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SME PROFILE

RECIPIENTS OF THE CANADA EMERGENCY BUSINESS ACCOUNT

Innovation, Science and Economic Development Canada
Small Business Branch
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1 INTRODUCTION

This report presents a business profile of small and medium-sized enterprises (SMEs) that received loans from the Canada Emergency Business Account (CEBA) in 2020. CEBA was launched in April 2020 as a component of the federal government's COVID-19 Economic Response Plan. It was designed to provide partially forgivable interest-free loans to small businesses and not-for-profits to help finance their non-deferrable expenses.

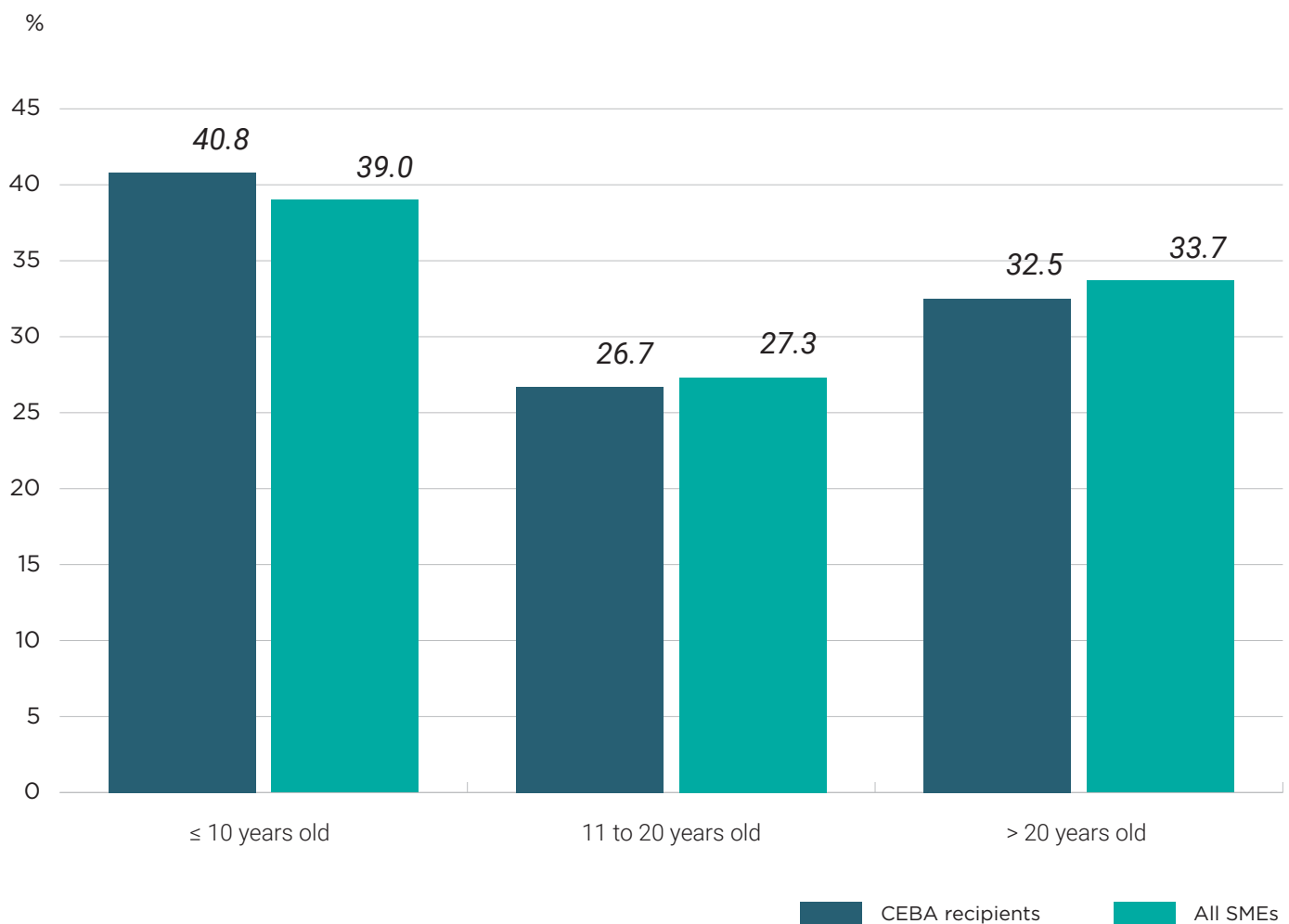
The data used in this report is from the 2020 *Survey on Financing and Growth of Small and Medium Enterprises (SFGSME)*. This survey was designed to determine the types of financing used by SMEs, and to collect information on recent attempts by SMEs to obtain new financing. In addition, the survey gathers data on SME growth, growth-related activities, and business owner characteristics.

The target population for the survey was private-sector, for-profit SMEs with 1 to 499 employees and \$30,000 or more in annual revenue in 2020. The target base population of over 859,000 SMEs was stratified by geography, employment, and industry, and random samples were selected from these strata to generate representative estimates. The survey was conducted by Statistics Canada from April to August 2021 and the reference year of the survey was 2020. The base sample size was 19,283 SMEs. For the main population, the response rate was calculated at 56%. Of these respondents, CEBA recipients represented 65% of all SMEs surveyed.

2 BUSINESS CHARACTERISTICS

The age of businesses receiving the CEBA loans follows the same distribution as for all SMEs (Figure 1). In general, CEBA recipients tended to be young businesses—40.8% of them had been in operation for no more than 10 years, compared to 39.0% of all SMEs.

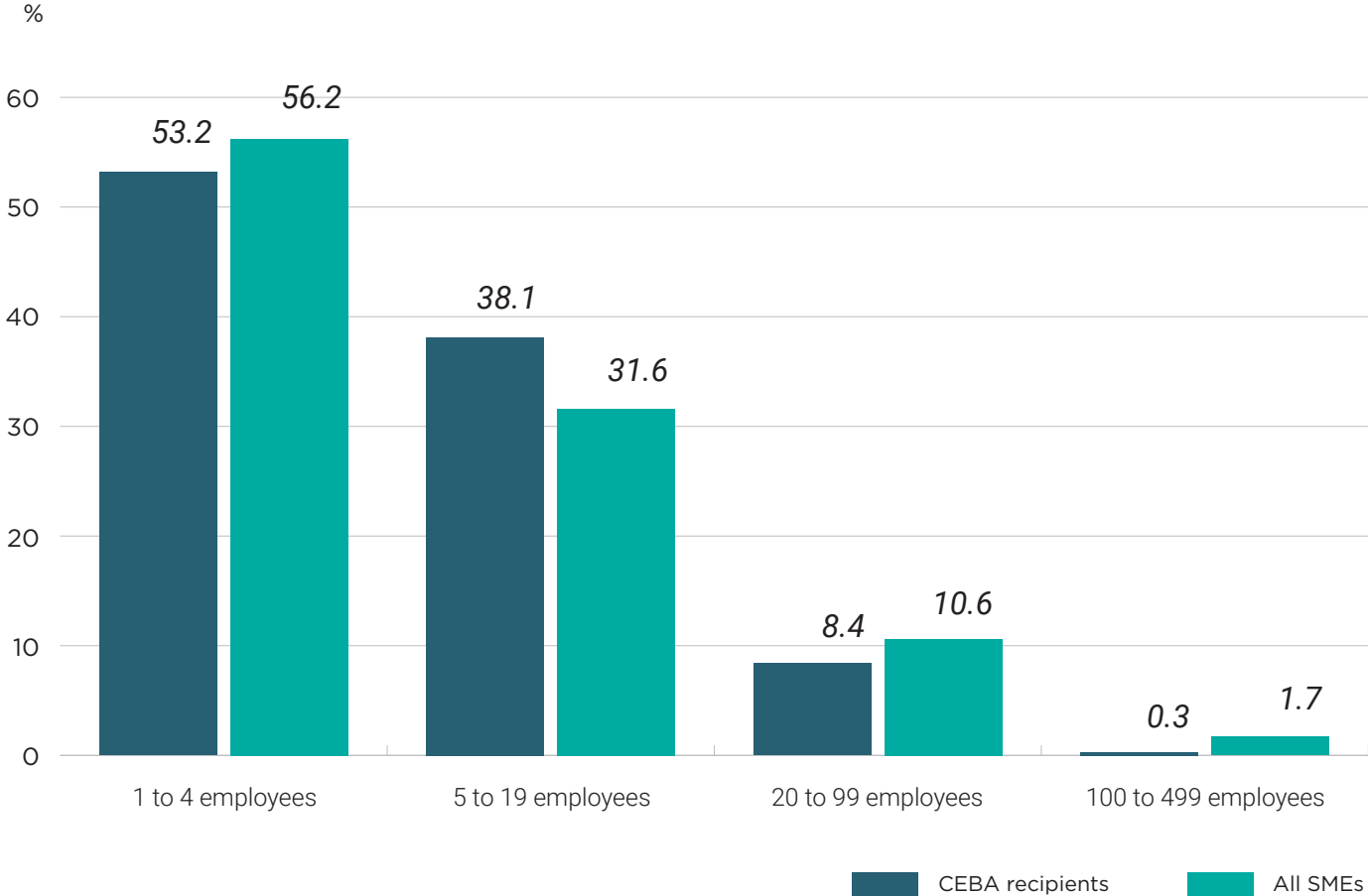
Figure 1: Distribution by age of business



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Since newer businesses tend to be smaller, it is not surprising that CEBA recipients were more likely to be small businesses. Figure 2 shows that CEBA recipients were mainly micro-sized, with 53.2% of them having between 1 and 4 employees. About 38% of the CEBA recipients were small-sized, having between 5 and 19 employees, whereas businesses with 20 or more employees accounted for a little more than 8% of these recipients.

