



August 2005

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853.7	81.9	774.8
834.8	89.4	745.4
868.2	98.6	769.6
910.9	101.5	809.4
934.5	112	822.5
973	120.5	852.5
993.7	132.6	861.1
1,039.20	140.1	899.1
1,119.10	144	975.1
1,173.00	157.4	1,015.60
1,210.10	170.5	1,039.60
1,299.20	189.8	1,109.40
1,469.20	253.6	1,215.60

Key Small Business Financing Statistics

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Table of Contents

2	Preface
3	What is an SME?
4	Key Highlights
6	Introduction
7	SME Marketplace
7	<i>How many businesses are there in Canada?</i>
8	<i>What is the distribution of SMEs by size of firm (number of employees) and in sectors?</i>
10	Financing Activity of SMEs
10	<i>How many SMEs request debt financing?</i>
11	<i>Who are the key suppliers of debt financing to SMEs?</i>
13	<i>How many SMEs request lease financing?</i>
14	<i>Who are the key suppliers of lease financing to SMEs?</i>
15	<i>Which firms typically seek risk capital financing and how many SMEs requested equity financing?</i>
16	<i>How much informal investment was provided to Canadian SMEs?</i>
17	<i>How much venture capital financing was provided to Canadian firms?</i>
18	Access to Financing
18	<i>What sources of financing are used by SMEs at different stages of development?</i>
20	<i>How do SMEs apply for debt financing?</i>
21	<i>Which documents and types of collateral were requested by debt suppliers?</i>
22	Financial and Ownership Structures
22	<i>What is the average financial structure of an SME?</i>
23	<i>What is the ownership structure of an SME?</i>
24	Appendix: Summary Tables

Preface

Key Small Business Financing Statistics is a reference document on the state of financing for Canadian small and medium-sized enterprises (SMEs). It is part of a series of research products prepared through the Small and Medium-sized Enterprise Financing Data Initiative (SME FDI) — a partnership between Industry Canada, Statistics Canada and the Department of Finance.

More details and a more comprehensive review of SME financing in Canada are available in *SME Financing in Canada*, 2003. Other products include profiles of specific business owners (e.g. women entrepreneurs, visible minorities, youth, etc.); research papers examining access to financing for particular groups of SMEs (e.g. gaps in debt financing for innovative firms); and a myriad of data tables on debt, leasing and equity financing.

The SME FDI began following a recommendation of the Task Force on the Future of the Canadian Financial Services Sector in 1999. Its overall objective is to collect data to build a better understanding of issues SMEs face in obtaining financing in Canada, thereby informing policy making. The initiative gathers information from Statistics Canada surveys, as well as from additional research into niche areas of SME financing, particularly in the areas of access to risk capital and SMEs' attitudes toward and perceptions of financial institutions. Industry Canada is mandated to report on the state of SME financing in Canada to the House of Commons Standing Committee on Industry, Natural Resources, Science and Technology on a regular basis.

For further information on the SME FDI and access to statistical findings and reports, visit our website at www.strategis.ic.gc.ca/fdi.

What is an SME?

This document defines small and medium-sized enterprises (SMEs) according to the definition used in the *Survey on Financing of Small and Medium Enterprises* as businesses

- with fewer than 500 employees, and
- with annual revenues of less than \$50 million.

Excluded are unincorporated firms with less than \$30 000 in revenues, non-profit organizations, government organizations, schools, hospitals, subsidiaries, cooperatives, and financing and leasing companies.

Since 2000, the *Survey of Suppliers of Business Financing* has used another definition, proposed by the Canadian Bankers' Association, under which firms with loan authorizations (that is, the maximum amount businesses are allowed to borrow) of less than \$1 million are considered SMEs.

The use of two different definitions limits comparisons between the two surveys. Therefore, the SME FDI is developing a model that will allow comparison and reconciliation of data produced using the definition in the *Survey on Financing of Small and Medium Enterprises* with data produced using the loan authorization definition.

The statistics in this publication are reported at the **enterprise** level, where enterprise is defined as the business entity that directs and controls the resources and activities of operations in Canada and has a complete set of financial statements. Other publications report data at the **establishment** level — the smallest unit/grouping for which data are published.

There are many definitions of SMEs, which can be categorized by size according to the number of employees, the value of annual sales, annual revenues or borrowing capacity. This report defines SMEs in terms of number of employees and annual revenues.

This definition is fairly consistent with other definitions of SMEs around the world.

The European Union (EU) defines SMEs as enterprises that employ fewer than 250 employees and have an annual turnover not exceeding €50 million (C\$79 million), and/or an annual balance sheet total not exceeding €43 million (C\$68 million).

In the United States (U.S.), the Small Business Administration defines **small enterprises** as independent businesses having fewer than 500 employees. However, unlike the EU and Canada, which have simple definitions that apply to all industries, the U.S. has chosen to set size standards for each individual North American Industry Classification System (NAICS) category. This variation is intended to better reflect industry differences. The most common sizes used to differentiate medium-sized firms from large firms are

- 500 employees for most manufacturing and mining industries; and
- 100 employees for wholesale trade industries.

Key Highlights

SME Marketplace in 2001

- Using the definition in “What is an SME?”, there were more than 1.5 million SMEs in Canada in 2001.¹
- Of these, nearly two thirds (64 percent) operated in the services sector, with the remainder distributed among the goods-producing sector (21 percent) and the resource-based sector (15 percent).
- The distribution of SMEs by size of firm (in terms of number of employees) varies considerably across industries. Those in services and resource-based sectors are typically smaller in size (0 to 4 employees) than those in the goods-producing sector (5 to 99 employees).

Financing Activity of SMEs

Commercial Debt

- In 2001, nearly one fifth (18 percent) of SMEs made a request for new or additional debt from a credit supplier for a business purpose, of which 80 percent were approved.
- Chartered banks were the main suppliers of debt financing to SMEs, with 67 percent of the requests for debt. In contrast, caisses populaires and credit unions received 19 percent of requests.

Leasing

- In 2001, 7 percent of SMEs made a request for lease financing, of which 94 percent were approved.
- Finance and leasing companies accounted for two thirds (66 percent) of the supply of leases authorized as of December 31, 2001. Domestic banks captured one quarter of the leasing market during the same period.

Equity Financing

- While less than 3 percent of SMEs requested equity financing in 2001, 76 percent of the SMEs that requested it received financing from external investors.
- Venture capital provides essential capital to firms with high-growth potential. In 2002, venture capital firms invested \$2.5 billion in 677 firms in Canada.

1. According to the Business Register of Statistics Canada, there were 2.2 million business establishments in Canada as of June 2003. Establishments are the smallest unit/grouping for which data are published; therefore, an enterprise may consist of many establishments located in different provinces.

Access to Financing

- In 2000, 49 percent of all SMEs used formal commercial financing products (e.g. commercial loans and lines of credit) to finance their operations.
- In comparison, start-up SMEs were more likely to use informal sources of financing, such as personal savings (66 percent), to finance their operations; only 29 percent used formal commercial financing products.
- In 2001, the majority of SMEs (76 percent) that requested debt financing from a financial provider did so through personal discussions at a branch; 13 percent made a request over the phone and 1 percent made their request over the Internet.

Financial and Ownership Structures

Financial Structure

- Suppliers of informal debt (e.g. loans from individuals and trade credit from suppliers) are as important to SMEs' financial structure as formal sources.
- In 2000, nearly 40 percent of SMEs' outstanding debt was owed to informal types of financing.

Ownership Structure

- The majority of ownership in 2000 rested in the hands of the business owner/operator, with very limited use of equity financing from other sources.
- While debt accounted for 75 percent of SMEs' long-term financing structure in 2000, 41 percent of SME owners said they would refuse to share ownership in their firms in return for equity capital.

Introduction

This document highlights key findings on the state of small and medium-sized enterprise (SME) financing in Canada for all three types of financing (debt, leasing and equity) by region, sector, size of business and stage of business development.

The report has four parts:

- **SME Marketplace** describes the distribution of SMEs by region, sector and size;
- **Financing Activity of SMEs** describes the demand for financing in terms of requests made and approvals granted for three types of financing (debt, leasing and equity), as well as the amount of financing received;
- **Access to Financing** looks at the types of financing instruments used by SMEs and the conditions under which they access them; and
- **Financial and Ownership Structures** examines the financial and ownership structures of SMEs.

