

**A SELF EMPLOYMENT
POLICY DISCUSSION PAPER**

Trends . Challenges . Barriers . Conclusions



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“For that is what we are hoping to do – to identify the best practices; the enabling reforms and domestic policies; and, the partnerships at national and international levels that will unleash entrepreneurship in developing countries. [...] Local private businesses need predictability; they need assurances of even-handedness and a level playing field. They need the rule of law and a regulatory regime, which aims to facilitate, rather than stifle, entrepreneurial activity.”

The Right Honourable Paul Martin, Prime Minister, Speech to the United Nations presenting the report *Unleashing Entrepreneurship: Making Business Work for the Poor*, March 1, 2004.

“In the [February 2004] Speech from The Throne, the Government of Canada recognized the need to support self-employed Canadians by “updating labour market programming to better reflect the realities of work in the 21st century, such as the growth of self-employment and the need for continuous upgrading of skills.”

This is an important recognition of the need for ongoing skills development; however, it is only one of many economic challenges faced by self-employed Canadians operating micro-enterprises. As technological change and under-funded retirement moves more young and older Canadians toward self-employment, the number of people affected by these challenges will increase.”

Peter Nares, *Backgrounder: A National Sectoral Approach to Support Self-Employment*.

INTRODUCTION:

This brief paper is the result of a growing concern on the part of SEDI and other organizations, such as the Pan Canadian Community Futures Group, that the ongoing and significant growth in self-employment warrants the review of existing federal government policies and the development of a comprehensive national policy that addresses the needs of the growing number of self-employed Canadians.

SEDI (Social and Enterprise Development Innovations) is a national incorporated and registered charitable non-profit organization, comprised of staff and volunteers working to promote self-employment and savings as viable roads to self-sufficiency for poor, unemployed and underemployed Canadians. Since 1986, SEDI has acquired experience in the design, management and evaluation of initiatives that enable disadvantaged Canadians to achieve self-sufficiency through self-employment and asset-building. One of SEDI's primary objectives is to work with our partners in the field to research policies and programs that contribute to an enabling environment for enterprise development, economic independence and asset building. A primary partner in this work is the network of Community Futures Development

Corporations/Community Business Development Corporations (CFDC/CBDCs) across Canada represented by the Pan Canadian Community Futures Group (Pan Cdn CF Group).

The Pan Cdn CF Group is a network of 12 provincial and territorial associations that work with 269 member non-profits located in rural and northern Canada. For almost 20 years, these organizations have provided technical assistance and financing to micro-enterprise and small and medium enterprises. The decisions of their volunteer boards and professional staff are guided by in-depth knowledge of local economic conditions. The majority of these CFDC/CBDCs members were or are currently engaged in delivery of the Self-Employment Employment Benefit (SEB) Program with great success.

I. Self Employment: An Overview

A. The development of self-employment in the last 15 years.

There has been a 15 year upward trend in the number of people who are considered self-employed. Between 1990 and 1999, self-employment increased dramatically by nearly 40% from 1.8 to 2.5 million Canadians, an increase of 5% of the total Canadian labour force. Factors contributing to this growth include: outsourcing by corporations; a slowing economy between 1993 and 1995; the desire for greater independence by a growing number of skilled, well educated mature workers 45 years and older; and, technological change such as the growth of the Internet and e-commerce, which supported and enhanced small business viability.¹

In 2000, there was a sudden 16% decrease in the numbers of self-employed workers, of 2.5 to 2.1 million Canadians, or 2% of the total Canadian labour force. This was primarily due to an improving economy resulting in an increased number of low-skilled jobs. While the proportion of self-employed people with less than a high school education decreased 13.5%, self-employed people with a university degree increased 6.1% during this period.² This led some economists to speculate that the growth of self-employment in the 1990's had been an anomaly and that self-employment would return to the level of the early 1990's, of approximately 2.0 million Canadians. Other economists argued that the drop was the result of the economic cycle and that the trend towards growing self-employment would remain strong.