Figure 2: Distribution by number of employees



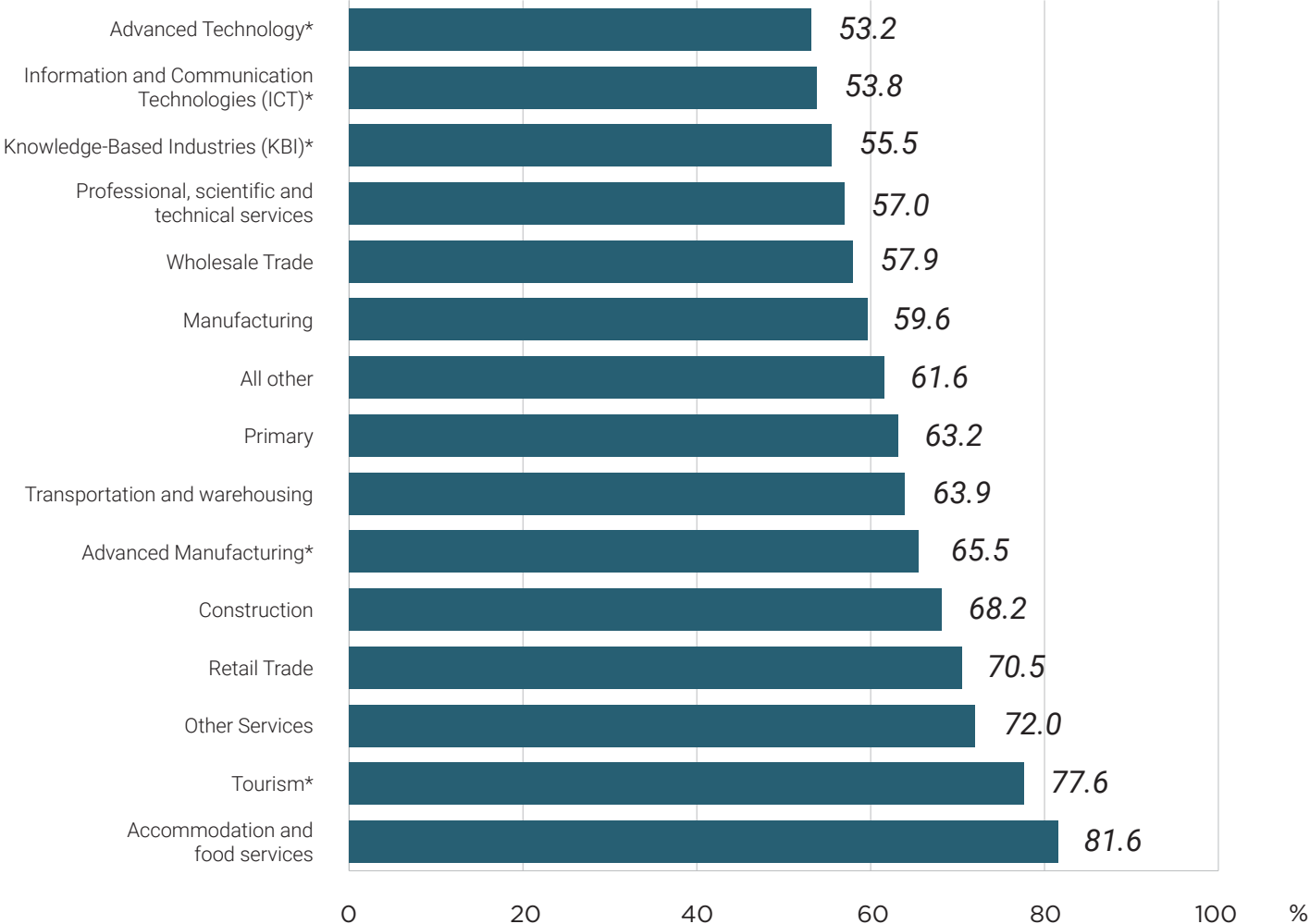
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Figure 3 presents the share of businesses that applied for CEBA loans by industry sector. The industries¹ were based on 2017 North American Industry Classification System (NAICS) categories. Innovation, Science and Economic Development Canada (ISED) has categorized five special industry groups, which include tourism, advanced technologies, information and communications technologies, knowledge-based industries, and advanced manufacturing industries. (There are overlaps between these sectors. A complete list of NAICS codes covered by each special sector can be found in the Appendix).

¹ The primary sector includes the following sectors: Agriculture, Forestry, Fishing and Hunting (NAICS 11) and Mining and Oil and Gas Extraction (NAICS 21). The "All other" sector category includes Information and Cultural Industries (NAICS 51); Real Estate and Rental and Leasing (NAICS 53); Administrative and Support, Waste Management and Remediation Services (NAICS 56); Health Care and Social Assistance (NAICS 62); Arts, Entertainment and Recreation (NAICS 71).

The accommodation and food services sector had the highest CEBA application rate (81.6%), followed by the tourism sector (77.6%). The tourism group includes businesses that operate in transportation, recreation, and entertainment industries. Among these special industrial groups, advanced technology industries (including business intelligence, design, security, logistic, processing, the Internet of Things, and clean technology) had the lowest CEBA application rate (53.2%).

Figure 3: CEBA application rate by industry sector

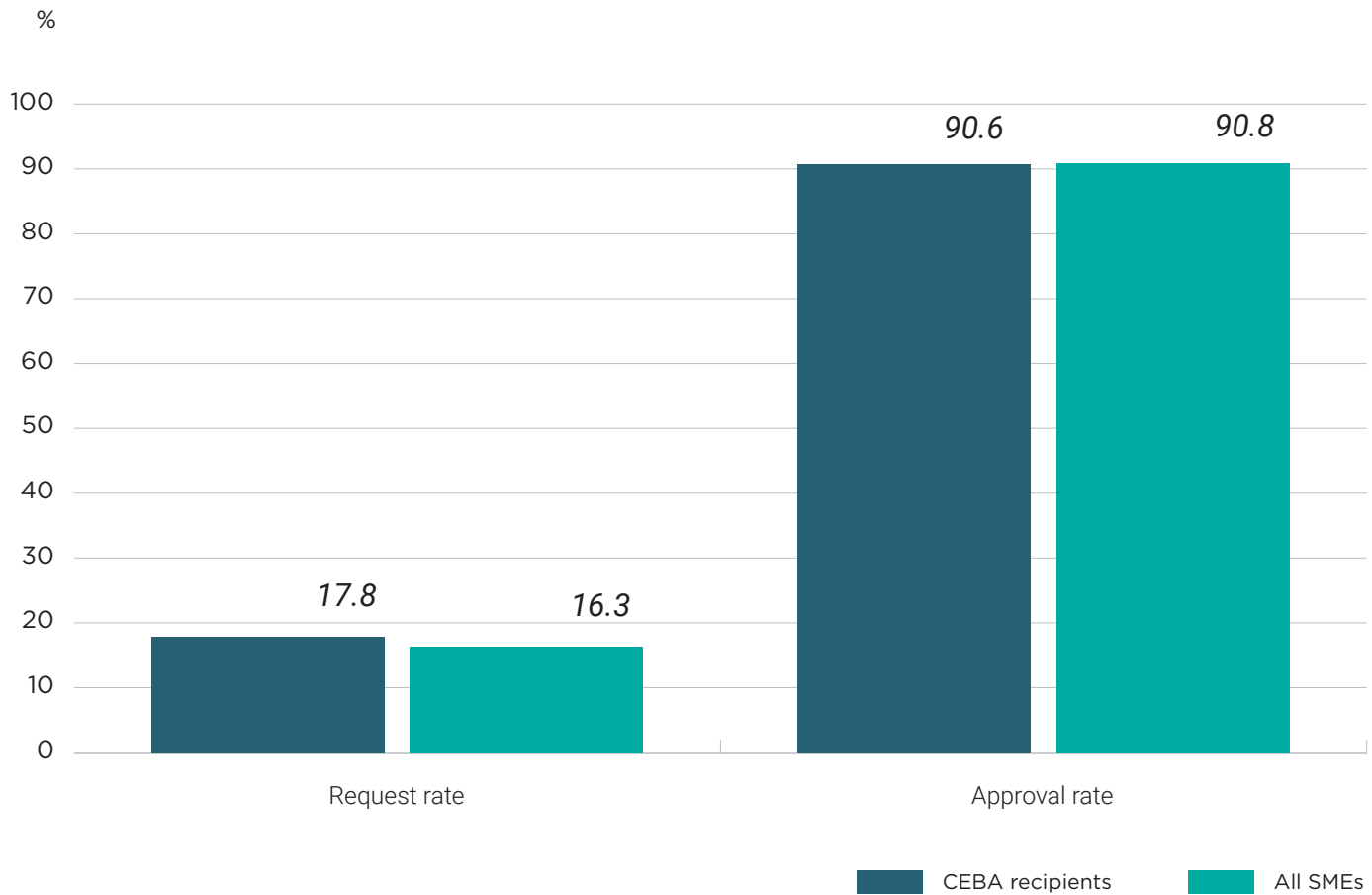


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.
 Note: Special industry aggregations are denoted with an asterisk (*).

