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# SME PROFILE

## RURAL ENTERPRISES IN CANADA

Innovation, Science and Economic Development Canada  
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# SME PROFILE

## RURAL ENTERPRISES IN CANADA

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# ABSTRACT

This report presents findings from the 2020 *Survey on Financing and Growth of Small and Medium Enterprises* to offer a snapshot of the financing and growth activities of small and medium-sized enterprises (SMEs) that operate in rural areas of Canada.

The findings indicate interesting differences with respect to impacts of the COVID-19 pandemic, firm size, industrial distribution, growth, growth activities, and ownership between rural and urban SMEs. However, there were notable similarities between the financing and expansion intentions of rural and urban SMEs.



# 1. INTRODUCTION

This report presents findings from the 2020 [\*Survey on Financing and Growth of Small and Medium Enterprises\*](#) to offer a snapshot of the financing and growth activities of small and medium-sized enterprises (SMEs) that operate in rural areas of Canada. Given that rural SMEs were last profiled in a [\*report\*](#) using data from the 2004 [\*Survey on Financing of Small and Medium Enterprises\*](#), policymakers may be keen to gain a better understanding of the rural SME landscape using recently available data.

Section 2 provides a broader context for the profile of rural SMEs that follows, presenting statistics on rural population, employment, and SMEs.<sup>1</sup>

In 2021, 6.2 million Canadians (16%) lived in rural areas, with rural employment totalling 2.4 million (13%). In 2020, 18% of SMEs operated in rural areas of Canada. Recent data points for these three indicators point to a continuation of the long-term trend towards urbanization.

**[\*Results from the 2020 Survey on Financing and Growth of Small and Medium Enterprises are presented in Section 3.\*](#)**

These results compare the pandemic impacts, firm characteristics, financing, growth, growth activities, expansion intentions, and ownership of rural SMEs with those of urban SMEs.

In 2020, rural SMEs were less likely than urban SMEs to close temporarily due to the COVID-19 pandemic, tended to be smaller and older, and were more likely to operate in goods-producing industries.

Rural SMEs approached financing similarly to urban SMEs, typically seeking external financing—most often government financing—and most of their requests for financing were approved.

***Rural SMEs were more likely than urban SMEs to report positive growth from 2018 to 2020, although they were less likely to export, innovate, hold intellectual property, or adopt advanced technology—activities often linked to growth.***

Likewise, rural and urban SMEs had similar expansion intentions and expectations for growth, although urban SMEs were more likely to expect higher growth. Both rural and urban SMEs reported challenges related to rising input costs and finding skilled labour.

Finally, ownership of rural SMEs tended to be less diverse than that of urban SMEs, and rural SMEs were more likely to be operated by primary decision makers with less education but more experience.

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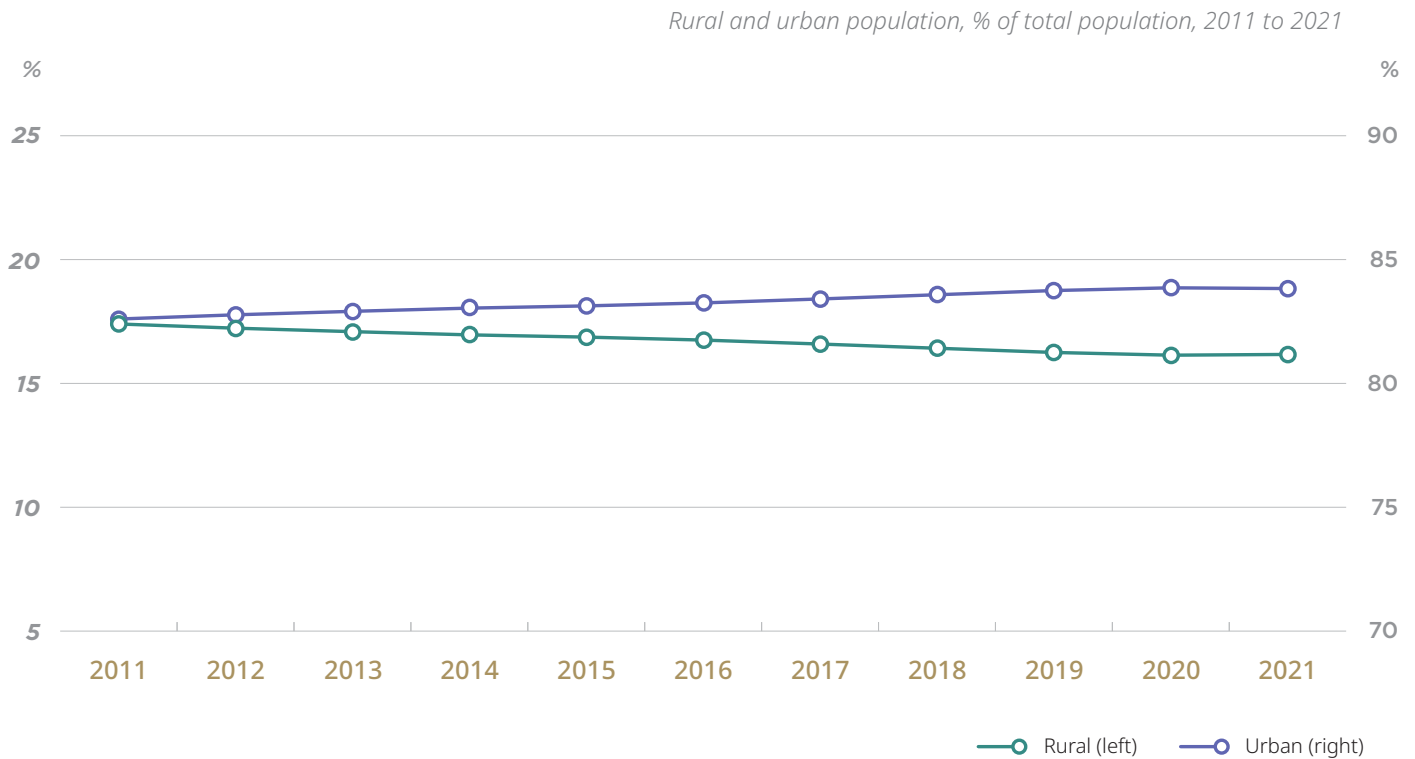
<sup>1</sup> Estimates of rural GDP are not available from Statistics Canada, which produces estimates of GDP at a higher level of geographical aggregation (Census Metropolitan Area) than would be required to calculate rural GDP (Census Agglomeration).