SME Marketplace

How many businesses are there in Canada?

In 2001, there were more than 1.5 million small and medium-sized enterprises (SMEs) in Canada.² The location of these enterprises is governed primarily by population density and by other factors such as sector concentration. Figure 1 compares the distribution of SMEs by region to the distribution of population by region in Canada in 2001. It shows that the distribution of SMEs is fairly proportional to the overall distribution of population, with 58 percent of business enterprises located in Ontario and Quebec.

Figure 1: Distribution of SMEs by Region in 2001



Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2001*.

2. According to the Business Register of Statistics Canada, there were 2.2 million business establishments in Canada as of June 2003. Establishments are the smallest unit/grouping for which data are published; therefore, an enterprise may consist of many establishments located in different provinces.

What is the distribution of SMEs by size of firm (number of employees) and in sectors?

Sector

According to SME FDI data, small businesses (those with fewer than 100 employees) represented the majority (99 percent) of SMEs in Canada in 2001; there were just 6147 medium-sized businesses (those with more than 100 but fewer than 500 employees).

Nearly two thirds of SMEs (64 percent) operated in the services sector. The remaining SMEs were distributed among the goods-producing sector (21 percent) and the resource-based sector (15 percent) (see Table 1).

Table 1: Distribution of SMEs by Sector in 2001

Total — Canada	Number of SMEs 1 514 356	Proportion of SMEs (%) 100
SECTOR		
Agriculture	189 938	13
Primary	32 235	2
Manufacturing	77 336	5
Wholesale/Retail	235 003	16
Professional services	189 111	12
Knowledge-based industry sector	73 222	5
Other sectors	717 512	47

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2001*.

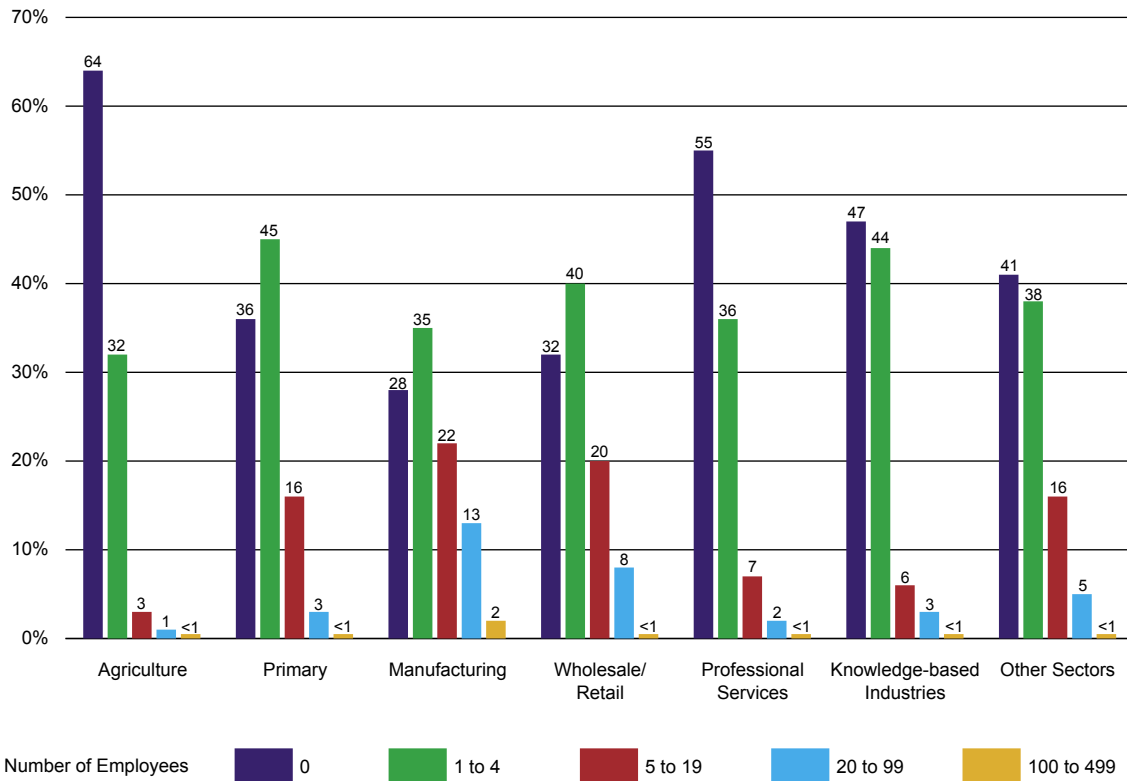
Note: Other sectors include construction; transportation; warehousing and couriers; information and cultural industries; real estate, rental and leasing; administration and support; waste management and remediation; health care and social assistance; arts, entertainment and recreation; accommodation and food services; and other services.

Size

The distribution of SMEs by size of firm (number of employees) varies considerably across different industries. Figure 2 reveals the distribution of SMEs (in terms of number of employees) by sector. Those in agriculture and in professional services and knowledge-based industries are typically self-employed (0 employees) or micro-enterprises (1 to 4 employees). In comparison, manufacturing, the wholesale/retail sector and primary industries tend to have a higher percentage in the larger size categories (5 to 99 employees) than do other SMEs.

The relationship between size of business and sector is important in analyzing challenges related to availability of financing. Sector of operation may influence the pattern of ownership for certain sizes of businesses. For example, the high percentage of self-employed businesses in the agricultural sector may influence the financial structure of such firms.

Figure 2: Distribution of SMEs by Employment Size and Sector in 2001



Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2001*.

Financing Activity of SMEs

How many SMEs request debt financing?

In 2001, nearly one fifth (18 percent) of small and medium-sized enterprises (SMEs) made a request for new or additional debt from a credit supplier for business purposes. Of those requests, 80 percent were approved (see Table 2). These figures are down slightly from 2000, when 23 percent of SMEs requested some form of debt and 82 percent of requests were approved. SMEs in the Prairie provinces had the highest rate of requests and approvals for debt financing, likely because agricultural firms, which tend to have a high asset base and low long-term debt-to-equity ratios, account for a high proportion of the region's economy.

Table 2: Debt Request and Approval Rates by Size of Business, Sector and Region, 2001

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

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2001*.

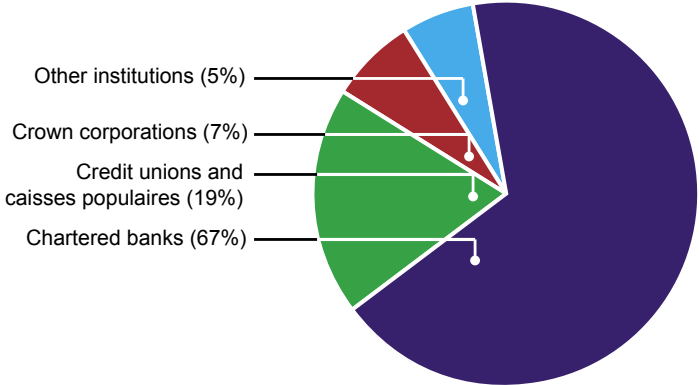
Note: Dash indicates estimates suppressed to meet the confidentiality requirements of the *Statistics Act* and/or for low data quality reasons.

Who are the key suppliers of debt financing to SMEs?

Chartered banks were the main suppliers of debt financing to SMEs in Canada in 2001, serving 67 percent of requests made by SMEs (see Figure 3). However, small authorizations of less than \$1 million represented only 12 percent of overall lending by chartered banks.³ Other key suppliers of debt financing to SMEs were credit unions and caisses populaires, which are primarily situated in the Prairie provinces and Quebec respectively. These institutions received 45 percent of requests for debt financing in the Prairie provinces and nearly half (47%) of such requests in Quebec. Moreover, although domestic banks play an important role in financing SMEs, credit unions and caisses populaires focus more of their commercial debt authorizations on the smaller amounts (authorization of less than \$250 000). In 2001, credit unions and caisses populaires captured 25 percent of the market for authorizations under \$250 000 (see Figure 4), compared with 19 percent of the market for all authorizations to SMEs.