3 FINANCING

In 2020, 17.8% of SMEs that received CEBA loans requested other types of debt financing, such as non-residential mortgages, lines of credit, term loans, and credit cards. Of these requests, 90.8% were approved.² Compared with all SMEs, CEBA recipients were more likely to request debt financing, but they had a similar approval rate (Figure 4).

Figure 4: Request and approval rate for debt financing



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

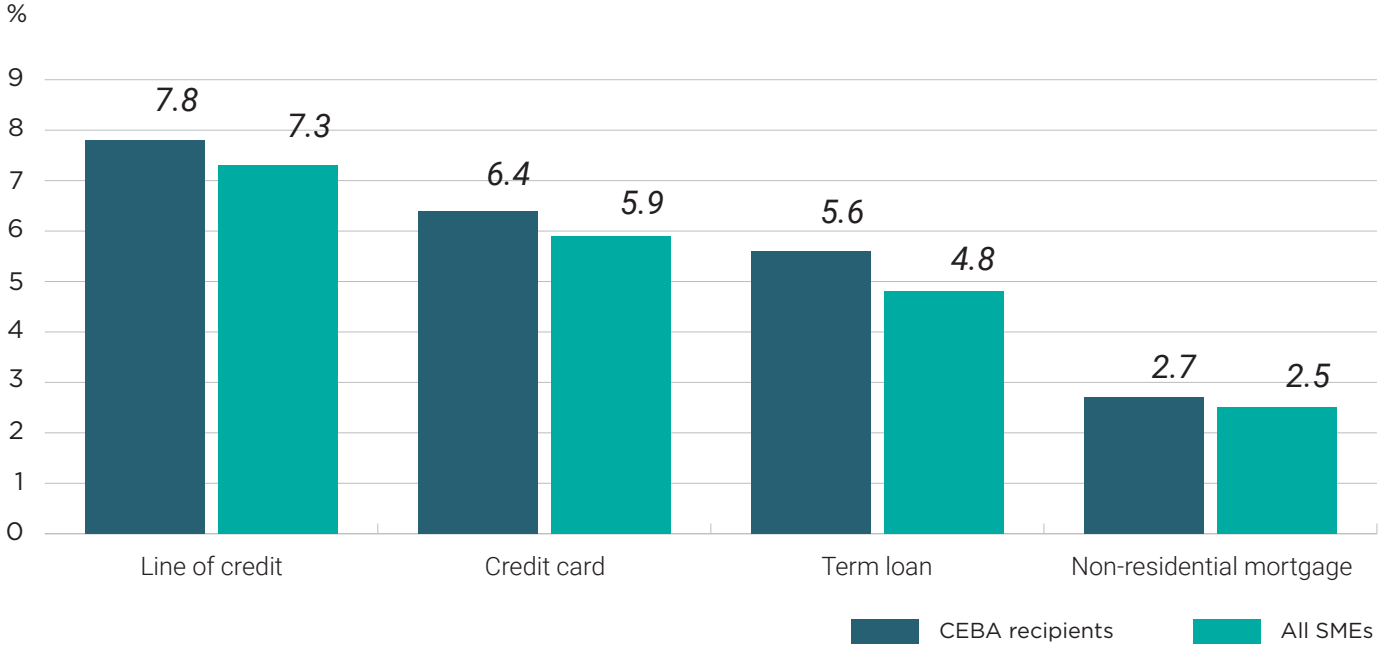
Of the four major types of debt financing, lines of credit were the most used tool in 2020. Figure 5 shows that 7.8% of businesses that received CEBA loans attempted to apply for a line of credit. Their rate of approval was also the lowest—81.2% of applications (Figure 6).

As presented in Figure 6, term loans were the only type of debt financing for which the applications from CEBA recipients had a higher approval rate than those of all SMEs. For the other three types, CEBA recipients had a lower approval rate than all SMEs.

² Overall approval rates include both full and partial approvals.

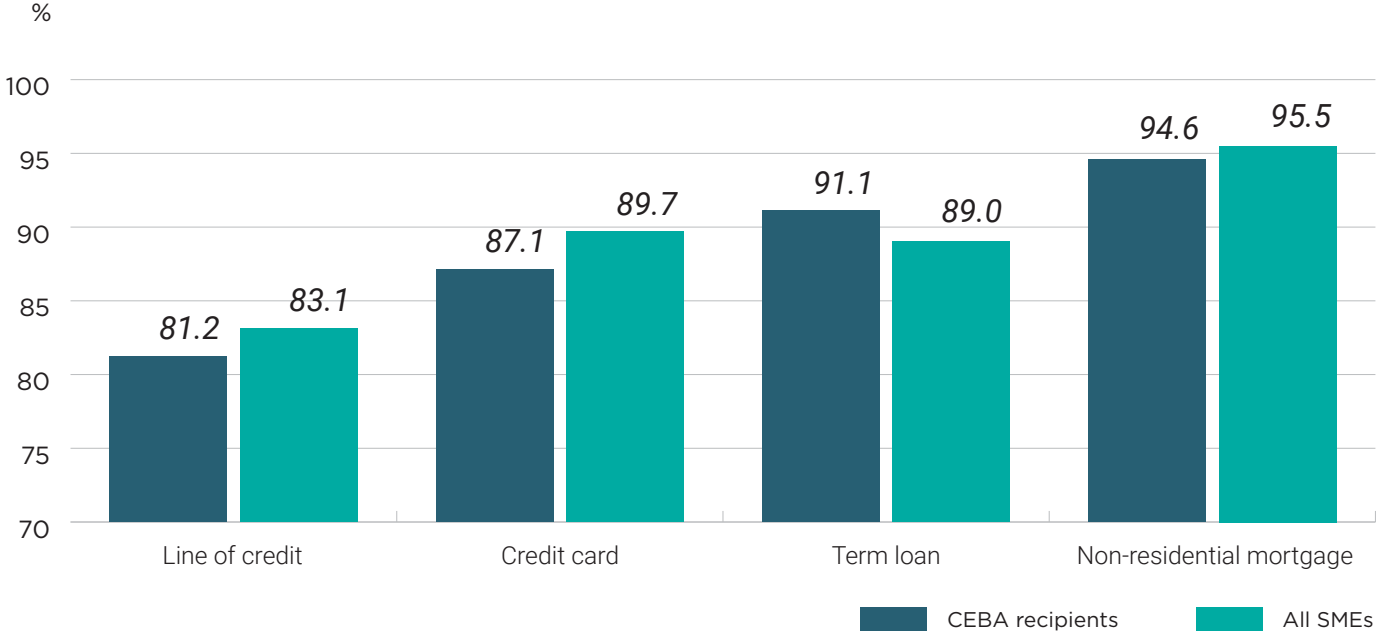
According to Figure 5, non-residential mortgages were the last type of debt financing that SMEs turned to. Less than 3% of CEBA recipients and of all SMEs requested them. However, requests from CEBA recipients had a lower approval rate than those from all SMEs, with a difference of 0.9 percentage points, as shown in Figure 6.