It appears the latter is correct due to the resurgence of self-employment in 2004 to almost 2.5 million Canadians. Further, according to a Canadian Imperial Bank of Canada survey in 2004, the ranks of the self-employed are expected to grow by another 150,000 to 200,000 by 2006.³ This has been driven by pockets of deep unemployment in sectors such as hospitality, transportation and high-tech, and strength in sectors that support the well educated self-employed such as management consulting. Unlike growth in self-employment in the 1990s that was due primarily to recession, growth is now primarily driven by a relatively healthy economy and new business opportunities.⁴

¹ Benjamin Tal, Self-Employment in Canada — Trends and Prospects. CIBC, December, 2000

² Benjamin Tal, Self-Employment in Canada — Trends and Prospects. CIBC, December, 2000

³ Benjamin Tal, Canadian Small Business — Back In High Gear. CIBC, September, 2004

⁴ Statistics Canada. The Daily: Friday, November 5, 2004

B. The number of self-employed workers in Canada in 2004

The self-employment category includes approximately one in every seven workers in Canada. According to labour market statistics, in October 2004, 2,485.3 million workers are self-employed. This constitutes 15.4% of the labour force.⁵

C. Defining the self-employed by business ownership type

Self-Employment is a sector that includes a broad array of workers who do not fit into the “standard employment model.” The self-employed include: working owners of incorporated businesses; working owners of unincorporated businesses; and, other self-employed and unpaid family workers. In 2001, of the 2.3 million self-employed persons: 64% had no paid help; 35% worked with paid help; and, 1% were unpaid family workers.⁶ The broad category of self-employed includes: professionals like doctors, lawyers, accountants, and dentists; owners of many small and medium enterprises (SMEs) with revenues ranging up to \$10 million per year; and, micro-enterprises, owner operated businesses with fewer than 5 employees and revenues less than \$60,000 per year. This last group is comprised largely of worker owners of unincorporated businesses.

D. The needs of the self-employed vary by type of business

Working owners of unincorporated businesses often face different personal and economic challenges than self-employed professionals or workers of incorporated businesses. For example many self-employed professionals have comprehensive supports, such as access to insurance and professional development through national or provincial professional associations. Similar supports are available for more established small to medium sized businesses, through industry groups or as a result of relatively large size and revenue base. The group that “falls through the cracks” are working owners of the smallest businesses who are just beginning, or are small in scale and who have few or no employees. They are usually working owners of unincorporated businesses and are referred to by Statistics Canada as the own account self-employed.⁷ In our experience they are working owner operators of businesses with annual gross revenues of \$60,000 or less, and generally have greater difficulty accessing small loans, formal skills development and full health, dental and long-term disability coverage. We are primarily concerned with the challenges faced by this group.

E. Trends and challenges in self-employment

i. Seniorpreneurism

People aged 55 and over are now the fastest growing group of new small business owners in Canada. The number of self-employed in this demographic has risen by 140,000 (30%) in the

⁵ Statistics Canada. The Daily: Friday, November 5, 2004

⁶ Statégis.gc.ca. How many People are Self-Employed? <http://strategis.ic.gc.ca/epic/internet/insbrp-rppe.nsf/en/rd00697e.html>

⁷ Statégis.gc.ca. How many People are Self-Employed? <http://strategis.ic.gc.ca/epic/internet/insbrp-rppe.nsf/en/rd00697e.html>

past three years. This growth is four times faster than the number of younger people going into business. This demographic accounts for 25% of all self-employed people and one-third of all employed people over 55.⁸ This trend to self-employment is due to: early retirement; the need to supplement pension income; and, employment disruption due to lay-off. Consultant businesses are popular among these baby-boomers because they are based on work experience and require low start-up costs. These new entrepreneurs enjoy greater work and life skills experience, access to investment capital and business connections, all of which are considerable strengths in developing and sustaining new small enterprises. However, these same entrepreneurs may also lack business operation skills and business planning experience, and may risk losing personal retirement funds when these are used as business capital. For a large number of older self-employed persons there is a high demand for business advice.