Crown corporations, such as the Business Development Bank of Canada, provided 7 percent of debt financing to SMEs.

Figure 3: Percentage of Total Requests for Debt by Type of Supplier in 2001

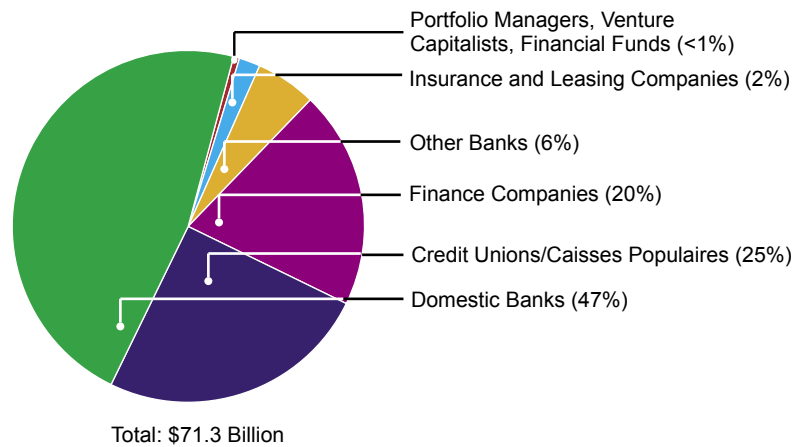


Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2001*.

Note: Figures may not add up due to rounding.

3. Statistics Canada, *Survey of Suppliers of Business Financing, 2001*.

Figure 4: Commercial Debt under \$250 000 Authorized, by Financial Supplier as of December 31, 2001



Source: Statistics Canada, *Survey of Suppliers of Business Financing, 2001*.

Lease financing has been on the rise in Canada, particularly in the asset-based financing⁴ market, because it provides an additional method of external financing beyond bank loans and equity. As noted in a report commissioned by the Canadian Finance and Leasing Association (CFLA), “SMEs have difficulty securing either debt or equity funds because they have few assets to offer as collateral for loans from traditional debt-based financial intermediaries such as banks and few equity markets are organized to provide capital to small firms.”⁵ In addition, the flexibility of lease payments allows small businesses to finance most or all of the cost of an asset. This allows small businesses to preserve other financing instruments, such as existing lines of credit, to finance other needs.

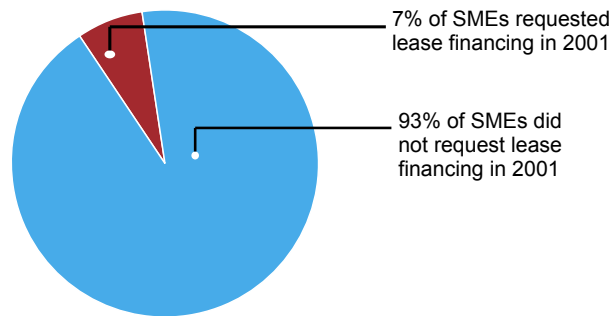
4. Asset-based financing is the financing of equipment (including vehicles for business/commercial use) by means of a secured loan, conditional sales contract or lease.

5. The Centre for Spatial Economics, *Asset-based Financing, Investment and Economic Growth*. Prepared for the Canadian Finance and Leasing Association, December 2004.

How many SMEs request lease financing?

In 2001, 7 percent of SMEs requested lease financing; almost all requests (94 percent) were approved (see Figure 5). Both requests and approvals for leases have dropped off from a 9-percent request rate and 98-percent approval rate in 2000, which reflects the economic slowdown during that period.

Figure 5: Percentage of SMEs Requesting Lease Financing in 2001

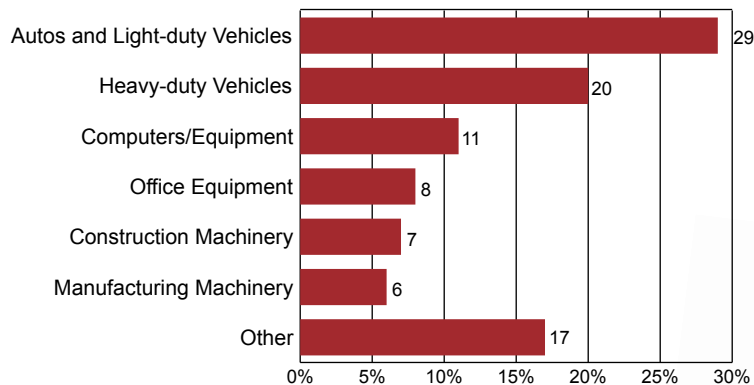


Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2001*.

According to the CFLA, leasing is the largest segment of asset-based financing. In 2001, SMEs primarily used leases to finance transportation equipment such as automobiles (29 percent), heavy-duty vehicles (20 percent), computers (11 percent), office equipment (8 percent) and other production equipment (see figure 6).

Firms in the transportation and warehousing sectors received 25 percent (\$8.2 billion) of leases authorized by all suppliers as of December 31, 2001. The manufacturing sector captured the second-highest proportion, with 23 percent (\$7.5 billion). These three sectors were the heaviest users of lease financing, accounting for just under half the amount of leases authorized in 2001.

Figure 6: Lease Financing Used in 2001 by SMEs

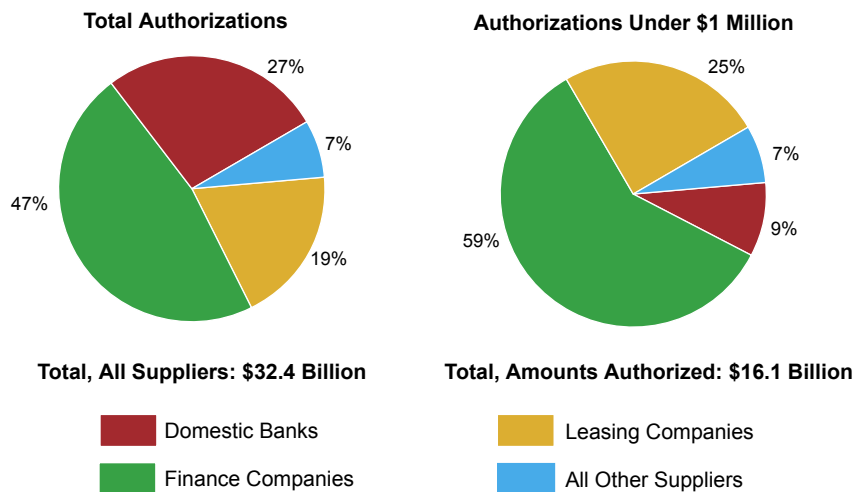


Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2001*.

Who are the key suppliers of lease financing to SMEs?

In 2001, the total value of leases authorized to all Canadian businesses (regardless of size) amounted to \$32.4 billion, a 20-percent increase from 2000. Finance and leasing companies accounted for two thirds (66 percent) of the leasing market, and domestic banks maintained approximately one quarter of the market (27 percent) (see Figure 7).

Figure 7: Market Share of Commercial Leases Authorized by Financial Suppliers as of December 31, 2001



Source: Statistics Canada, *Survey of Suppliers of Business Financing, 2001*.

Domestic banks' participation is affected by restrictions the *Bank Act* imposes on their personal property leasing, including automobiles and light-duty vehicles, which accounted for most leasing requests by SMEs in 2000.

For authorizations under \$1 million, domestic banks were less involved in supplying leasing than other suppliers, likely due to the *Bank Act* restrictions.

Which firms typically seek risk capital financing and how many SMEs requested equity financing?

High-growth firms and knowledge-based industries (KBIs) usually develop an idea, concept or product that requires an incubation period before generating revenues and profits. These firms face unique challenges in obtaining access to timely and appropriate financing, since they lack sufficient tangible assets to secure bank loans or other types of debt financing. Risk capital is often a more appropriate financing instrument for firms with high-growth potential and start-up SMEs, particularly in KBIs (see Figure 8). It can originate from a number of sources, including the entrepreneur's own investment, investments by family and friends ("love money"), informal private investment by wealthy individuals ("angel" investors), venture capital investment and investment through initial public offerings on the stock exchange.