Figure 5: Request rates by type of debt financing



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Figure 6: Approval rates by type of debt financing

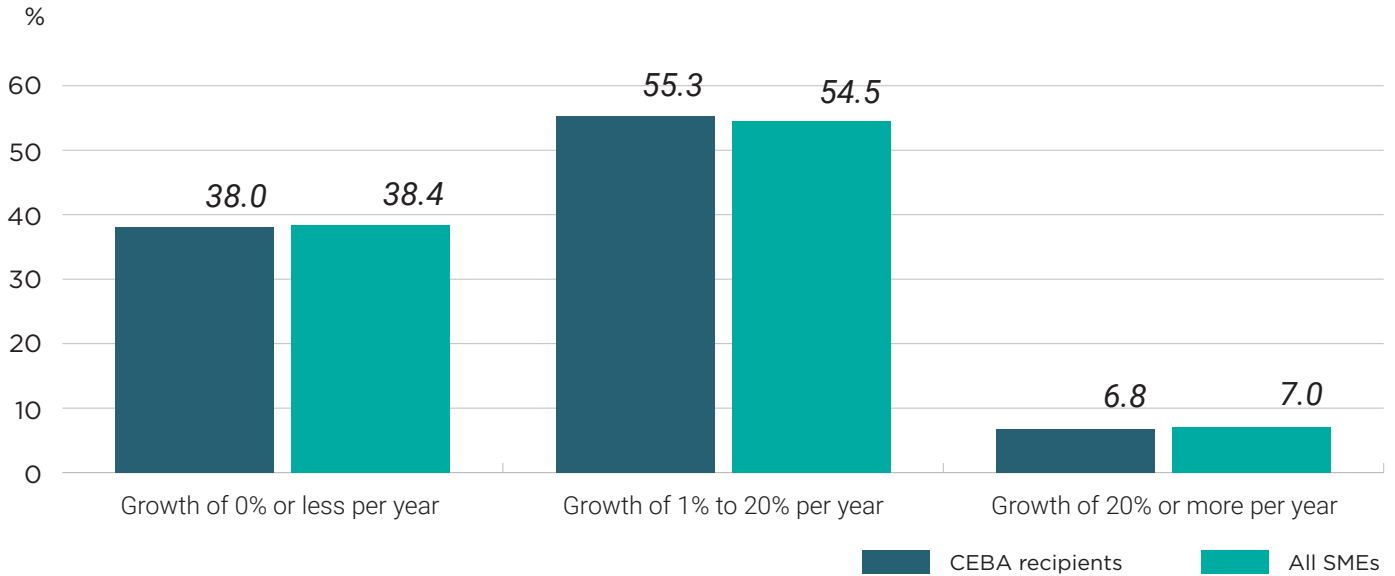


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

4 GROWTH ACTIVITIES

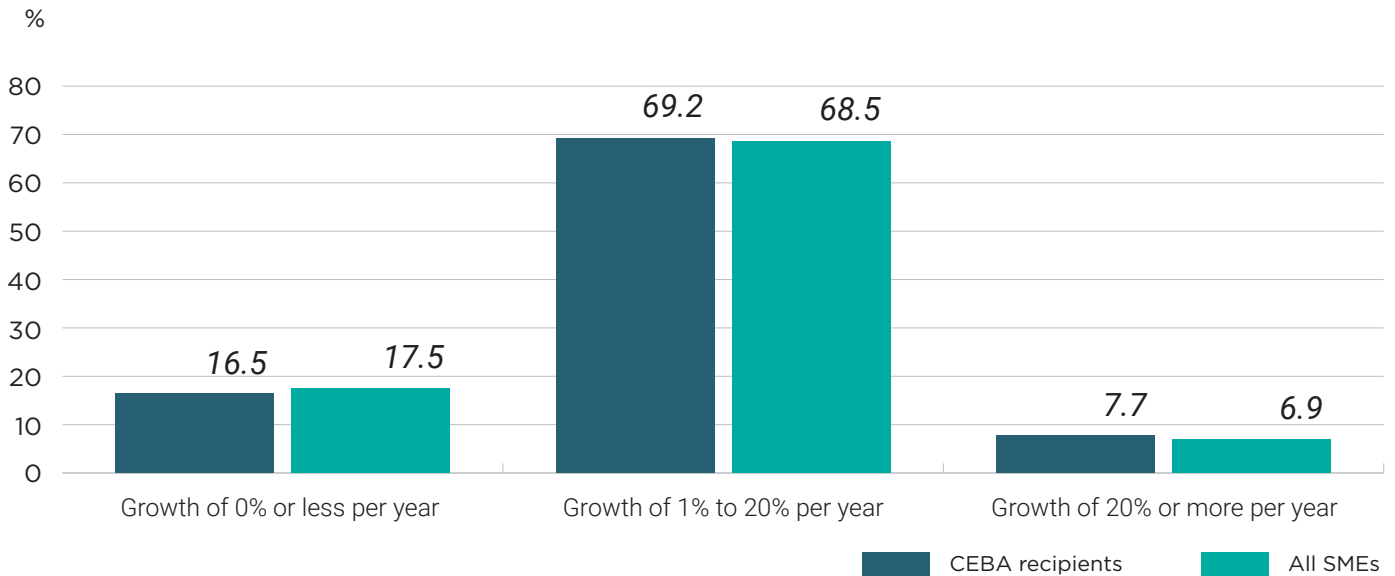
Businesses that received CEBA loans had an average reported annual growth in their previous three years of operation (from 2018 to 2020) that was similar to that of all SMEs, with 38% of CEBA SMEs reporting zero or negative average annual growth in sales or revenue, 55.3% reporting 1 to 20%, and 6.8% reporting 20% or more (Figure 7). The expected average annual growth in sales and revenues of CEBA SMEs was also similar to that of all SMEs over the 2021 to 2023 period (Figure 8).

Figure 7: Average annual growth in sales or revenue, 2018–2020



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

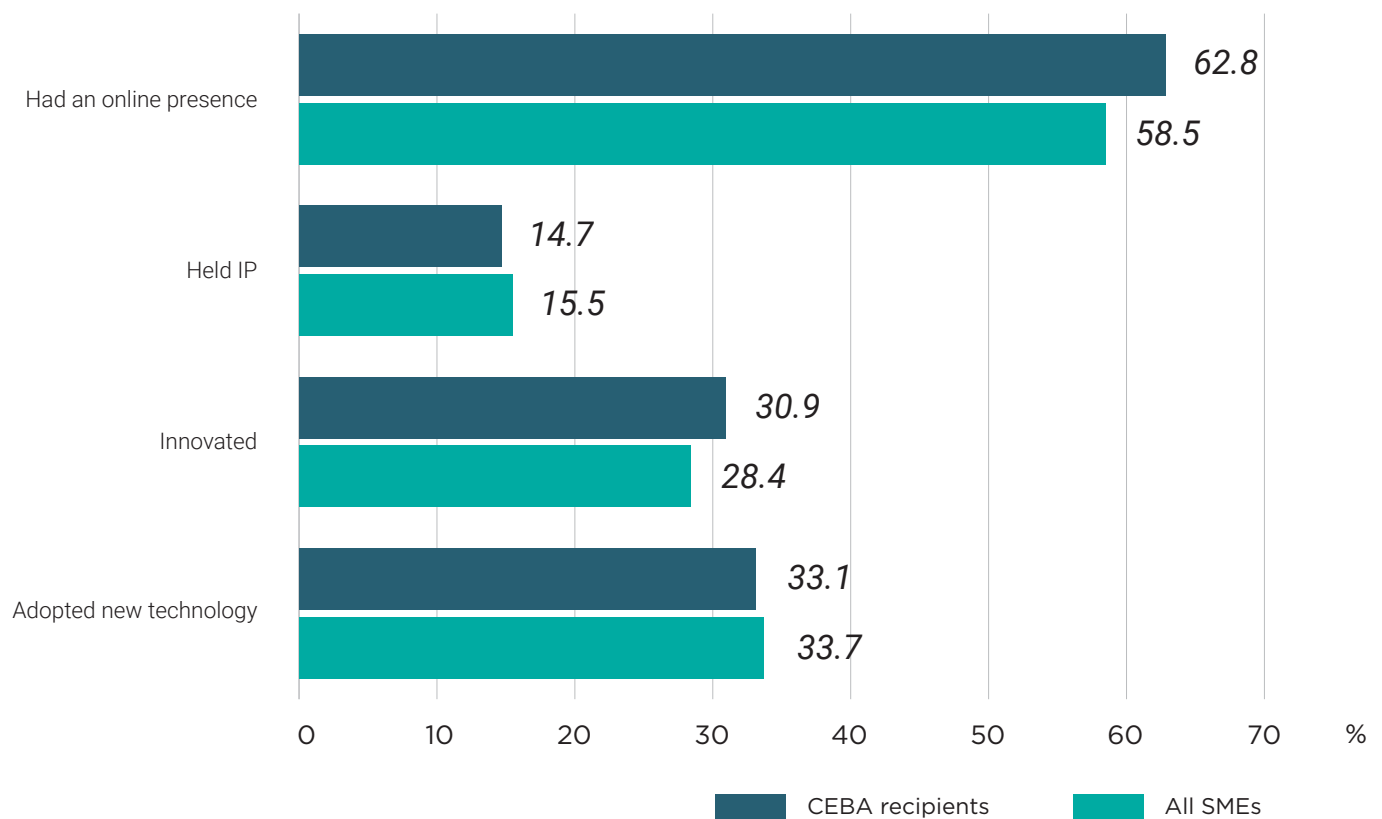
Figure 8: Expected average annual growth in sales or revenue, 2021–2023



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

In 2020, CEBA SMEs were also similar to all SMEs in terms of innovation,³ adoption of new advanced technology,⁴ and intellectual property (IP) holdings.⁵ Among CEBA SMEs, 33.1% adopted at least one new technology over the past three years, compared to 33.7% of all SMEs (Figure 9). Similarly, 30.9% of CEBA SMEs implemented at least one type of innovation in the last three years, compared to 28.4% of all SMEs. As of 2020, 14.7% of CEBA SMEs held at least one type of intellectual property, compared to 15.5% of all SMEs. In 2020, CEBA SMEs were also more likely than all SMEs to have an online presence (62.8% versus 58.5%).