ii. Women

Thirty-four percent (34%) of self-employed persons are women. Women face particular challenges in self-employment. They typically have smaller businesses and, on average, generate lower revenues than do men. Women entrepreneurs earn on average just over half the profits of male entrepreneurs and have fewer tangible assets. Between 1991 and 2001, the number of self-employed women grew by 41%, double the rate of growth in self-employment among men. Four-fifths of these businesses are in the service sector and 85% of them have fewer than five employees.⁹ Although they participate in formal training at a higher rate than men, the majority of the training they receive is informal.¹⁰

iii. New Immigrants

Self-employment and small business development is an attractive option for many new Canadians during their settlement and integration. Immigrants who arrived in Canada in the 1990s were far more likely to be self-employed than immigrants who arrived in the 1980s.¹¹ Some immigrants are selected by federal and provincial governments for entry into Canada specifically for their ability to invest new capital and build new businesses. Other new immigrants may turn to self-employment after experiencing difficulty in integrating into the Canadian workforce through regular employment. These newcomer entrepreneurs will share many of the same concerns as their Canadian-born counterparts but also have more specific challenges such as adapting to a new culture, language training that is sufficient and appropriate for business use, becoming familiar with Canadian regulations, accessing business capital and adapting to the Canadian business environment and business practices.

iv. Persons With Disabilities

For many persons with disabilities, self-employment may offer a new avenue towards greater self-sufficiency and increase their participation in their community and the Canadian economy.

⁸ Benjamin Tal, Canadian Small Business — Back In High Gear. CIBC, September, 2004

⁹ Peter Webber. Director, Finance Division, Small Business Policy Branch. Capitalization of Women-Owned Businesses. Presentation to the Economic Forum on Women Entrepreneurs, October, 2004

¹⁰ Benoit Delage. Results from the Survey of Self-Employment in Canada. Applied Research Branch. Human Resources Development Canada. January, 2002

¹¹ Statistics Canada. The Daily. Monday, December 9, 2002

Although the 1990s saw an increase in self-employment among persons with disabilities alongside overall increases in self-employment, a 2000 survey found that the rate of self-employment among persons with disabilities is only one-fifth that of persons without disabilities.¹² This is despite a trend identified by several disability organizations toward growing interest in self-employment as a work and career option among their clients.

Since the late 1990s the Government of Canada has included self-employment in many of its employment programs including the Western Diversification Fund, the Opportunities Fund and the Self-Employment Employment Benefit (SEB) Program. Eligibility for these programs is open to Canadians with disabilities but the programs themselves are not specifically targeted to meet the needs of this underserved population. While these measures have increased opportunities for some persons with disabilities, this increase has been very small in scale and has not responded to the growing interest in self-employment among Canadians with disabilities. Self employment was not considered a priority area in the Multilateral Framework for Labour Market Agreements for Persons with Disabilities¹³. Similar efforts by provincial governments have also fallen short in having significant self-employment impacts for people with disabilities.

II. Key Workplace Skills Issues/Barriers Facing the Self Employed

A. Access to health and income security

Almost one-quarter of self-employed people (22%) cited income uncertainty and insecurity as the most difficult aspect of self-employment.¹⁴ This is a result of a lack of available public or affordable private supports for a majority of self-employed individuals. This can be broken down into two core issues:

i. Availability of Health, Dental and Disability Insurance

The self-employed are insured at lower rates than employed Canadians. In 2000, 50% of employees had coverage for full health, dental and disability coverage, compared to only 17% for self-employed people. Self-employed people list a lack of benefits and income security as the primary disadvantage of being self-employed.¹⁵

Currently there are three avenues that most self-employed people use to access health, dental and disability plans:

- Direct purchase at a considerable cost
- Access through a spouse's employee benefit plan

¹² SEDI Policy Issues. Self Employment for People with Disabilities. March, 2000

¹³ Multilateral Framework for Labour Market Agreements for Persons with Disabilities.