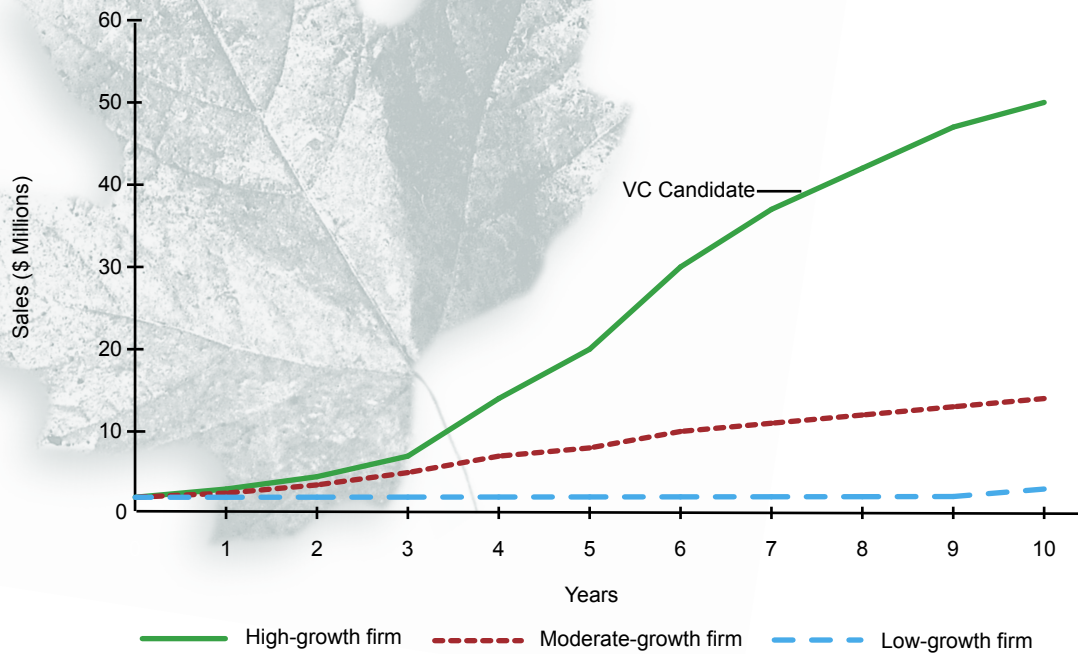
In 2001, less than 3 percent of SMEs made a request for equity financing, a finding similar to that in 2000.⁶

The main characteristics of firms that are financed by risk capital are:

- **High-growth orientation** involving rapid potential and actual growth in terms of sales and market share, based on competitive advantage and dominant market position.
- **International orientation** requiring strong potential for penetration of foreign markets and rapid growth in exports and/or foreign business operations.
- **High rates of return on equity** arising from rapid sales growth and wide profit margins (or a high potential to achieve these targets). Generally, venture capitalists invest in firms that provide annual rates of return in the 35- to 40-percent range over three to seven years.
- **High spending on research and development** for product development and the creation of unique products.
- **Strong management team** with a combination of technical, financial and marketing skills, ideally with experience raising and exiting risk capital investments.
- **Ownership structure** providing for at least one-third ownership for each initial informal investor or venture capitalist (up to a maximum of 50 percent).

6. This includes any request for new or additional financing from an investor, venture capital supplier, or friend or family member, in exchange for a share of the ownership of the business.

Figure 8: Typical SME Growth Profiles



Source: MacDonald & Associates Limited, *Early-Stage VC Investments in Canada, Some Challenges and Prospects: 2002–05*.

How much informal investment was provided to Canadian SMEs?

Informal investors play an important role in the initial phases of SMEs' development, particularly for start-ups and firms in the early stage of development. Informal investors are defined as individuals who invest their own funds at arm's length in a business owned and operated by a third party. Informal investment includes "angel" investors and "love money" (investments made by relatives, friends and associates).⁷

A recent study⁸ estimated that in 2001 more than \$11.4 billion in informal investments were made by business owners. Of these, the business owners who invested at arm's length in firms in which the investor did not act as an operator accounted for \$3.1 billion (26 percent of the total).

7. Although attempts have been made to classify "angel" investors on the basis of personal attributes, behaviour or the nature of their investment activity, there is no consensus on which classification scheme to use.

8. A. Riding, *Estimating Informal Investment in Canada*, Equinox Management Consultants Ltd., March 2005.

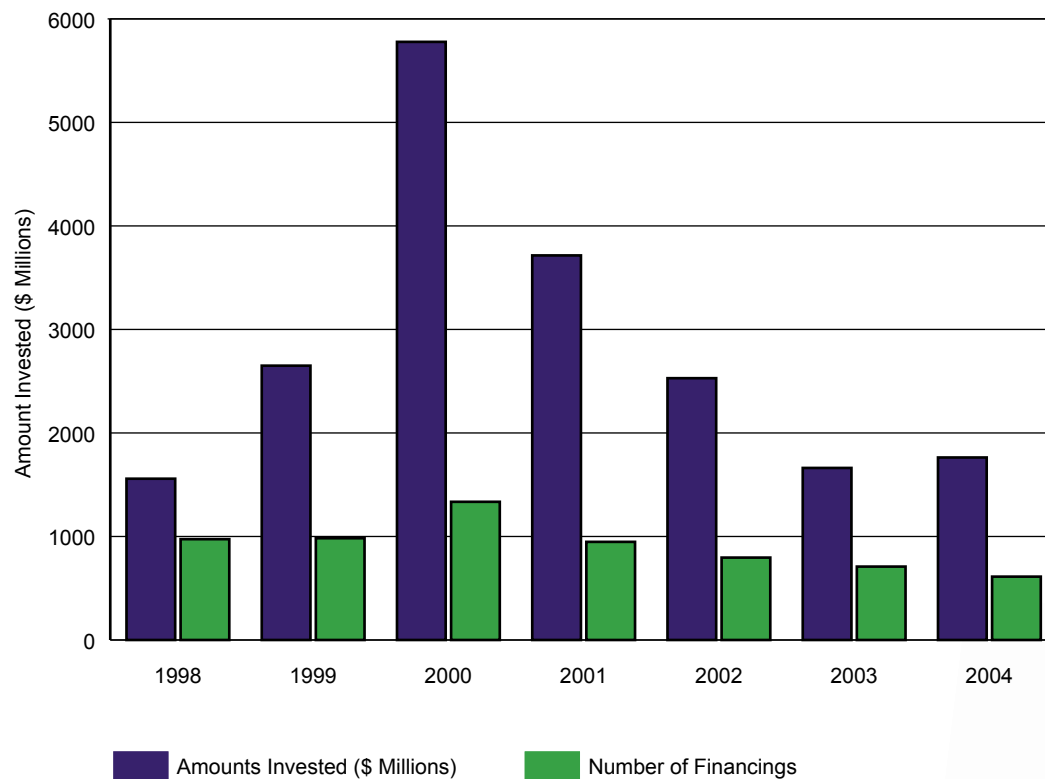
How much venture capital financing was provided to Canadian firms?

Venture capital (VC) is defined as long-term, hands-on equity investments in privately held companies with high-growth potential, which are undertaken and managed by professional investors. These investors normally organize themselves into VC firms (through private partnerships or closely held corporations) that establish one or more VC funds to raise capital from individual and institutional investors — capital that is subsequently invested in equity-type instruments (e.g. shares) issued by SMEs.

VC financing usually comes into play during a firm's early and expansion stages; however, it is important to note that VC financing is not appropriate for all SMEs. Since VC investments represent very high risks for investors, these investors expect to be compensated by high returns (see text box on page 15). Therefore, VC financing is generally used only by firms that have high-growth potential.

The tightening of investment conditions in 2001 continued in recent years, and activity fell steadily until 2003. In 2004, however, for the first time since 2000, the Canadian VC industry increased its annual investment, with \$1.8 billion invested in 589 companies — an increase of 6 percent from the \$1.7 billion invested in 647 firms in 2003 (see Figure 9). While this is a positive development, this figure represents a sharp drop from the \$3.8 billion invested in 2001 and the \$5.8 billion invested in the peak year (2000).

Figure 9: Canadian VC Activity 1998–2004



Source: MacDonald & Associates Limited, 2004.