Figure 9: Intellectual property holdings, innovation, and technology adoption



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

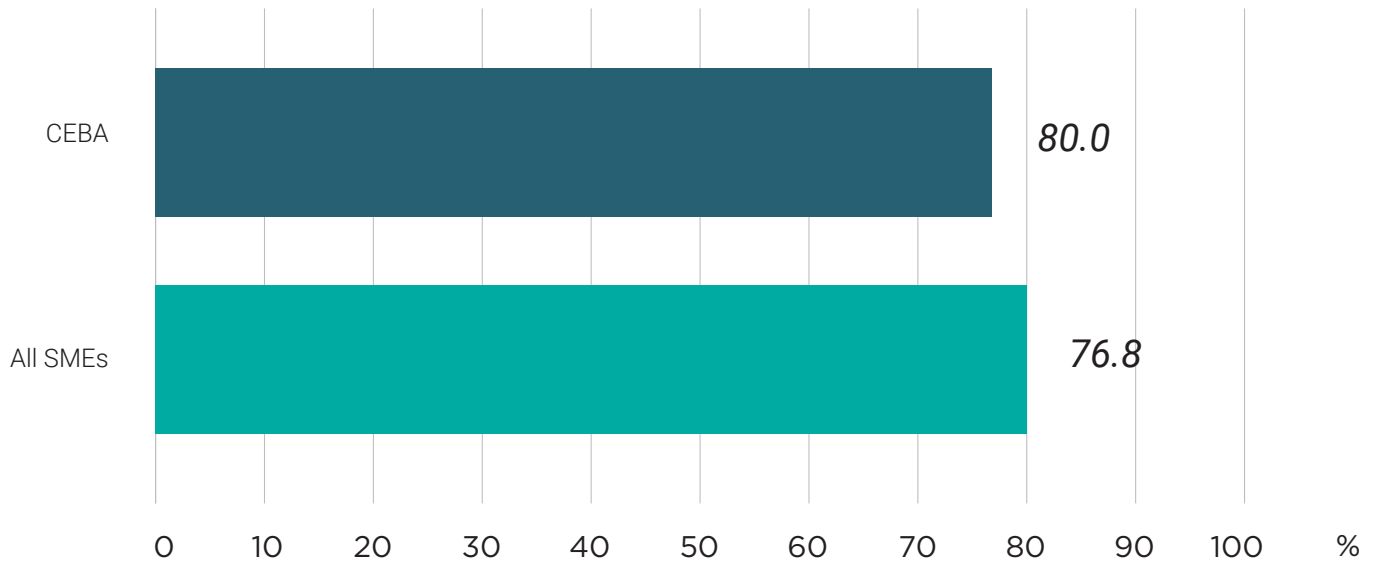
Furthermore, CEBA SMEs were more likely than all SMEs to express intentions to expand and expectations to grow. In 2020, 80% of CEBA SMEs expressed intentions to expand into new markets over the period 2021 to 2023, compared to 76.8% of all SMEs (Figure 10).

3 A business is considered to have innovated if it has implemented at least one of these types of innovation: a new or significantly improved good or service (product innovation); a new or significantly improved production process or method (process innovation); a new organizational method in their business practices, workplace organization, or external relations (organizational innovation); a new way of selling their goods or services (marketing innovation).

4 A business is considered to have adopted advanced technology if it has implemented at least one of these advanced technologies: business intelligence technologies; design or information control technologies; security or advanced authentication systems; material handling, supply chain or logistics technologies; processing or fabrication technologies; Integrated Internet of Things (IoT) systems; clean technologies and others.

5 A business is considered an IP holder if it has held at least one of these types of intellectual property: registered trade-marks; patents; registered industrial designs; trade secrets; non-disclosure agreements; any other type of intellectual property protection.

Figure 10: Intention to expand into new markets between 2021 and 2023



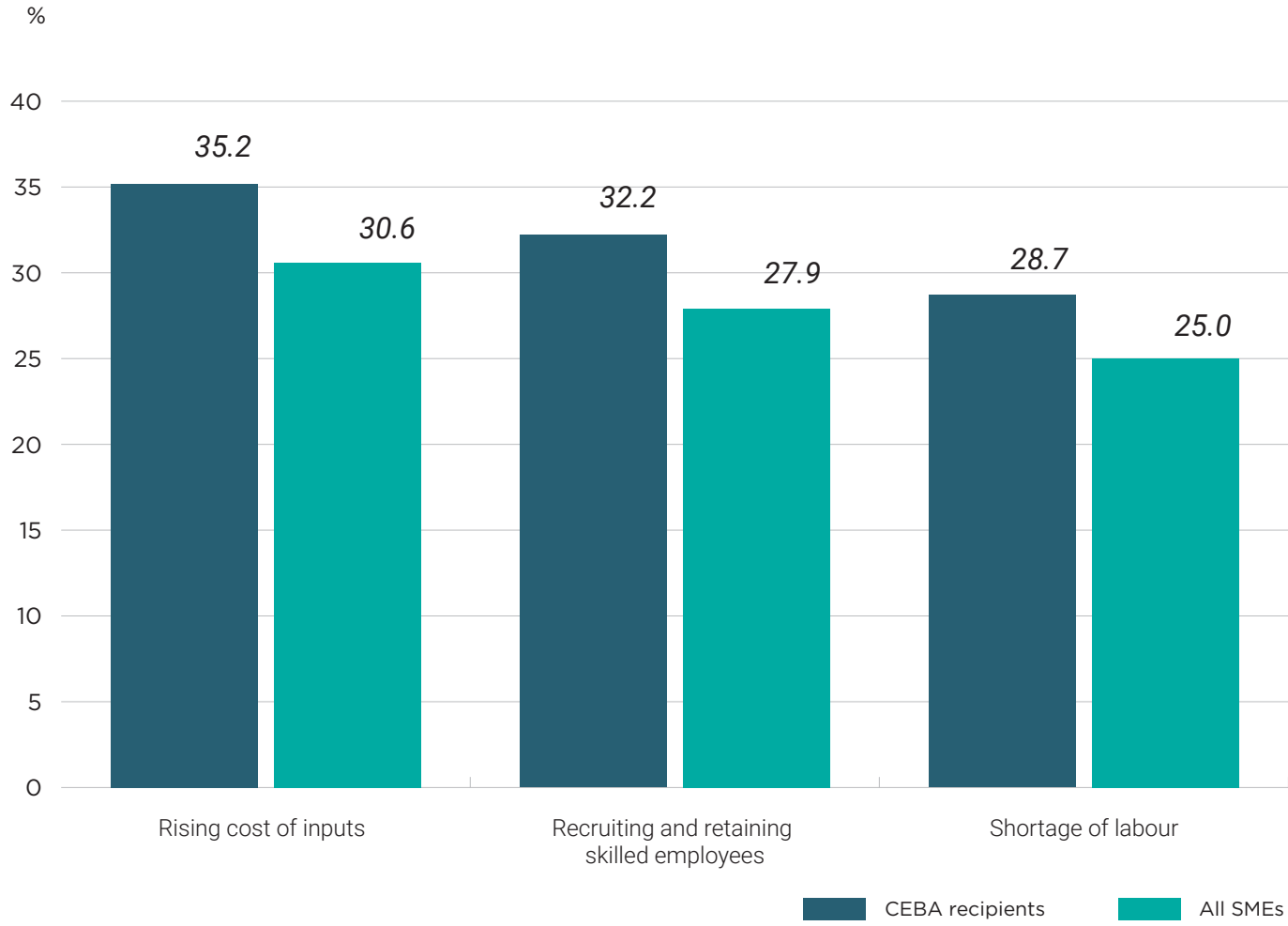
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

The top three major obstacles to business growth in 2020 reported by CEBA SMEs were rising input costs, recruiting and retaining skilled employees, and shortage of labour (Figure 11).⁶ CEBA SMEs were more likely to report these as major obstacles than all SMEs. In 2020, 35.2% of CEBA SMEs reported rising input costs as a major obstacle to business growth, compared to 30.6% of all SMEs.

As for recruiting and retaining skilled employees, 32.2% of CEBA SMEs and 27.9% of all SMEs reported it as a major obstacle to business growth. CEBA SMEs (28.7%) were also more likely than all SMEs (25%) to report shortage of labour as a main obstacle to growth. Obtaining financing was the least reported major obstacle for both CEBA SMEs and all SMEs (9.5% and 11.2%, respectively).