<http://socialunion.gc.ca/pwd/priorityareas.html>

¹⁴ Benoit Delage. Results from the Survey of Self-Employment in Canada. Applied Research Branch. Human Resources Development Canada. January, 2002

¹⁵ Earnest B Akyeampong. Health-Related Insurance for the Self-Employed. Perspectives on Labour and Income. Summer 2003

- Part-time employment, thereby qualifying for benefits

Business income is the main determinant of coverage. Thirty-six percent of the self-employed with revenues over \$60,000 had full coverage, whereas only 8% of businesses with revenues under \$60,000, (usually young, less educated and female) had coverage. Of self-employed people with no coverage, 40% cited the affordability of coverage and 25% listed perceived poor value as their reason. The lack of coverage is also gendered. Full coverage is higher among men (19%) than women (13%).¹⁶ This leaves the most financially vulnerable self-employed people unprotected from costly health events or the effects of a disability.

ii. Access to income insurance

Self-employed people do not have access to E.I. benefits. This can have serious financial consequences for their business. They are not eligible for parental or compassionate care benefits to help them manage work and family demands, income support should their business fail, or disability supports in case of accident or major trauma. This is also problematic because self-employed people have difficulty dealing with any personal disruptions, as they rely on their own labour as the primary source of their financial well-being. Whereas employed individuals have access to government insurance to protect them in case of employment disruption, self-employed people fall outside these labour and social protection policies. And while, like employees, the self-employed have access to some disability related income support through Canada Pension Plan, this basic protection does not protect against the loss of the business and investment, due to extended work disruption.¹⁷

B. *Workplace Skills Development*

Skill development is central to a country's productivity growth. Results from the Survey of Self Employed in Canada, states that 80% of self-employed people participated in some form of training in the preceding 12 months.¹⁸ This demonstrates awareness by self-employed people that the constant upgrading of skills is required to run a successful business. Unfortunately, this statistic blurs who actually receives training and what sources of training are actually available. The study measured both formal and informal training. It defined informal training as the self-study of books, manuals and other publications, observing colleagues, attending presentations and engaging in business discussions with others. This type of training has no defined outcomes and does not necessarily result in improved business management skills. Formal training tends to be more substantive and provides specific measurable skills development. Of the 80% of self-employed people who participated in some form of training, only about one-quarter had participated in formal training. Of those, the likelihood of participation in formal training increased as business income increased. Forty-five percent of formal training was undertaken by self-employed people with business income of \$60,000 or higher.

¹⁶ Earnest B Akyeampong. Health-Related Insurance for the Self-Employed. Perspectives on Labour and Income. Summer 2003

¹⁷ Own-Account Self-Employment in Canada: Lessons Learned. Evaluation and Data Development, Strategic Policy, Human Resources Development Canada, November 2000

¹⁸ Benoit Delage. Results from the Survey of Self-Employment in Canada. Applied Research Branch. Human Resources Development Canada. January, 2002

In addition to business income being a factor, in sole owner-operated businesses (own account self-employed) time is a major concern as time spent training is time not spent working and generating revenue. There are few federally supported business skills development programs for micro-enterprise/own account self-employed, except at start up, and fewer skills development or upgrading programs in support of ongoing management and growth.

Small enterprisers are a significant segment of the labour force who have not previously been considered for workplace skills development programs. There are specific skills that self-employed people require. Failure to provide skills training inhibits their economic and labour market potential.

C. Business Financing

Despite the recent improvement in small business economic activity, loans to small business have not risen materially in recent years. The main fact is that in an effort to win market share in small business lending, Charter A banks have decreased their interest rates and the size of their loans, but have significantly increased the required security to access this money. This has put traditional loans even further out of reach of micro-enterprises. As a result, high risk personal credit is often used to meet business finance needs.

The median loan for all lenders in 2003 to small to small/medium businesses was \$100,000. Given security requirements, bank administration costs and volume requirements, the majority of self-employed micro-enterprisers do not qualify for these loans. The greatest challenge that micro-enterprise and small business owners face is that a credible business plan is critical to accessing loans. They must demonstrate sufficient cash flow, potential sales and saleable assets (liquidity) to backstop a line of credit, term loan or commercial mortgage

According to the Canadian Federation for Independent Business (CFIB), access to traditional financing is limited for small business. For each dollar borrowed between 2001 and 2004 the average security required is \$1.52.¹⁹ Many micro-enterprisers would be willing to pay slightly higher rates if access to credit increased. Some successful alternative lending does exist and it is complimented by valuable business services like those provided by Community Futures Development Corporation, the Canada Small Business Financing Program, the Business Development Bank of Canada, and the Canadian Youth Business Foundation.