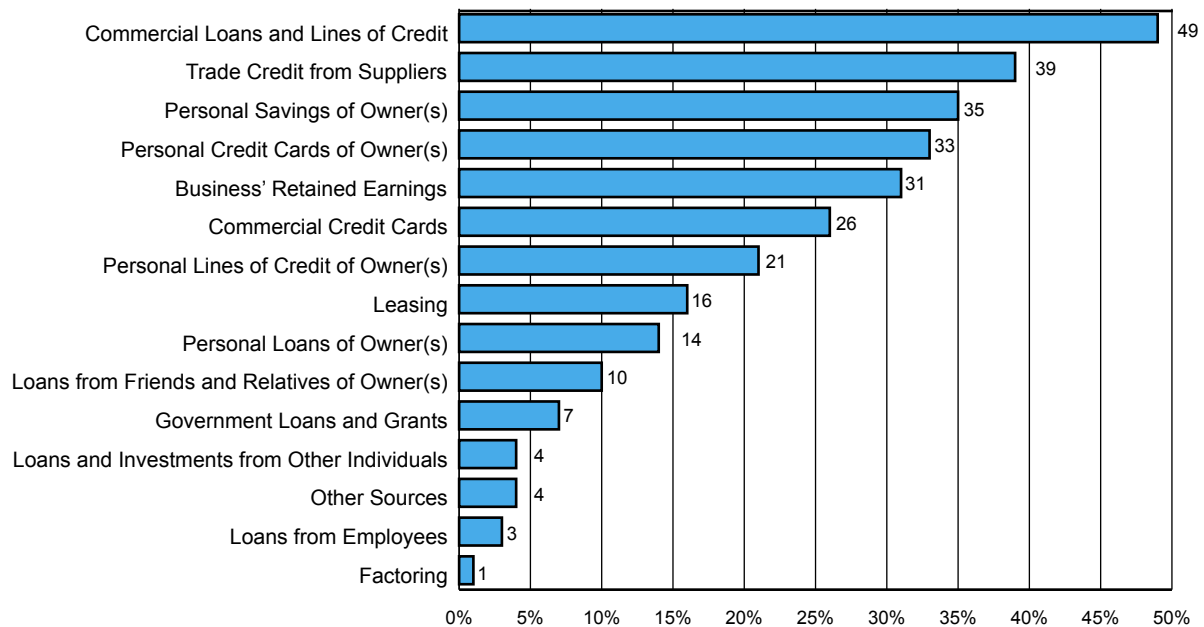
Access to Financing

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

A firm's financing needs evolve as it grows: the sources of financing used by small and medium-sized enterprises (SMEs) at the start-up stage of development are not the same as those used by established SMEs that have built up equity and collateral.⁹ Sources of financing can be broadly categorized as formal or informal. Formal sources of financing originate from external suppliers/sources in the business of financial lending and include such instruments as commercial loans and lines of credit. Informal sources of financing are obtained from suppliers/sources not in the business of financial lending, and are acquired from business activities (e.g. retained earnings) or are derived from the owner(s) (e.g. personal savings).

In 2000, 49 percent of all SMEs used formal commercial financing products and 39 percent used trade credit from suppliers more than any other form of financing; however, all SMEs made substantial use of informal personal financing instruments. As seen in Figure 10, 35 percent of all SMEs financed their operations with personal savings, followed closely by retained earnings (31 percent).

Figure 10: Types of Financial Instruments in Use by SMEs in 2000*



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

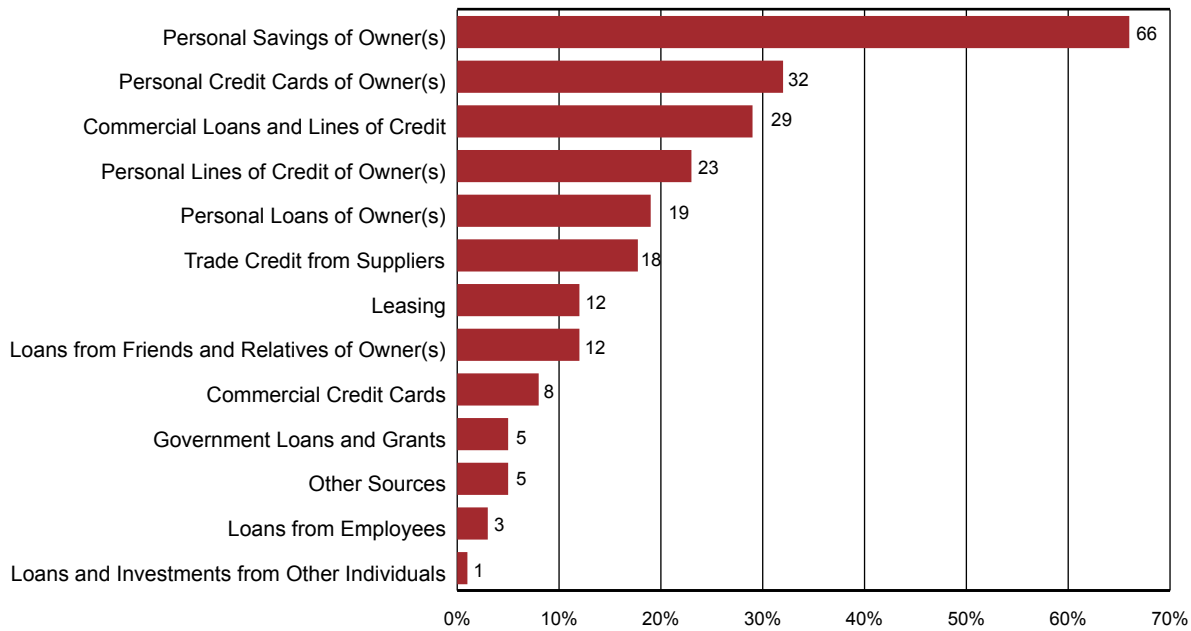
* Includes any source used, regardless of whether it was authorized or obtained in a previous year.

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

Since start-up SMEs often lack both a credit history and the collateral needed to secure a loan, they represent a degree of risk many financial institutions are unprepared to take. As a result, start-ups typically use informal sources of external financing and rely on owners' personal savings and credit to finance their operations.

As shown in Figure 11, 66 percent of start-up SMEs used personal savings to finance their company, compared with 35 percent of all SMEs. In fact, start-ups, more than other SMEs, used all forms of personal credit to finance their business. Only 29 percent of start-up SMEs used formal sources of external financing, such as commercial loans and lines of credit, compared with 49 percent for all SMEs. Informal sources of financing, other than personal financing instruments, are often difficult to identify and obtain, and may require non-standard terms for financing. Furthermore, access to formal sources of financing offers more transparency and allows small businesses to compare price and terms.

Figure 11: Types of Financial Instruments Used by Start-up SMEs*



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

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

How do SMEs apply for debt financing?

SMEs have traditionally obtained access to debt financing through well-established associations with a particular branch of a financial provider. In 2001, 76 percent of SMEs reported they requested debt through a personal discussion in a branch (see Table 3).

Table 3: Application Method Used by SMEs Who Requested Debt in 2001

Method	Percentage of Applicants Applying
Personal discussion	58.8
Request at the branch	17.1
Applied by phone	13.1
Approached by credit supplier	3.9
Other	2.9
Mail or courier	1.8
Applied by fax	1.6
Applied by Internet	0.9

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2001*.

Note: Numbers do not add to 100 percent because more than one method was used by some businesses.

Although financial providers have invested heavily in new technologies to provide consumers and businesses with alternative ways to access financial services, SMEs tend not to use these methods. In 2001, only 13 percent of SMEs made a request for debt over the phone (down from 17 percent in 2000), and less than 1 percent made a request over the Internet.

Which documents and types of collateral were requested by debt suppliers?

Table 4 shows the types of documents financial institutions requested as part of the application process for debt financing. Of those SMEs that requested debt financing in 2001, 82 percent had to provide some sort of documentation. Three out of four SMEs had to provide business financial statements in 2001 — a 27-percent increase over 2000.

