development Agencies and begin with their service regions, we anticipate that a successful transition to more localized control of economic development will alter the long-term role of these agencies and result in changes to federal and provincial org charts to reflect their role in policy and capacity-building versus needs-identification and program delivery.



WE PROPOSE THAT GOVERNMENTS AND LOCAL STAKEHOLDERS **COLLABORATE TO MAP CATCHMENT REGIONS OF COMMON ECONOMIC CIRCUMSTANCE AND MANAGEABLE GEOGRAPHIC AREA** AND CREATE NEW DEVELOPMENT CORPORATIONS THAT INCLUDE GOVERNANCE REPRESENTATION FROM CIVIC, INDIGENOUS, PROVINCIAL, AND FEDERAL GOVERNMENTS. ””



## Human Capital



**Encourage continuous learning and skills development by incorporating micro-credentialing as a requirement for government business grants and financing applications.**

In early 2020, the Ontario government launched an advertising campaign to attract workers to the skilled trades and encourage employers to hire more apprentices. The slogan of the campaign, “Find a Career You Wouldn’t Trade” portrayed careers in the skilled trades as economically attractive and personally fulfilling. The province invested in ad placements in unconventional settings, including digital placements, in movie theatres, and at Tim Hortons locations. This campaign sought to address economic policy goals with the marketing wisdom of reaching a defined target audience with an impactful message.<sup>19</sup>

When it comes to skills development and training, policymakers must draw on this same wisdom and tailor their program offerings to the time constraints, cost-benefit analysis, educational philosophy, and age and stage of life of the entrepreneur or business proprietor.



Skills development will take on renewed importance post-pandemic and it will be incumbent on governments to support skills growth. As a December 2020 Policy Options piece put it: governments need to support the recovery of small businesses affected by the pandemic not just with fiscal levers, but also with mentorship and digital literacy.<sup>20</sup>

But educational and skill development opportunities need to be appropriate for those they are meant to support. Governments are increasingly recognizing this. For instance, the Government of Canada signaled its support for alternative and innovative methods for skills development. In its November 2020 report, *Canada—A Learning Nation*, one of the priorities identified is to “promote, enable and validate skills development and training in all their diverse forms”.<sup>21</sup> The report also highlights the importance of skills development for small and medium-sized enterprises (SMEs),<sup>22</sup> including by encouraging start-up entrepreneurs to build basic business skills.<sup>23</sup> It identifies that while many initiatives are already in place to assist small business employers—such as skills development clinics, incubators, and accelerators—more needs to be done to make these services accessible to smaller communities.<sup>24</sup>

Obviously, digital skills will determine the future of many small businesses. Canadians appear to recognize this—those surveyed indicate that Canadians believe new technologies make starting a business easier, and more flexible and competitive.<sup>25</sup> Yet, small business owners and employees face practical challenges in upgrading skills or pursuing educational opportunities. Finding time to partake in traditional technical or post-secondary educational programs can be problematic for those running a business, and sourcing funds to invest in tuition and other education costs can frequently be deprioritized in the face of day-to-day operational pressures. For others, locating reputable sources of training with an appropriate scope and focus can be daunting. Many entrepreneurs are also self-reliant by nature, and skeptical of traditional education pathways. Some entrepreneurs also hold negative impressions of the classroom and question the contributions of traditional education to their success.

But that does not mean government should forsake investment in educational opportunities or skills upgrading for an otherwise motivated and economically productive demographic. It simply means that a new delivery vehicle is necessary. We advocate for governments to take a new approach to entrepreneurial education that removes some of these barriers while delivering necessary, practical skill training in a manner that is integrated with other government supports. Online micro-credentialing is an ideal vehicle and forms a useful means of enhancing human capital in the entrepreneurship equation.