## 2. RURAL CANADA

Rural Canada plays a key role in both the lives and economic success of Canadians. According to the *Labour Force Survey*<sup>2</sup>, in 2021, 6.2 million Canadians (16%) lived in rural communities, while 2.4 million Canadians worked in rural areas. Businesses in rural Canada also contribute significantly to the country's economic success, with 18% of SMEs operating in rural areas in 2020.<sup>3</sup>

The long-term trend, dating back to at least 1851, is towards urbanization, and this trend has continued in recent years.<sup>4</sup> From 2011 to 2021, both urban and rural populations increased, from 28,365,000 to 32,061,000 (+13%), and from 5,974,000 to 6,185,000 (+4%), respectively. As shown in Figure 1, due to the relatively larger increase in the urban population, the proportion of Canadians living in rural areas decreased from 17% to 16% over the same period.

**Figure 1: Rural population decreased as a proportion of total population**



Source: ISED calculations, *Labour Force Survey*, Statistics Canada — Table 17-10-0135-01.

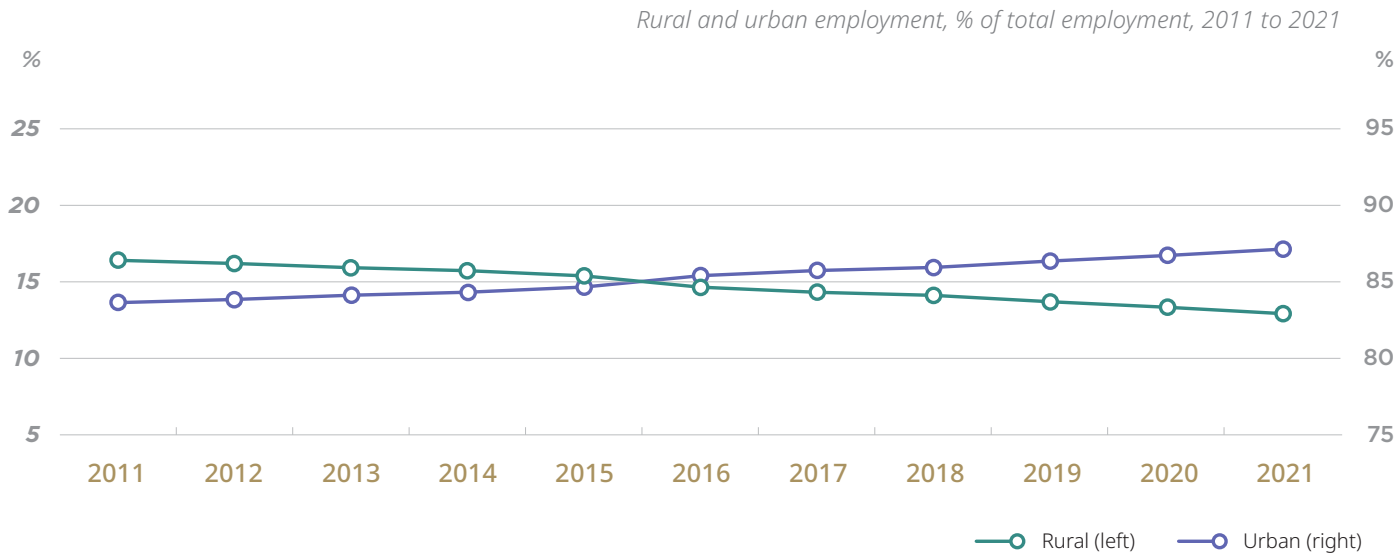
2 The *Labour Force Survey* defines rural areas as those outside of Census Metropolitan Areas (CMA) and Census Agglomerations (CA), while urban areas refer to those inside CMAs or CAs. A CMA must have a total population of at least 100,000, of which 50,000 or more live in the core, while a CA must have a core population of at least 10,000. To be included in a CMA or CA, adjacent municipalities must have a high degree of integration with the core.