Table 4: Documents Requested by the Last Credit Supplier Approached for Debt Financing, 2000 and 2001

Type of Document Requested	2000 (%)	2001 (%)
Business financial statement	48.6	75.5
Formal application for financing	21.1	29.6
Personal financial statement	20.5	27.8
Business plan	13.6	20.0
No documentation requested	16.3	18.3
Appraisal of asset to be financed	9.3	16.6
Cash flow projection	10.6	15.7
All other documents	5.0	12.4
Franchise agreement	1.5	1.9

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2000, 2001*.

Financial institutions often require that SMEs seeking financing provide collateral as security. Collateral can include land and buildings or other assets that can be used as security for the debt. Business assets, personal assets or guarantees from third parties are commonly used as security. The amount of collateral that financial suppliers require of SMEs is directly linked to the perceived risk.

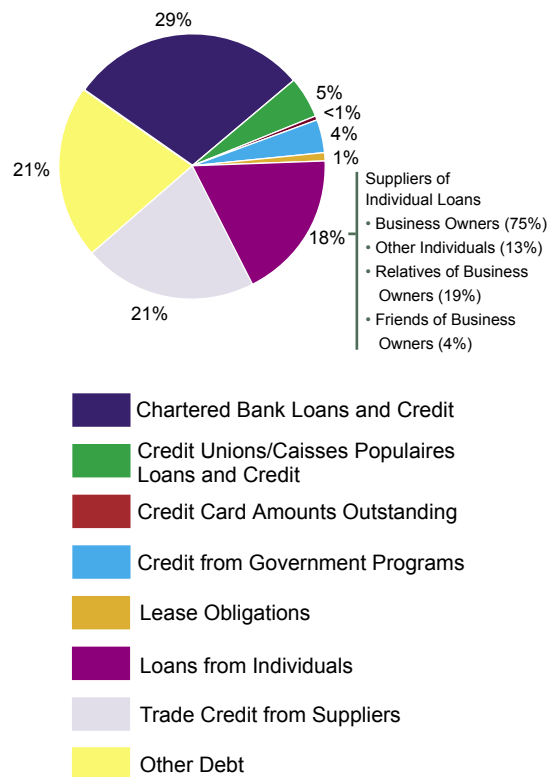
In 2001, more than 40 percent of SMEs were asked to provide some sort of collateral (business or personal assets) to guarantee their financing, unchanged from 2000.

Financial and Ownership Structures

What is the average financial structure of an SME?

As described earlier, small and medium-sized enterprises (SMEs) used a wide range of formal and informal financial instruments in 2000. As shown in Figure 12, informal sources of debt, supplied through loans from individuals and trade credit from suppliers, are as important to SMEs' debt structure as formal sources. Informal types of financing accounted for nearly 40 percent of the outstanding debt owed by Canadian SMEs in 2000. This was equivalent to the amount of debt owed to formal financial providers, including chartered banks, credit unions, caisses populaires, government sources and lessors. With few exceptions, the financial structure of SMEs is fairly consistent across Canada.

Figure 12: Average Distribution of Debt Owed by SMEs in 2000, by Supplier



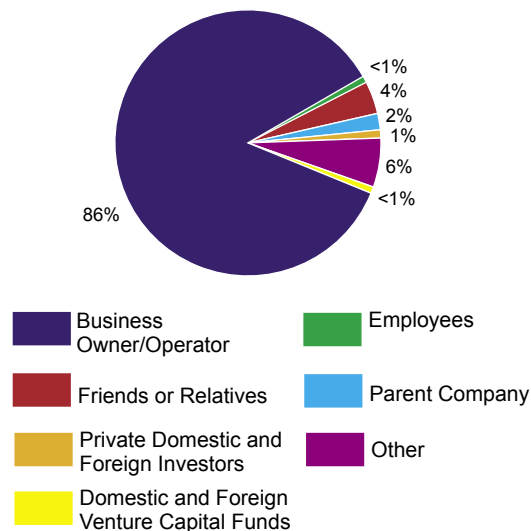
Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2000*.

What is the ownership structure of an SME?

Business owners can obtain significant amounts of capital by selling equity shares in their firms. This financing strategy is often used by firms that require substantial amounts of growth or expansion capital, or by those that lack collateral.

In 2000, however, the majority of ownership rested in the hands of the business owner/operator (see Figure 13), with very limited use of equity financing from other sources. Since so few use equity as a financing strategy, debt intensity is high among Canadian SMEs. Using long-term debt-to-equity ratio as a measure of the reliance of SMEs on debt as their primary source of financing, debt accounted for 75 percent of SMEs' long-term financing structure in 2000.¹⁰ It seems that equity capital comes at too high a cost to many SME owners — 41 percent of Canadian SME owners said they would refuse to share ownership in their firms in return for equity capital.¹¹

Figure 13: Distribution of Ownership Capital in SMEs, 2000



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

10. See Table II: Percentage of SMEs Using Financing in 2000, by Instrument Type, in the Summary Tables provided at the end of this report.

11. The Research Institute for SMEs, *Financing SMEs: Satisfaction, Access, Knowledge and Needs, 2001*, a report prepared for Industry Canada (Université du Québec à Trois-Rivières, 2002).

Appendix: Summary Tables

Table I: SME Request and Approval Rates for Debt in 2001

	Request	Approval
	2001 (%)	2001 (%)
FEMALE OWNERSHIP		
≥0% and <50%	18.2	80.7
50%	20.9	81.4
>50%	14.8	74.8
0%	17.3	77.5
AREA		
Rural	21.9	87.3
Urban	16.7	76.3
AGE OF OWNER		
Less than 30	27.2	—
30 to 39	22.2	72.7
40 to 64	18.3	82.9
65 and over	6.4	89.7

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2001*.

Note: Dash indicates estimates suppressed to meet the confidentiality requirements of the *Statistics Act* and/or for low data quality reasons.

Table II: Percentage of SMEs Using Financing in 2000, by Instrument Type*

	Commercial loans and lines of credit	Commercial credit cards	Government loans and grants	Business' retained earnings	Trade credit from suppliers	Leasing	Loans from employees	Personal savings of owner(s)	Personal lines of credit of owner(s)	Personal credit cards	Personal loans of owner(s)	Loans from friends or relatives	Loans and investment from individuals	Factoring
All Small and Medium-sized Enterprises														
	48.7	26.4	6.5	30.9	39.0	15.8	2.5	34.6	21.1	33.3	13.7	9.6	3.7	1.2
All Businesses by Size (Number of Employees)														
0	39.1	19.8	7.0	25.0	26.3	9.3	1.9	36.0	22.2	35.2	12.3	8.9	3.9	0.9
1 to 4	51.1	28.2	5.4	34.0	44.3	16.2	3.5	35.1	20.5	33.9	14.2	9.9	2.8	1.3
5 to 19	66.8	37.9	7.0	35.9	57.9	28.1	1.8	33.2	21.5	30.1	17.1	10.9	5.1	1.6
20 to 99	70.4	43.3	8.7	53.1	67.0	40.3	3.8	19.0	11.5	19.3	14.0	9.2	4.6	2.4
100 to 499	78.9	48.7	13.8	52.0	78.1	44.4	2.7	12.7	6.1	11.8	6.7	5.1	3.5	1.2
Established Businesses by Size** (Number of Employees)														
0	34.0	20.0	4.0	25.0	25.0	9.0	2.0	36.0	23.0	37.0	12.0	6.0	3.0	1.0
1 to 4	50.0	29.0	4.0	34.0	43.0	16.0	4.0	32.0	22.0	36.0	14.0	9.0	2.0	1.0
5 to 19	66.0	41.0	7.0	41.0	57.0	28.0	2.0	33.0	22.0	32.0	18.0	8.0	3.0	2.0
20 to 99	69.0	44.0	7.0	57.0	66.0	36.0	4.0	17.0	9.0	18.0	13.0	8.0	4.0	2.0
100 to 499	86.0	46.0	10.0	51.0	75.0	56.0	3.0	11.0	5.0	10.0	8.0	3.0	2.0	1.0
Sector														
Agriculture	71.5	27.7	27.5	29.4	40.6	14.0	2.5	41.9	27.5	31.5	17.3	15.8	2.7	2.5
Knowledge-based industries	20.7	20.4	5.0	37.4	22.1	13.4	2.8	30.4	17.7	34.3	9.6	6.6	2.7	1.1
Manufacturing	51.3	32.9	6.1	34.2	58.1	24.5	1.8	33.8	21.4	34.6	18.4	10.4	3.1	0.8
Primary	50.4	21.1	6.8	32.0	36.5	13.6	2.1	34.9	16.5	31.1	13.2	4.9	3.1	1.0
Professional services	35.2	23.2	2.5	34.3	27.8	16.5	4.1	34.1	23.0	39.5	12.0	5.3	1.7	1.2
Wholesale and retail	51.8	28.9	3.9	30.2	52.0	18.8	2.5	34.9	22.1	33.0	17.1	13.0	5.4	1.9
Other Sectors	47.1	26.0	2.9	29.8	36.5	14.4	2.3	33.0	19.1	32.4	11.9	8.2	4.1	0.6
Region														
CANADA	48.7	26.4	6.5	30.9	39.0	15.8	2.5	34.6	21.1	33.3	13.7	9.6	3.7	1.2
Atlantic	53.5	24.0	8.0	31.2	46.4	17.3	1.4	35.2	24.6	35.8	13.7	7.4	3.7	1.7
Quebec	51.3	27.3	7.9	21.7	36.7	10.7	1.7	27.9	12.0	26.8	15.4	10.2	2.7	0.6
Ontario	43.5	27.0	3.6	32.6	37.3	16.9	3.3	35.8	22.3	33.1	11.6	9.6	4.4	0.9
Manitoba, Saskatchewan and Nunavut	61.3	27.9	14.1	33.9	45.1	20.2	2.9	37.1	28.4	34.9	18.6	11.2	3.2	1.3
Alberta and Northwest Territories	51.2	28.0	8.7	36.7	42.7	17.5	2.5	35.7	24.0	40.5	14.0	8.5	2.8	2.1
British Columbia and Yukon	45.5	21.8	3.9	34.1	36.4	16.0	2.4	39.2	23.5	35.5	13.1	9.6	4.7	1.7