Micro-credentials are “mini-qualifications” that demonstrate skills, knowledge or experience in a given subject area or capability. Micro-credentials tend to be narrower in range than traditional qualifications like diplomas or degrees. Because they can be formulated to focus on specific skills or capabilities, they provide a flexible, digestible learning format to respond to a changing educational landscape and rising demand for upskilling and



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reskilling. Micro-credentials have emerged as an alternative to traditional approaches to learning and can provide an accelerated, targeted, and more accessible way of acquiring skills for people at various stages of career progression and in even the most remote areas.<sup>26</sup> This addresses another domain of Isenberg's ecosystem by providing educational opportunities adapted to those who need them.

One challenge with micro-credentialing is limited awareness and lack of traction among employees and employers alike. As noted by Alex Usher, the President of Higher Education Strategy Associates: "One of the many unrealized promises of the last decade or so has been the idea that the types of credentials available to students—micro-credentials...—would proliferate."<sup>27</sup> However, he goes on to note that if a large corporation like LinkedIn were to offer micro-credentials, then organizations would not need to determine how to value each new micro-credential, because LinkedIn would have the ability to track the career trajectory of each employee who completes a given credential and provide tangible evidence of its utility. In this way, Usher argues, micro-credentials would be effective and could challenge existing degree and diploma programs if they are given an appropriate platform for wide uptake. While this approach is ambitious, applied on a smaller scale it can still raise employer consciousness about micro-credentials and their utility.

Micro-credentials, in the abstract, are an opportunity, but their uptake will depend on accelerating social and industry recognition of their usefulness. We suggest that government granting programs (those that provide support to small business start-ups and scale-ups and that direct support to entrepreneurs)

incorporate micro-credentials into their design. We recommend that governments integrate micro-credentialing into the structure of government granting and financing programs, as an eligibility criterion for levels of funding, a condition on forgivable portions of funding, or a requirement to draw down tranches of funding envelopes. This will allow governments to directly facilitate capacity-building as an element of existing program delivery. In doing so, government programs will be better calibrated toward delivering on their capacity-building objectives.

While it will be an administrative decision for government whether to host the micro-credentialing programs or platform—particularly if the focus is on online delivery modules—we believe that governments should work with public and private sector entities to develop a robust catalogue of options for those seeking skills development. We suggest that the existing network of Community Futures offices<sup>28</sup> in rural areas and similar economic development offices elsewhere could provide direction on the specific skills most in need in their business communities. As in many elements of business and economic development, the public sector agencies and non-profits operating closest to their communities are best positioned to inform government about the types of micro-credentials that would best serve those communities.

In the future, if entrepreneurship funding or support programs are locally developed (as described in Recommendation #1), upper levels of government could mandate that micro-credentialing be a necessary component of the LEAPs' mandate in order to qualify for funding, but also to serve as a measure of quality control and standardization.

Assuming that the federal government continues to deliver on its pledge to provide broadband connectivity to all Canadians, a new focus on online micro-credentials can provide all communities with equivalent skill development opportunities while ensuring that there is a wide enough range of credentials to be responsive to local needs and circumstances. This will assist rural businesses, in particular, to develop the skills to access new markets and learning opportunities not customarily available near their business.



MICRO-CREDENTIALS, IN THE ABSTRACT, ARE AN OPPORTUNITY, BUT THEIR UPTAKE WILL DEPEND ON ACCELERATING SOCIAL AND INDUSTRY RECOGNITION OF THEIR USEFULNESS. TO DO THIS, **WE ARGUE THAT GOVERNMENT GRANTING PROGRAMS INCORPORATE MICRO-CREDENTIALS INTO THEIR DESIGN.** ”



**Expand existing immigration programs to create a specialized stream dedicated to business succession in order to connect business owners in rural and remote communities with newcomer talent.**

The Bytowne, a local independent cinema in Ottawa, recently announced that it would be closing its doors. While this decision was largely a consequence of the economic decline, in announcing the closure, the owner of the Bytowne also referenced challenges in finding an interested successor to run the business—a prospect made more difficult by the pandemic. As the proprietor noted in his communique: “It’s still possible that someone will want to take over the Bytowne business and offer independent cinema ... but it’s a scenario that’s unlikely until we get out of the eye of the pandemic storm.”<sup>29</sup>

Business succession is a dilemma that business owners across Canada are increasingly struggling to navigate. This struggle is compounded for businesses in remote and rural communities, and will likely worsen during the pandemic-induced economic downturn, as many younger working-age people opt for employment that promises less need for investment and more stable income.