⁶ The question in the survey for obstacles to business growth is worded as follows: "To what extent are each of the following obstacles to the growth of this business?" The respondent is presented with a list of obstacles and reports whether it is not an obstacle, a minor obstacle, a moderate obstacle, or a major obstacle. The list of obstacles presented to the respondents are shortage of labour, recruiting and retaining skilled employees, fluctuations in consumer demand, obtaining financing, government regulations, rising input costs, increasing competition, corporate tax rates, maintaining sufficient cash flow or managing debt, and other.

Figure 11: Top 3 major obstacles to the growth of CEBA SMEs

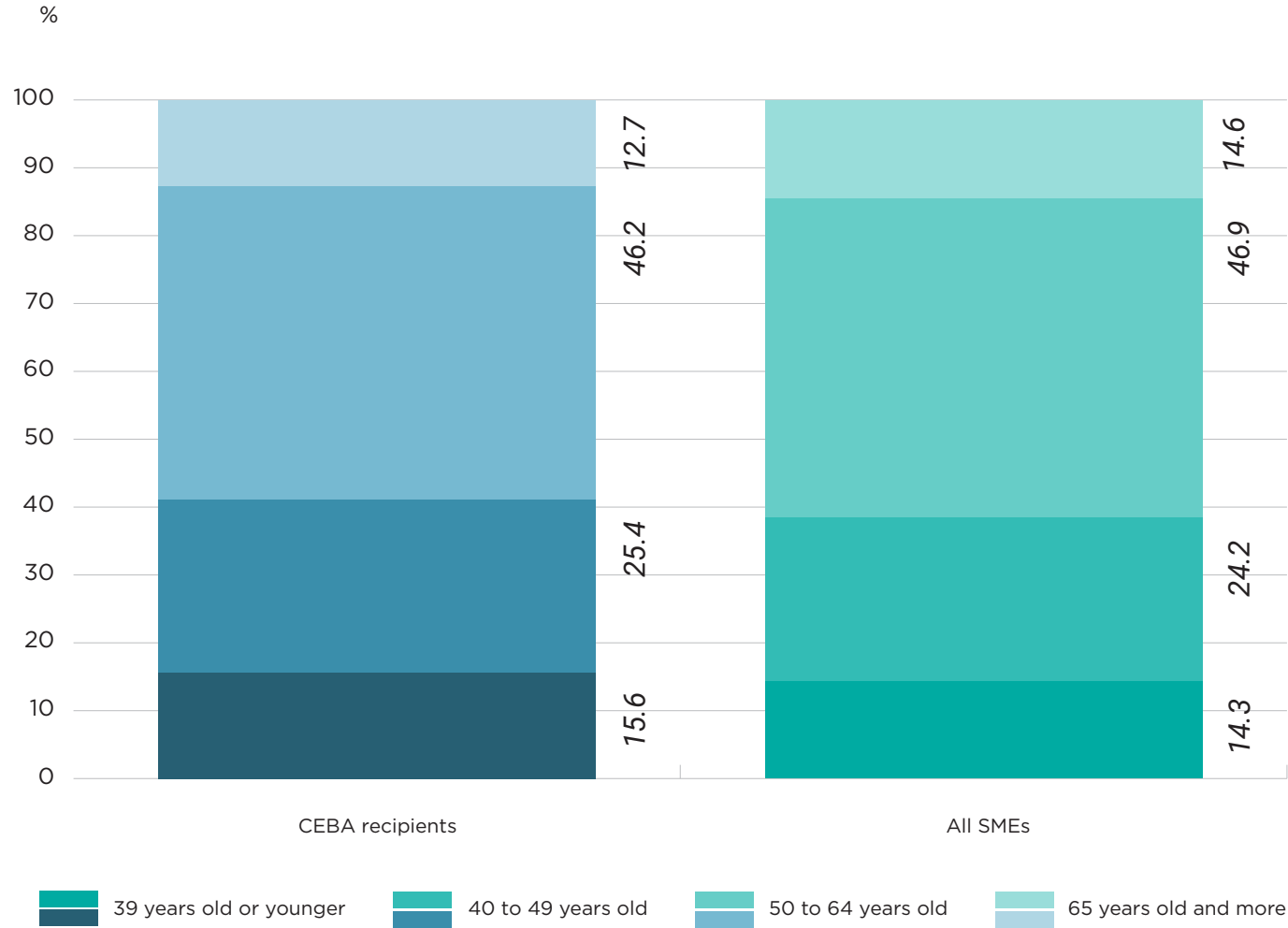


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

5 OWNERSHIP AND PRIMARY DECISION MAKER CHARACTERISTICS

The distribution of CEBA SMEs by age of primary decision maker is again close to that of all SMEs, with CEBA SMEs having a slightly higher proportion of younger primary decision makers aged 39 years or younger, and a slightly lower distribution of older primary decision makers aged 65 years or older (Figure 12).

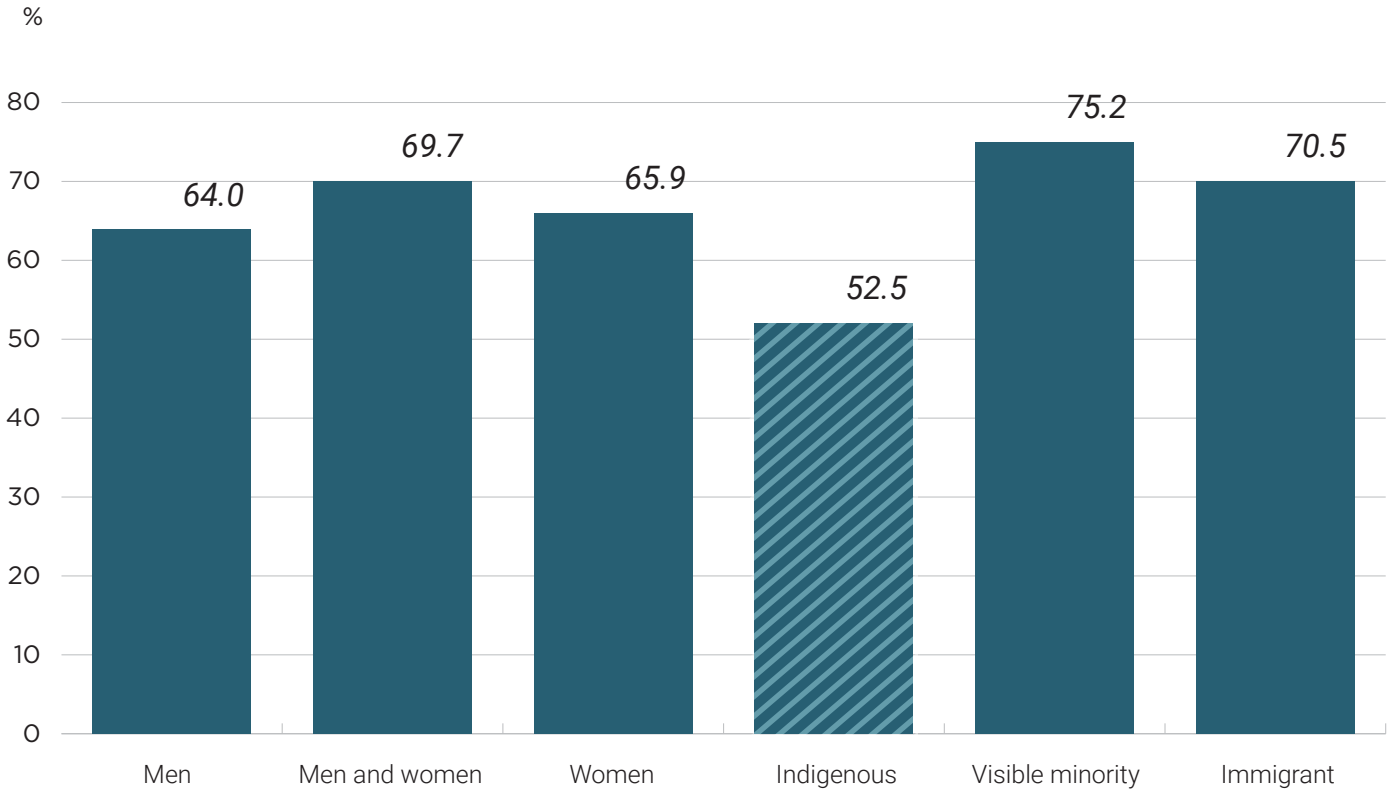
Figure 12: Age of primary decision maker



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Figure 13 shows the proportion of CEBA SMEs by majority ownership groups. SMEs that are majority owned by visible minorities had the highest share of CEBA recipients (75%), while SMEs that are majority owned by Indigenous⁷ people had the lowest share (52%). The lower uptake among Indigenous-owned businesses may be partly due to the fact that many of these businesses received identical loans (interest-free loans up to \$30,000 and non-repayable contributions up to \$10,000) from Aboriginal Financial Institutions.