continued on page 26

	Commercial loans and lines of credit	Commercial credit cards	Government loans and grants	Business' retained earnings	Trade credit from suppliers	Leasing	Loans from employees	Personal savings of owner(s)	Personal lines of credit of owner(s)	Personal credit cards	Personal loans of owner(s)	Loans from friends or relatives	Loans and investment from individuals	Factoring
Year Business Began Operations														
1999–2000	37.0	23.0	5.0	33.0	41.0	21.0	4.0	48.0	21.0	39.0	18.0	17.0	5.0	1.0
1997–1998	41.0	21.0	2.0	29.0	31.0	15.0	2.0	40.0	25.0	37.0	13.0	12.0	2.0	2.0
1996 and prior	46.0	27.0	5.0	32.0	38.0	15.0	3.0	33.0	21.0	35.0	13.0	7.0	3.0	1.0
Gender of Owner														
Male/Female partnership	50.4	27.3	10.8	32.1	38.9	15.6	2.3	32.2	24.5	35.5	13.9	9.3	2.6	1.3
Majority male-owned	49.8	26.9	6.0	30.8	41.2	15.7	2.5	34.0	20.7	32.4	14.0	9.9	4.4	1.1
Majority female-owned	41.9	22.9	3.2	30.0	29.6	16.4	2.9	40.1	18.4	34.6	12.3	8.6	2.3	1.4
Age of Owner														
Less than 34	52.9	24.6	11.4	30.3	42.4	22.6	2.6	44.3	28.8	41.6	18.7	16.3	4.1	0.7
35 to 44	53.0	31.4	8.7	30.9	42.3	18.9	2.0	34.2	43.5	39.3	13.3	14.1	3.5	1.5
45 to 64	46.8	25.1	5.2	30.2	36.8	14.3	2.6	34.4	20.4	31.6	14.1	7.2	3.6	1.0
High-growth SMEs (GSMEs)														
GSMEs	50.0	32.0	7.0	34.0	46.0	20.0	3.0	35.0	23.0	37.0	15.0	13.0	4.0	1.0
All SMEs	48.7	26.4	6.5	30.9	39.0	15.8	2.5	34.6	21.1	33.3	13.7	9.6	3.7	1.2
Exporter and Non-exporter SMEs														
Exporter	51.5	39.7	8.7	40.5	50.0	28.5	4.6	36.8	24.0	40.0	15.6	11.7	5.2	2.0
Non-exporter	48.4	24.8	6.2	29.8	37.7	14.3	2.3	34.3	20.7	32.5	13.5	9.3	3.5	1.1
Urban and Rural SMEs														
Urban	44.6	26.3	3.9	31.2	37.3	16.7	2.7	33.6	20.2	32.6	12.6	8.6	3.7	1.2
Rural	59.6	26.5	13.3	30.3	43.5	13.5	2.0	37.1	23.3	35.3	16.8	12.3	3.7	1.2
Visible Minority Ownership														
Visible minority	48.0	23.7	4.5	30.8	39.7	16.2	2.1	40.1	24.0	25.4	16.9	10.2	3.5	3.0
Non-visible minority	48.8	26.6	6.6	30.9	39.0	15.8	2.6	34.1	20.9	33.9	13.5	9.5	3.7	1.1

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

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

**Refers to businesses two years of age or older.

Table III: Amount of Commercial Debt Authorized and Outstanding by Authorizations, as of December 31, 2001

	Domestic banks	Other banks	Credit unions and caisses populaires	Finance companies	Portfolio managers, venture capital companies, financial funds	Insurance companies	Leasing companies	Total — all suppliers
LESS THAN \$25 000								
Amounts authorized (\$ millions)	3 118.5	280.7	2 073.7	1 181.8	220.0	—	—	7 153.5
Amounts outstanding (\$ millions)	1 547.9	146.5	1 092.3	323.2	165.0	—	—	3 430.9
Number of clients (thousands)	416.0	24.4	175.5	177.4	28.4	—	—	859.3
\$25 000–\$49 999								
Amounts authorized (\$ millions)	4 183.2	393.2	2 520.0	1 366.6	161.7	78.3	32.6	8 735.6
Amounts outstanding (\$ millions)	2 439.4	231.2	1 478.1	706.7	87.4	9.7	18.9	4 971.4
Number of clients (thousands)	121.0	11.5	72.5	39.0	4.6	2.2	0.9	251.7
\$50 000–\$99 999								
Amounts authorized (\$ millions)	8 454.8	901.4	4 830.3	3 060.0	350.4	—	—	17 797.3
Amounts outstanding (\$ millions)	5 165.8	566.3	3 100.8	1 734.2	218.7	—	—	10 859.9
Number of clients (thousands)	125.2	13.5	70.7	43.8	5.0	—	—	261.0
\$100 000–\$249 999								
Amounts authorized (\$ millions)	17 775.2	2 403.5	8 543.9	8 698.9	550.5	409.8	249.2	38 631.0
Amounts outstanding (\$ millions)	11 826.0	1 659.8	5 715.4	4 921.1	253.5	142.6	143.1	24 661.5
Number of clients (thousands)	115.7	15.3	56.4	56.7	3.5	2.6	1.6	251.8
\$250 000–\$499 999								
Amounts authorized (\$ millions)	17 211.8	2 437.6	5 004.5	10 830.0	163.5	370.7	70.0	36 088.1
Amounts outstanding (\$ millions)	11 580.2	1 686.8	3 463.1	6 452.8	114.4	214.5	26.5	23 538.3
Number of clients (thousands)	49.6	7.0	14.7	31.8	0.5	1.1	0.2	104.9
\$500 000–\$999 999								
Amounts authorized (\$ millions)	19 895.1	3 056.4	3 682.8	10 067.3	424.2	1 433.2	81.9	38 640.9
Amounts outstanding (\$ millions)	13 081.0	1 976.8	2 469.9	6 666.8	323.6	1 021.6	33.6	25 573.3
Number of clients (thousands)	28.6	4.5	5.5	14.7	0.6	1.9	0.1	55.9