The statistics are daunting: approximately half of the businesses in rural Ontario do not have a formal succession plan, despite the fact that nearly 4 in 10 of their owners intend to leave their business within the next five years.<sup>30</sup> A lack of planning makes business transition challenging, and could lead to business closures and job losses, which would in turn negatively affect the sustainability and vitality of rural and remote communities.

One way the Government of Canada supports rural and remote businesses is through newcomer attraction. Canada has long used immigration as a tool to counteract aging demographics, population decline and labour market shortages. In recent years, there has been considerable focus on ensuring that immigration is supporting not just urban centres but rural and less densely populated communities as well. Through targeted measures, such as the Provincial Nominee Program, the Atlantic Immigration Program, and the recently launched Rural and Northern Immigration Pilot (RNIP), the federal government has attempted to diversify the benefits of immigration to smaller communities across Canada.

The RNIP, in particular, has a narrow focus on smaller communities (those with a population less than 100,000). The program helps connect participating communities with skilled foreign workers using a community-driven model whereby both the federal government and communities set qualifying requirements. This approach is intended to ensure that immigration meets the specific labour market needs of Canada's smaller communities.<sup>31</sup> One such need that a participating community could address through the RNIP is entrepreneurship in the form of business transition—selecting labour market needs that fill emerging gaps in the current business community.

Immigration is a policy area that remains under-operationalized to address this challenge. We advocate for the Department of Immigration, Refugees and Citizenship Canada to expand the RNIP by creating a new stream dedicated to attracting newcomers with entrepreneurial skills and ambitions. This would inject new human resources and talent into communities with immediate, specific needs—again, supporting the human capital domain of an entrepreneurial ecosystem.

The new, dedicated stream we propose would attract and select candidates with an interest in becoming part of the succession plan (or purchasing outright) a local business in a rural or remote community. Candidates could initially be brought to Canada as temporary workers, and in this capacity, a candidate would join a local business as an employee, learn about the business, and settle into the community. Once the business owner is ready to retire and transfer the business, the temporary worker could be referred for permanent residence under the new RNIP stream. Importantly, the program can facilitate a staged ownership transition or acquisition of shares in order to accommodate the learning needs of the incoming proprietor and retirement plans of the outgoing businessowner, while equipping the business for success into the future.

Newcomers to Canada present unrealized potential for Canada's small business economy. According to a study by the Business Develop Bank of Canada, the entrepreneurial rate amongst immigrants is more than double the rate for the Canadian-born population.<sup>32</sup> This aptitude could be a boon for smaller communities, where existing businesses are in need of new hands and may be acquired with fewer resources or less competitive markets. In pursuing these policies, the federal government can help address population decline in rural communities while fostering business continuity and preventing job losses and the closure of small businesses.



## Allow student loan borrowers to defer loan repayments and freeze interest charged for a period of five years to enable marginalized youth to engage in entrepreneurship.

Shortly after the start of the COVID-19 pandemic, the federal government froze student loan repayments for the nearly one million borrowers under the Canada Student Loan Program.<sup>33</sup> However, in October 2020, six months after the initial freeze, as Canada entered the second wave of the pandemic and with a vaccine still many months away, the freeze was lifted, with loan payment collection and interest accrual resuming. Though the initial deferral provided some Canadians with immediate relief, its temporary nature limited its effects, including more long-term benefits such as stimulating entrepreneurship among young people, particularly for marginalized youth.