Figure 13: CEBA loan by majority ownership type



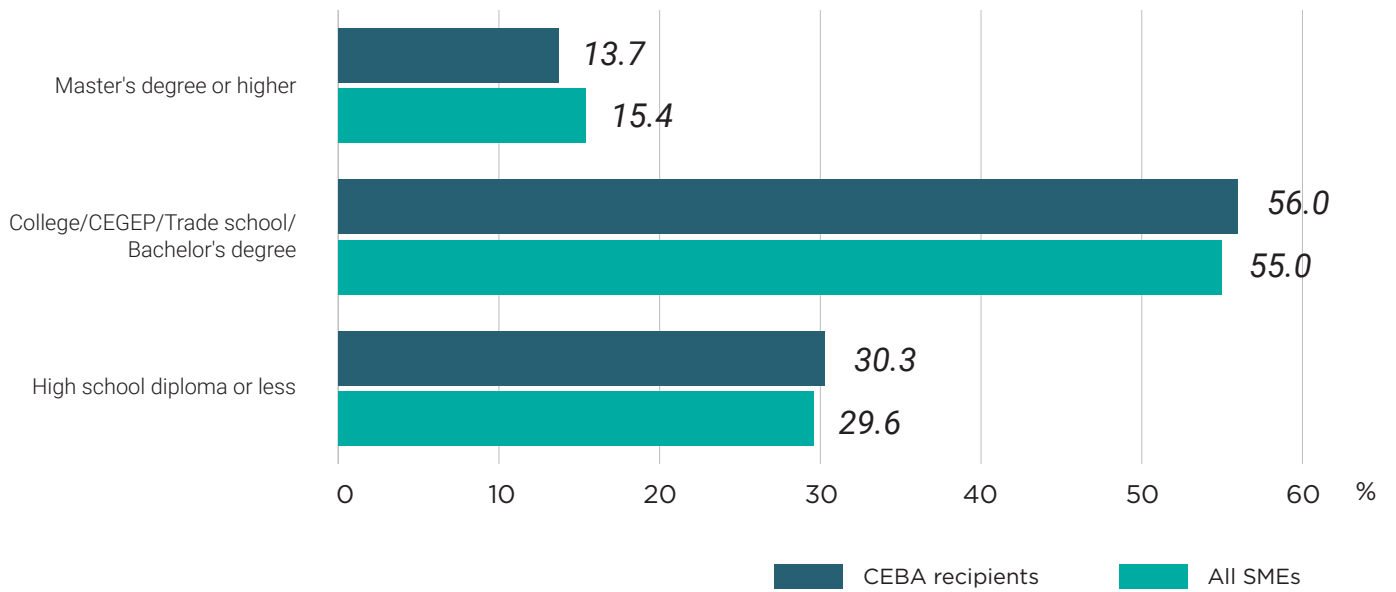
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.
 Note: The estimates for the Indigenous category should be used with caution due to small sample sizes, which may result in lower quality estimates.

CEBA SME primary decision makers had roughly similar levels of education and years of experience to those of all SMEs. As shown in Figure 14, 13.7% of CEBA SME primary decision makers had a master’s degree or higher, 56% had college, CEGEP, or trade school diplomas, or a bachelor’s degree, and 30.3% had a high school degree or less.

In terms of years of experience, 74% of CEBA SME primary decision makers had more than 10 years of experience in managing or owning a business, 20.7% had 5 to 10 years, and 5.3% had less than 5 years (Figure 15).

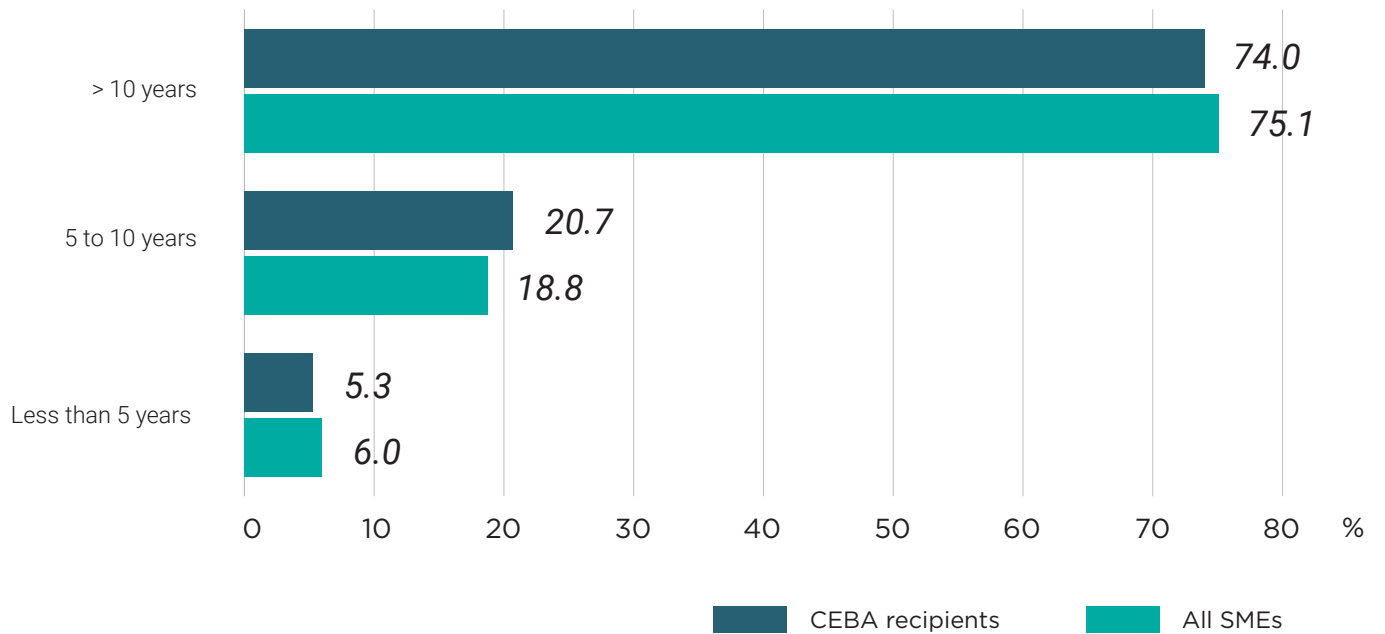
⁷ The estimates for the Indigenous category should be used with caution due to small sample sizes, which may result in lower quality estimates.

Figure 14: Highest level of education attained by primary decision maker



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Figure 15: Primary decision maker years of experience