continued on page 28

continued from page 27

	Domestic banks	Other banks	Credit unions and caisses populaires	Finance companies	Portfolio managers, venture capital companies, financial funds	Insurance companies	Leasing companies	Total — all suppliers
SUBTOTAL OF SMEs								
Amounts authorized (\$ millions)	70 638.6	9 472.8	26 655.2	35 204.6	1 870.3	2 292.0	433.7	147 046.4
Amounts outstanding (\$ millions)	45 640.3	6 267.4	17 319.6	20 804.8	1 162.6	1 388.4	222.1	93 035.3
Number of clients (thousands)	856.1	76.2	395.3	363.4	42.6	7.8	2.8	1 784.6
\$1 000 000–\$4 999 999								
Amounts authorized (\$ millions)	57 201.3	10 556.9	5 815.5	16 250.6	3 987.6	22 018.4	121.3	115 951.6
Amounts outstanding (\$ millions)	35 343.5	6 667.5	3 526.6	10 906.3	2 742.9	15 185.7	58.6	74 431.1
Number of clients (thousands)	27.0	5.0	3.3	7.4	1.6	9.3	0.1	53.7
\$5 000 000 AND MORE								
Amounts authorized (\$ millions)	482 060.8	68 237.4	6 091.2	12 750.3	9 614.1	48 331.4	4 370.0	631 455.2
Amounts outstanding (\$ millions)	120 533.9	28 849.2	3 596.3	8 127.6	6 343.9	32 539.6	799.5	200 790.0
Number of clients (thousands)	10.1	2.5	0.4	0.7	0.4	3.9	0.1	18.1
TOTAL — ALL CLIENTS								
Amounts authorized (\$ millions)	609 900.7	88 267.1	38 561.9	64 205.5	15 472.0	73 004.2	5 041.8	894 453.2
Amounts outstanding (\$ millions)	201 517.7	41 784.1	24 442.5	39 838.7	10 249.4	49 280.4	1 143.6	368 256.4
Number of clients (thousands)	893.2	83.7	399.0	371.5	44.6	53.2	11.2	1 856.4

Source: Statistics Canada, *Survey of Suppliers of Business Financing, 2001*.

Note: Dash indicates estimates suppressed to meet the confidentiality requirements of the *Statistics Act* and/or for low data quality reasons.

Table IV: Loss Rates (percent) on Commercial Debt, by Authorization Categories, of Financial Suppliers in 2001

	Domestic banks	Other banks	Credit unions and caisses populaires	Finance companies	Portfolio managers, venture capital companies, financial funds	Insurance companies	Leasing companies	Total — all suppliers
LESS THAN \$25 000	1.8	—	1.8	1.4	5.6	—	—	1.7
\$25 000–\$49 999	0.9	—	1.2	1.7	—	—	0.5	1.1
\$50 000–\$99 999	2.3	—	1.0	0.9	—	—	—	1.6
\$100 000–\$249 999	0.8	0.5	0.9	0.8	—	—	—	0.8
\$250 000–\$499 999	0.6	0.5	0.9	0.7	—	—	—	0.7
\$500 000–\$999 999	0.7	0.8	0.5	0.5	7.1	0.2	0.9	0.7
SUBTOTAL OF SMEs	0.9	0.6	1.1	0.7	6.4	0.3	3.4	0.9
\$1 000 000–\$4 999 999	0.3	0.7	—	0.6	4.0	0.3	—	0.5
\$5 000 000 AND MORE	0.3	1.2	—	0.6	2.9	0.3	—	0.5
TOTAL — ALL CLIENTS	0.4	1.0	0.8	0.7	3.4	0.3	0.8	0.6

Source: Statistics Canada, *Survey of Suppliers of Business Financing, 2001*.

Note: Dash indicates estimates suppressed to meet the confidentiality requirements of the *Statistics Act* and/or for low data quality reasons.

Table V: SMEs Request and Approval Rates for Lease Financing, 2001

	Request	Approval
	2001 (%)	2001 (%)
CANADA	7.3	93.6
SIZE OF BUSINESS		
0 employees	4.1	88.0
1 to 4 employees	6.9	97.9
5 to 19 employees	13.9	90.9
20 to 99 employees	19.3	98.3
100 to 499 employees	22.6	96.3
SECTOR		
Agriculture	6.3	95.4
Primary	7.3	98.6
Manufacturing	9.8	84.0
Wholesale and retail	6.5	—
Professional services	5.3	96.3
Knowledge-based industries	6.1	96.8
Other sectors	8.2	95.7
REGIONS		
Atlantic	7.6	99.3
Quebec	6.4	86.7
Ontario	5.4	92.9
Manitoba, Saskatchewan and Nunavut	10.2	91.7
Alberta and Northwest Territories	9.4	96.6
British Columbia and Yukon	9.6	99.3
FEMALE OWNERSHIP		
≥0% and <50%	7.5	93.1
50%	7.8	90.7
>50%	6.1	99.8
0%	6.7	92.9
AREA		
Rural	6.1	97.8
Urban	7.7	92.4
AGE OF OWNER		
Less than 30	12.9	—
30 to 39	7.7	94.1
40 to 64	7.8	93.7
65 and over	1.8	100.0

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2001*.

Note: Dash indicates estimates suppressed to meet the confidentiality requirements of the *Statistics Act* and/or for low data quality reasons.

Table VI: Amount of Lease Financing Authorized and Outstanding by Authorization, as of December 31, 2001

	Domestic banks	Finance companies	Leasing companies	All other suppliers	Total — all suppliers
LESS THAN \$25 000					
Amounts authorized (\$ millions)	13.8	559.9	1 419.0	160.8	2 153.5
Amounts outstanding (\$ millions)	11.9	365.9	863.7	110.1	1 351.6
Number of clients (thousands)	1.1	105.6	193.6	13.2	313.5
\$25 000–\$49 999					
Amounts authorized (\$ millions)	38.1	6 293.2	1 022.5	50.0	7 403.8
Amounts outstanding (\$ millions)	33.9	2 295.1	550.6	34.0	2 913.6
Number of clients (thousands)	1.1	189.1	32.0	1.4	223.6
\$50 000–\$99 999					
Amounts authorized (\$ millions)	111.5	980.5	464.7	240.2	1 796.9
Amounts outstanding (\$ millions)	98.4	745.1	273.9	186.2	1 303.6
Number of clients (thousands)	1.7	13.0	6.7	3.2	24.6
\$100 000–\$249 999					
Amounts authorized (\$ millions)	343.0	451.6	552.2	131.9	1 478.7
Amounts outstanding (\$ millions)	297.4	331.2	301.0	93.4	1 023.0
Number of clients (thousands)	2.5	3.0	4.0	0.8	10.3
\$250 000–\$499 999					
Amounts authorized (\$ millions)	445.5	500.4	241.0	108.2	1 295.1
Amounts outstanding (\$ millions)	379.3	372.6	134.2	85.0	971.1
Number of clients (thousands)	1.4	1.4	0.7	0.3	3.8
\$500 000–\$999 999					
Amounts authorized (\$ millions)	567.0	708.3	286.1	397.4	1 958.8
Amounts outstanding (\$ millions)	469.2	531.9	142.9	334.9	1 478.9
Number of clients (thousands)	0.9	1.0	0.4	0.5	2.8
\$ 1 000 000–\$4 999 999					
Amounts authorized (\$ millions)	1 633.1	2 165.6	536.9	491.5	4 827.1
Amounts outstanding (\$ millions)	1 266.4	1 676.3	282.7	370.8	3 596.2
Number of clients (thousands)	0.9	1.0	0.3	0.2	2.4
\$5 000 000 AND MORE					
Amounts authorized (\$ millions)	5 417.1	3 651.0	1 751.4	693.1	11 512.6
Amounts outstanding (\$ millions)	4 511.4	2 800.1	1 091.8	511.1	8 914.4
Number of clients (thousands)	0.7	0.1	0.1	0.1	1.0
TOTAL — ALL CLIENTS					
Amounts authorized (\$ millions)	8 569.1	15 310.5	6 273.8	2 273.1	32 426.5
Amounts outstanding (\$ millions)	7 067.9	9 118.2	3 640.8	1 725.5	21 552.4
Number of clients (thousands)	10.3	314.2	237.8	19.7	582.0

Source: Statistics Canada, *Survey of Suppliers of Business Financing, 2001*.