While Canada's student debt figures are moderate compared to other countries, the extremes coincide with certain demographics. We know that graduates with the highest debt are more likely to come from marginalized groups or otherwise be socially disadvantaged. Newcomers, first generation students, racialized people, Indigenous students, and those from some of the poorest postal codes carry a disproportionate portion of Canada's student debt into their working lives,<sup>34</sup> and are thus less likely to pursue an entrepreneurial path. This is because debt at graduation becomes a barrier to taking on ventures with inherent risk or financial uncertainty, such as starting a business, even though these individuals may be uniquely positioned to identify markets, services or social needs that are unfilled by existing enterprise. For others who come from limited means, the prospect of starting a business may seem unwise in light of how they view different types of employment and financial risk.

This is reflected in the literature. According to an article published in the Harvard Business Review, student debt prevents millennials from becoming entrepreneurs. The article argues that despite nearly 60% of millennials considering themselves to be entrepreneurs, less than 4% are in fact self-employed.<sup>35</sup> Moreover, the number of young people starting companies has been steadily declining since the mid-1990s, a condition which is only expected to worsen as a consequence of the pandemic.<sup>36</sup> As Creig Lamb, a senior analyst for the Brookfield Institute for Innovation and Entrepreneurship at Ryerson University, aptly notes: "Starting a business is risky. Starting a business amid a pandemic is riskier. Starting a business amid a pandemic with nearly \$18,000 in student loan debt is much, much riskier."<sup>37</sup>

\$18,000 is an optimistic assumption. According to Statistics Canada, in 2015, the average debt owed at the point of graduation for a bachelor's degree was \$28,000.<sup>38</sup> Since 2015, the average cost of tuition has increased by approximately 6.5%,<sup>39</sup> and even more for

professional degrees. The average cost of an MBA in Canada this year averages between \$29,000 and \$51,000, in addition to undergraduate tuition. Again, government student loans programs continue to see concentrations of certain borrower profiles and demographics among those with higher debt loads.

A more equitable approach to student loan repayment, geared toward harnessing the energy, drive, and more-limited obligations of students and recent graduates, would be a positive contribution to the new business landscape, while improving social mobility and providing economic opportunities to disadvantaged communities.

We recommend a five-year deferral of Canada Student Loan Program repayments or interest accrual for post-secondary graduates who engage in entrepreneurial activities, such as starting a business in Canada or entering into an agreement to acquire an existing Canadian business as part of a succession plan for that business. This measure would be available on application, with the federal Department of Employment and Social Development Canada identifying appropriate documentation or evidence of entrepreneurship . This is not just a business growth initiative, but an equity one intended to ensure that the Canadian start-up community remains accessible for all Canadians.

To be sure, this initiative is a natural extension of existing efforts to promote equity and level the playing field for aspiring entrepreneurs. The government has already recognized that entrepreneurs and aspiring entrepreneurs from certain demographics face unique barriers to success. In the most recent Speech




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from the Throne, the government declared its commitment to supporting the economic empowerment of marginalized groups through investments in “the Black Entrepreneurship Program, while working to close the gaps in services for Indigenous communities” along with “accelerat[ing] the Women’s Entrepreneurship Strategy,” an initiative dedicated to “help[ing] women across Canada grow their businesses.”<sup>40</sup>

Freezing student loan repayments could support a small number of graduates, largely from marginalized backgrounds, but still have a big impact in incentivizing entrepreneurship and aiding successful new ventures run by recent graduates. Future permutations of this program feature could offer income-contingent repayment options for borrowers whose business ventures are successful, offer loan forgiveness for new graduates whose enterprises meet job creation targets, or offer preferential terms for those whose start-ups operate in target regions or sectors.

While our recommendation on micro-credentialing supports the development of human capital from those outside post-secondary education, this proposal ensures that our entrepreneurial ecosystem also has appropriate pathways for new graduates.



**Create a new stream under the Youth Employment and Skills Strategy to provide placements for youth in ex-urban small businesses to facilitate reverse mentorship and business skill development.**

For many segments of Canadian society, the lasting impact of the COVID-19 pandemic is likely to be far-reaching and transformative. For others, it could be devastating.