III. Two Federal Government Self Employment Skills Development and Loan Programs That Work

The federal government has two programs that are designed to provide supports to self-employed Canadians who face skills and financial barriers to starting their businesses. These are, the Self-Employment Employment Benefit (SEB) Program in HRSDC and the Community Futures (CF) Program in Industry Canada

¹⁹ Canadian Federation of Independent Business. Banking on Competition : Results of CFIB Banking Survey. October, 2003

1. Community Futures Program

The Community Futures (CF) Program is funded by Industry Canada. Between 2000 and 2003 the 269 Community Futures Development Corporations/Community Business Development Corporations (CFDC/CBDCs) produced the following results in rural and northern communities across Canada:

- 18,280 existing businesses have been maintained or new businesses started
- 69,650 existing jobs have been maintained or new jobs created (In Ontario alone the jobs created as a result of the CF Program represent almost 1% of the total labour force in non-metropolitan regions.)
- \$553.3 million in loans have been provided micro-enterprises and small businesses

The primary reasons for the high rate of Program clients' success include the following:

- i. Lending is community and client centred. Technical support is provided to prospective applicants to research the necessary conditions for successful borrowing. If required the applicant is assisted to develop their business management skills, thereby increasing their potential operational success. Lending decisions are made by volunteer boards whose members have an in-depth knowledge of local economic conditions. This specialized knowledge and support allows local boards to provide loans that traditional lending institutions will not.
- ii. Professional business counsellors with knowledge of the local business environment provide advice and direction to clients over the duration of the loan. This ongoing support increases the client's success and re-payment of the loan.

2. Self-Employment Employment Benefit (SEB) Program

The SEB Program, funded by Human Resources and Skills Development Canada, assists unemployed Canadians to start and successfully operate their own businesses by providing income support and business skills development services. SEDI has co-ordinated the SEB Program in the city of Toronto since 1993. Over the past 12 years, 7,590 unemployed clients have enrolled and an average of 91% have launched new businesses, generating \$171,934,000 gross revenues during the period clients were in the Program.

The primary reasons for the high rate of Program clients' success include the following:

- i. From the outset of the intake process applicants are provided direction on self-assessing: the viability of their business idea, including the probable financing requirement; and, their commitment to and motivation for becoming self-employment. By stressing these practical considerations applicants approach self-employment with a realistic view and the selection of clients into the Program is based on sound information.

- ii. The initial phase of the Program emphasizes assisting clients to develop their operational, sales and marketing, and financial management skills, culminating in the development of a practical business plan.
- iii. As clients implement their business plan and start their business they are supported with the advice of professional, experienced business counsellors.

Both of these initiatives have been successful in meeting their specific labour market and community economic development objectives. However, in the absence of a national self-employment framework, these programs are not as effective or accessible as they should be. Neither are they an adequate response to the full range of needs of Canada's diverse self-employed workers.

IV. Conclusion

The available data makes it very difficult for government to develop policies that enable and support productive self-employment, particularly for own account self-employed workers. While there appears to be ample research diagnosing the challenges faced by self-employed Canadians, the available information is not sufficiently sensitive to distinguish among differences in needs and capacity within the diverse group of self-employed Canadians. Neither has the available information been adequately pooled and analysed together. We suspect that there may still be important gaps in the information on self-employment. The current state of the information on self-employment in Canada is inhibiting the development of solutions to problems that have been offered.

The federal government is at present not properly equipped to develop a framework to meet the needs of self-employed persons in Canada. The absence of a comprehensive federal policy on self-employment means that close to 2.5 million self-employed persons, including 1.2 million worker owned unincorporated businesses, do not have adequate access to training, capital and benefits.²⁰ This has a direct impact on productivity, their ability to reach their labour market and economic potential, and on the self-sufficiency and economic participation of nearly 1 in every 7 Canadian workers.

²⁰ Statégis.gc.ca. How many People are Self-Employed? <http://strategis.ic.gc.ca/epic/internet/insbrp-rppe.nsf/en/rd00697e.html>