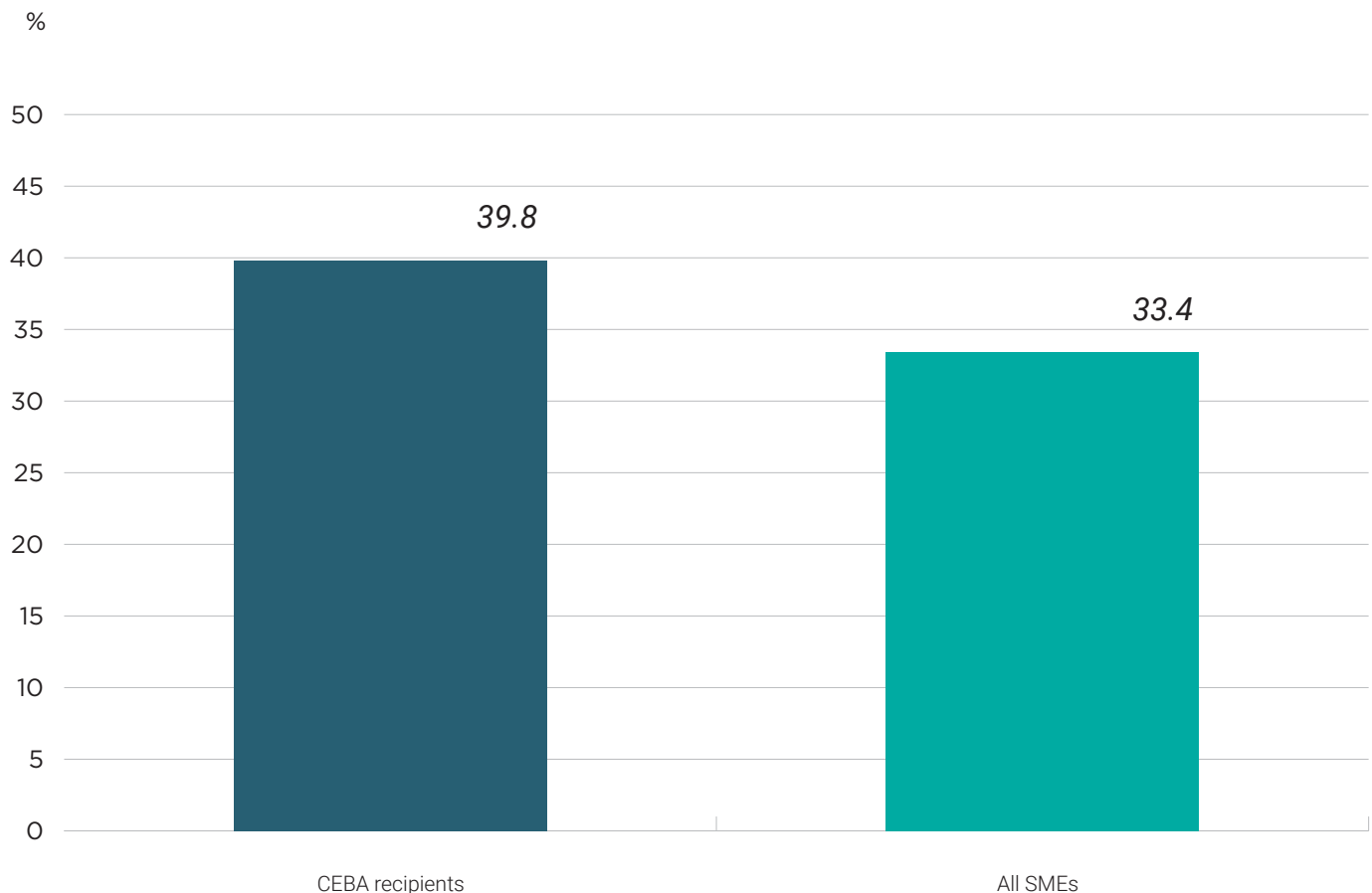


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

6 COVID-19

The COVID-19 pandemic was one of the main challenges faced by business in 2020 and many businesses had to temporarily close. As shown in Figure 16, CEBA SMEs in 2020 were more likely to temporarily close their business due to the COVID-19 pandemic (39.8%) than all SMEs (33.4%). However, for those businesses who temporarily closed, the average number of weeks closed were similar for both CEBA SMEs and all SMEs (12 weeks).

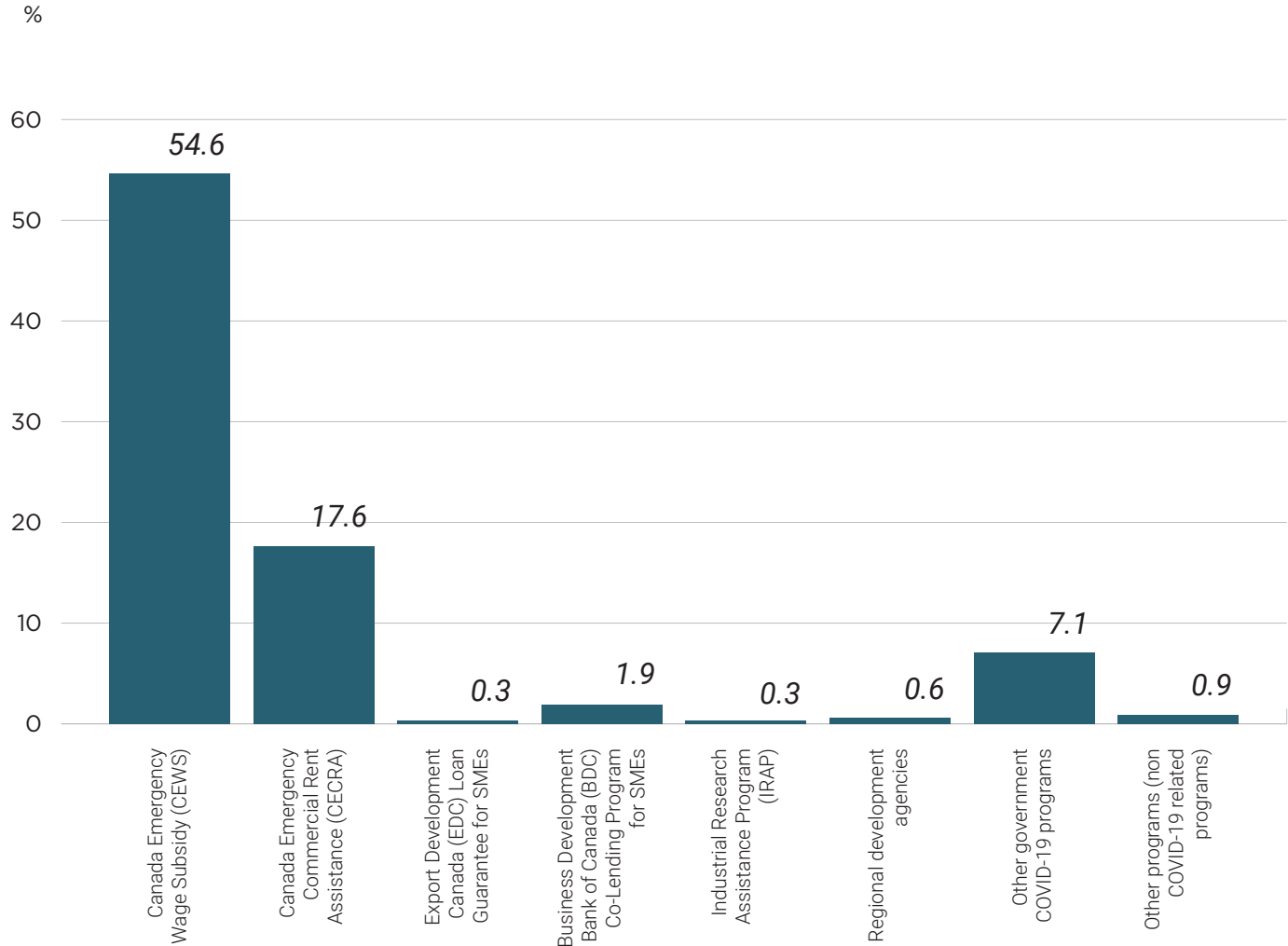
Figure 16: Temporary closure due to the COVID-19 pandemic



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

CEBA SMEs applied for other programs throughout the pandemic, such as the Canada Emergency Wage Subsidy (CEWS) and the Canada Emergency Commercial Rent Assistance (CECRA). Around 54.6% of CEBA SMEs also applied to CEWS, whereas 17.6% also applied to CECRA.

Figure 17: Application for other COVID-related programs by CEBA recipients



Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises, 2020.

7 CONCLUSION

Since April 2020, CEBA has provided interest-free loans to Canadian SMEs that have experienced financial difficulties during the COVID-19 pandemic. Using the 2020 SFGSME data, this report presents a business profile of SMEs that received CEBA loans.

CEBA recipients accounted for 65% of SFGSME respondents and, therefore, their business characteristics and performance are similar to those of all SMEs.

In general, CEBA recipients tended to be young businesses—around 40.8% of them had been in operation for no more than 10 years. Most of these (53.2%) were micro-sized, having no more than 4 employees, and 38% had between 5 and 19 employees.

In 2020, around 18% of CEBA recipients requested debt financing, 90.6% of which were approved. Among the various types of debt financing, lines of credit were the most used tool—about 7.8% of CEBA recipients applied for it and 87.1% of the applications were approved.

In terms of growth in sales or revenue from 2018 to 2020, 38% of CEBA SMEs reported zero or negative average annual growth, 55.3% of CEBA recipients reported 1 to 20%, and 6.8% reported 20% or more. In 2020, 33.1% of CEBA SMEs adopted at least one new technology, 30.9% implemented at least one type of innovation, and 14.7% held at least one type of intellectual property. The top three major obstacles to business growth in 2020 reported by CEBA SMEs were rising input costs, recruiting and retaining skilled employees, and shortage of labour. CEBA SMEs were more likely to report these major obstacles than all SMEs.

Finally, this analysis indicates that CEBA SMEs in 2020 were more likely than all SMEs to temporarily close their businesses due to the COVID-19 pandemic (39.8% of CEBA SMEs versus 33.4% of all SMEs).

APPENDIX: NAICS CODES COVERED BY THE FIVE SPECIAL INDUSTRIAL GROUPS

- Tourism consists of enterprises coded to NAICS: 4811, 4812, 4821, 4831, 4832, 4851, 4852, 4853, 4854, 4855, 4859, 4871, 4872, 4879, 51213, 5615, 7111, 7112, 7115, 7121, 7131, 7132, 7139, 7211, 721114, 721198, 721211, 721212, 7224, 7225
- Information and communications technologies consists of enterprises coded to NAICS: 3341, 3342, 3343, 3344, 3346, 4173, 5112, 5182, 5415, 8112
- Knowledge-based industries consist of enterprises coded to NAICS: 325410, 333310, 334110, 334210, 334220, 334290, 334310, 334410, 334511, 334512, 335920, 336410, 511210, 512110, 512190, 515210, 517310, 517410, 517911, 517919, 518210, 541360, 541370, 541510, 541620, 541690, 541710, 541990
- Advanced manufacturing industries consist of enterprises coded to NAICS: 3111–3116, 3117, 3118, 3119, 3212, 3219, 3221, 3222, 3251, 3253, 3254, 3259, 3261, 3331, 3332, 3333, 3335, 3339, 3345, 3391, 32192, 32221, 32532, 32611, 33243, 33311, 541711, 5612
- Advanced technologies industries consist of enterprises coded to NAICS: 22131, 23711, 32411, 4173, 5111, 5112, 5171, 5172, 5174, 5179, 5182, 5415, 56291, 71, 8112, 92411