Youth<sup>41</sup> are expected to be one of the demographics hardest hit by the pandemic and are likely to suffer the consequences of the pandemic on society and the economy for many years to come. The Bank of Canada has forecast that youth are more likely than other groups to work in economic sectors hardest hit by the pandemic.<sup>42</sup> Similarly, the Organisation for Economic Cooperation and Development’s preliminary research indicates that school closures will cost students in elementary and high school up to 3% of their expected lifelong earnings, which could lead to an average of 1.5% lower annual GDP for the remainder of the century. Young people who are already in (or who wish to join) the workforce will have to weather the dual economic shocks of the Great Recession and the COVID-19 pandemic in their key earning years.



Against this backdrop, we also know that the skills, abilities and digital aptitude of younger generations are critical to the survival of many small businesses in Canada. Small business owners themselves recognize this. For instance, Startup Canada has found that small business owners are enthusiastic about technology, but need help taking advantage of it.<sup>43</sup> This challenge is related to a larger problem in rural communities, where the looming retirement of business owners can lead to economic pressure on their communities.<sup>44</sup>

Meanwhile, millennials and younger generations continually lead other demographics in their technology use—including mobile technology and social media.<sup>45</sup> Tellingly, over 44% of the merchants using Shopify, a leading global e-commerce platform, are between the ages of 18 and 34.<sup>46</sup> Yet, many young people are unable to find opportunities to learn core business skills or business mentors, a need recognized by Futurpreneur Canada.<sup>47</sup>

In responding to some of these economic and employment challenges facing young people, the federal government has introduced new measures and expanded existing employment and internship programs. In the September 2020 Speech from the Throne, the government committed to “significantly scaling up the Youth Employment and Skills Strategy (YESS), to provide more paid work experiences next year for young Canadians.” Under the umbrella of YESS, the federal government provides funding to employers looking to hire young people. YESS funds employment and internship placements for students and recent graduates in various sectors, including non-profit, international development, and STEM.<sup>48</sup>



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We believe that this program can be further optimized, and that it provides a helpful foundation to address the needs of small businesses in need of innovation, and entrepreneurial young people in need of opportunity, employment and skill development. We note, in particular, the need to generate employment opportunities for youth in rural and remote communities and to support small businesses in rural settings that are facing imminent transition or modernization pivots.

To address these challenges, we recommend the development of a dedicated program that provides funding for ex-urban<sup>49</sup> small businesses to hire youth in reverse-mentorship employment models. This dedicated YESS stream could be implemented in partnership with economic development agencies to help identify potential business candidates where a placement would prove fruitful to both parties.

In our view, local agencies are best positioned to identify opportunities for reverse mentorship in their service regions or communities. The motivation of these opportunities would be to assist established businesses—with a focus on small businesses and sole proprietorships, shops, and small service providers—to grow by pairing the established management with young talent. Operating in concert with the micro-credentialing recommendation noted above (Recommendation #2), we propose a model whereby the youth hire would be selected based on skills competencies that meet the needs of the business, such as online sales development, social media marketing, branding, or interior or industrial design. In exchange, the proprietor or manager would provide an immersive experience where the youth learns about the fundamentals of their business or industry.

We further recommend making this new YESS stream more comprehensive. For instance, international students are not eligible for a placement with a YESS funded program. While the policy rationale for this is clear (given that the purpose of YESS is to support Canadian youth access employment opportunities in Canada), the dedicated stream to connect businesses in smaller ex-urban areas should include international students in its eligibility. The federal government already relies on immigration to help counteract population decline in smaller communities.<sup>50</sup> Many international students eventually go on to become permanent residents. Providing access to employment opportunities for international students is an additional way the federal government can leverage immigration to foster resettlement in smaller communities.

Overall, a dedicated stream for placements for young people in small businesses in ex-urban communities would not only provide all the traditional benefits of a youth employment program, such as skills development and employment experience, but also provide youth with exposure to smaller communities in Canada. At the same time, established businesses with a market presence would receive talented labour and reverse mentorship opportunities. The stream could also support business succession efforts, thereby helping secure the sustainability of smaller communities across Canada.



## Market Access



**Federal, provincial and territorial governments should craft policies that cause local-level public purchasers to develop entrepreneurship-focused procurement policies.**

Much of entrepreneurship policy focuses on developing businesses and services that are more responsive to the demands of the marketplace and meeting the needs of consumers. But a more comprehensive and equitable approach should also consider the tools available to government to lift up new or innovative businesses by recalibrating the supply side of the equation too.

In Canada, governments are responsible for hundreds of billions in spending each year. The federal government's expenditures alone amounted to over 21% of GDP in 2019.<sup>51</sup> While not all of this spending is directed to procuring goods and services, it is clear that public purchasers—federal, provincial/territorial and local—are huge players in the Canadian economy. How government procurement policies are structured can determine which business entities are able to compete for these revenues.

Social procurement is one conceptual model that can make the supply-side of the market more entrepreneurship- and start-up-friendly. Social procurement strives to achieve social, economic and workforce goals through changes to a purchaser's process. For public purchasers, the social aims are typically reflected in the procurement policy and may include components such as supply chain diversity and workforce development. According

to Buy Social Canada, social procurement makes procurement more than a financial transaction, but an investment in community capital that generates intentional economic benefits.<sup>52</sup> Social procurement recognizes that every purchase has economic, environmental and social impacts, and that through policy, we can harness those impacts towards community goals.

The reason social procurement models can be useful for boosting entrepreneurship in various local economies is that there is no clear definition for what is and is not a social goal. For example:



**The City of Vancouver now requires developers of large-scale sites to enter into Community Benefit Agreements**, committing to make 10% of new entry-level jobs available to people in Vancouver and to purchase at least 10% of goods and services from local businesses that incorporate positive social and environmental impacts or are majority-owned by individuals from equity-seeking

groups.<sup>53</sup> In implementing this policy, Vancouver aims to reduce poverty and meet economic development goals set out in its Healthy City Strategy.<sup>54</sup>

**The federal and Ontario governments have adopted procurement policies that promote Indigenous economic development by increasing opportunities for businesses owned by First Nation, Métis, and Inuit people.**<sup>55</sup> For instance, the federal Procurement Strategy for Aboriginal Business specifies that contracts that serve a primarily Indigenous population are reserved for competition among Indigenous businesses, with set asides where Indigenous capacity exists.<sup>56</sup> (Of note, the federal government negotiated specific exceptions for these allocations in relevant trade agreements.)



**The City of Toronto's Social Procurement Program strives to achieve a more diverse workforce that meets the skills and hiring demands of employers in the city.** The supply chain diversity stream applies to purchase orders from \$3,000 to \$100,000, while the workforce development requirements apply to requests for proposals and tenders over \$5 million.<sup>57</sup>

Smaller communities can use social procurement too. The Village of Cumberland (population 3,700), on Vancouver Island, has adopted procurement policies that requires the purchaser to consider how a purchase might be used to improve the economic, social and environmental wellbeing of the community, to improve access to micro and small businesses or social enterprises, and to promote innovation.<sup>58</sup> The policy specifies that purchasing decisions must meet the dual bottom lines of economically advantageousness and a commitment to achieving strategic community outcomes.<sup>59</sup>

Likewise, we see social procurement policy as an important piece of the post-COVID entrepreneurship support landscape because it allows for procurement to be responsive to local needs and priorities. As many Canadians have bemoaned that shutdown rules during the pandemic took the greatest toll on small business owners, there is arguably the political will across the country to provide better opportunities for small business in Canada's economic recovery.

Accordingly, we recommend that federal, provincial and territorial governments pursue these goals by adopting new approaches to their project-based funding of local governments. We see this in the form of policies or funding rules that incentivize the adoption and use of procurement policies that incorporate local business development and support goals as a criterion for evaluation of bids and proposals. For example, a procurement policy for a municipality may ask a bidder to address objectives such as:

- 1** How the bidder will support workforce skills retraining for local labour;
- 2** How the bidder's delivery of the goods or services will support small businesses;
- 3** How the bidder will support local social enterprises;
- 4** How many management apprenticeships or internships the bidder will create in the community; or
- 5** The extent to which the bidder will seek supplies from local small businesses in their first five years of operation.

We suggest that eligibility for funding from federal, provincial and territorial levels of government be predicated on local procurement policy that includes measures to return benefits to local businesses, social enterprises and minority-owned businesses—or that promotes entrepreneurial or business skill development. The specific goals or objectives can be defined by the local purchaser, provided there is a clear intention to support new businesses, skills development, new product development or local entrepreneurs. Often, these benefits occur at the second or third tier of a major project, and bidding companies will need to actively seek out or create local partnerships that fulfill the social dimensions of a proposal or tender process.

This proposal presents a “plug-and-play” framework for federal, provincial and territorial levels of government to meet national goals for small business development and to promote equity in entrepreneurship, while allowing local governments to define the specifics in a way that aligns with local social or economic goals. Harkening to Isenberg, this injects enabling policies and new points of market access to the entrepreneurial ecosystem.

As a starting point, we propose the federal Gas Tax Fund as a pilot vehicle to incentivize local governments to incorporate social procurement objectives into their policies. The Gas Tax Fund provides funding to provinces and territories, who flow it through to municipalities to support infrastructure priorities. The fund delivers more than \$2 billion every year to 3,600 communities across Canada and has supported around 4,000 projects per year.<sup>60</sup> Communities select how to direct the funds and can make strategic investments across 18 categories, including local roads and bridges, capacity building, broadband and connectivity, recreation and tourism. The wide range of eligible projects open the door to significant local entrepreneurship opportunities, which can be supported by making the existence of an entrepreneurship or business-development driven procurement policy an eligibility criterion for a municipality to receive Gas Tax Fund dollars. This means that when procurement takes place for any of these projects, local enterprises and start-ups can benefit.

Part of the rationale for federal leadership on this proposal is the need for guidance for small governments and agencies with less expertise in the relevant laws. Procurement in the public sector is complex, and many purchasers are reluctant to depart from traditional financial scoring methods. Federal resources can be directed to provide resources and educational material to local governments. Social procurement policies will need to be open-ended and flexible enough to account for different types of purchasing, but also crafted to ensure that procurement processes are not contrary to provincial business discrimination laws or trade agreements. Tenders, in particular, must remain open to all bidders but can have social criteria and explicit statements that a defined percentage of the bid evaluation will include the bidder’s response to those criteria.



Through this report, we have outlined six policy recommendations that aim to enhance Canada’s entrepreneurial ecosystem through improvements to existing policies, programs or governance structures. These recommendations acknowledge the strong entrepreneurial culture and fiscal opportunities in Canada’s entrepreneurship ecosystem, but outline new approaches that will strengthen human capital, market access, enabling policies and institutional supports for entrepreneurship and small business.

The options we submit are not specific prescriptions. They are efforts to describe workable models, based on the literature, that can be implemented quickly and efficiently by federal, provincial and territorial levels of government. They provide for various degrees of locally responsive and place-based strategic planning, self-determination, needs identification and economic prioritization as part of a cogent national strategy. We have taken particular care to reflect on the unique challenges of rural, remote, and northern communities throughout this endeavour, and how these policy permutations might better address their entrepreneurship, business sustainability and economic development needs.

The story of Canada continues to be defined by its geography, and the disparate economic assets and opportunities of 10 provinces, three territories, six time zones, and countless local jurisdictions and regions. In these pages, we have outlined a new chapter in this story that begins with our post-COVID recovery. It is one that better respects and facilitates the diverse economic needs of Canadian communities and entrepreneurs while linking those policies within the scheme of existing policy goals and government programs.

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- 53 “Community Benefit Agreements”, City of Vancouver. <https://vancouver.ca/people-programs/community-benefit-agreements.aspx>.
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## ABOUT PPF



The Public Policy Forum builds bridges among diverse participants in the policy-making process and gives them a platform to examine issues, offer new perspectives and feed fresh ideas into policy discussions. We believe good policy makes a better Canada.

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