3 Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020. These data are described in detail in Section 3 below, including the survey's definition of rural, which is based on a firm's postal code.

4 Statistics Canada, *Canada's rural population since 1851*, 2012. Records of statistics prior to 1851 are not consistently available.

Meanwhile, jobs in rural areas decreased both in number and as a percentage of all jobs. From 2011 to 2021, jobs located in rural areas decreased from 2,817,000 to 2,438,000 (-13%), while jobs in urban areas increased from 14,354,000 to 16,427,000 (+14%). Figure 2 shows that these changes resulted in a decrease in the proportion of jobs located in rural areas—from 16% to 13% between 2011 and 2021. Notably, Figures 1 and 2 suggest that the COVID-19 pandemic had little impact on the trend towards urbanization, even in the short term.

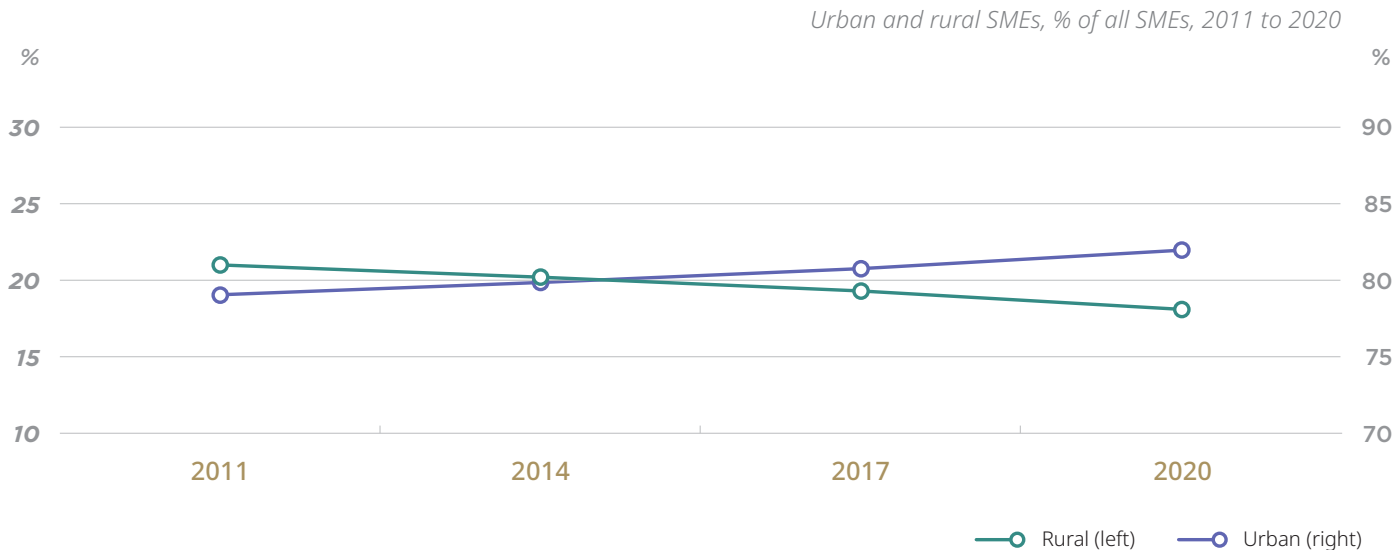
**Figure 2: Rural employment decreased**



Source: ISED calculations, *Labour Force Survey*, Statistics Canada — Table 17-10-0135-01.

Figure 3 presents statistics from the *Survey on Financing and Growth of Small and Medium Enterprises*, which indicate similar trends for rural SMEs. From 2011 to 2020, the proportion of SMEs operating in rural areas decreased steadily from 21% to 18%.

**Figure 3: Rural SMEs decreased as a proportion of all SMEs**



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, for the survey reference years 2011, 2014, 2017 and 2020.

# 3. RURAL SMES

## 3.1 Data

The statistics presented throughout Section 3 are based on the results of the 2020 *Survey on Financing and Growth of Small and Medium Enterprises*, which 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 gathered data on the growth, growth-related activities, and business-owner characteristics of SMEs.

The survey's target population was private sector, for-profit SMEs with 1 to 499 employees and \$30,000 or more in annual revenues in 2020.

The target 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. The sample size was 19,283, with a response rate of 56%.*

The survey calculated rural and urban areas based on the postal code in which the business was located. Specifically, if the second digit of its postal code was zero, the business was considered a rural SME.

It should be noted that the survey was, by design, a cross-sectional survey intended for analysis of a given reference year. In particular, the survey was not explicitly designed for comparisons across time or iterations of the survey.

As a result, such comparisons should be made with caution. Nevertheless, this report notes qualitative comparisons across survey iterations where it is unlikely that changes are entirely due to methodology or sampling.

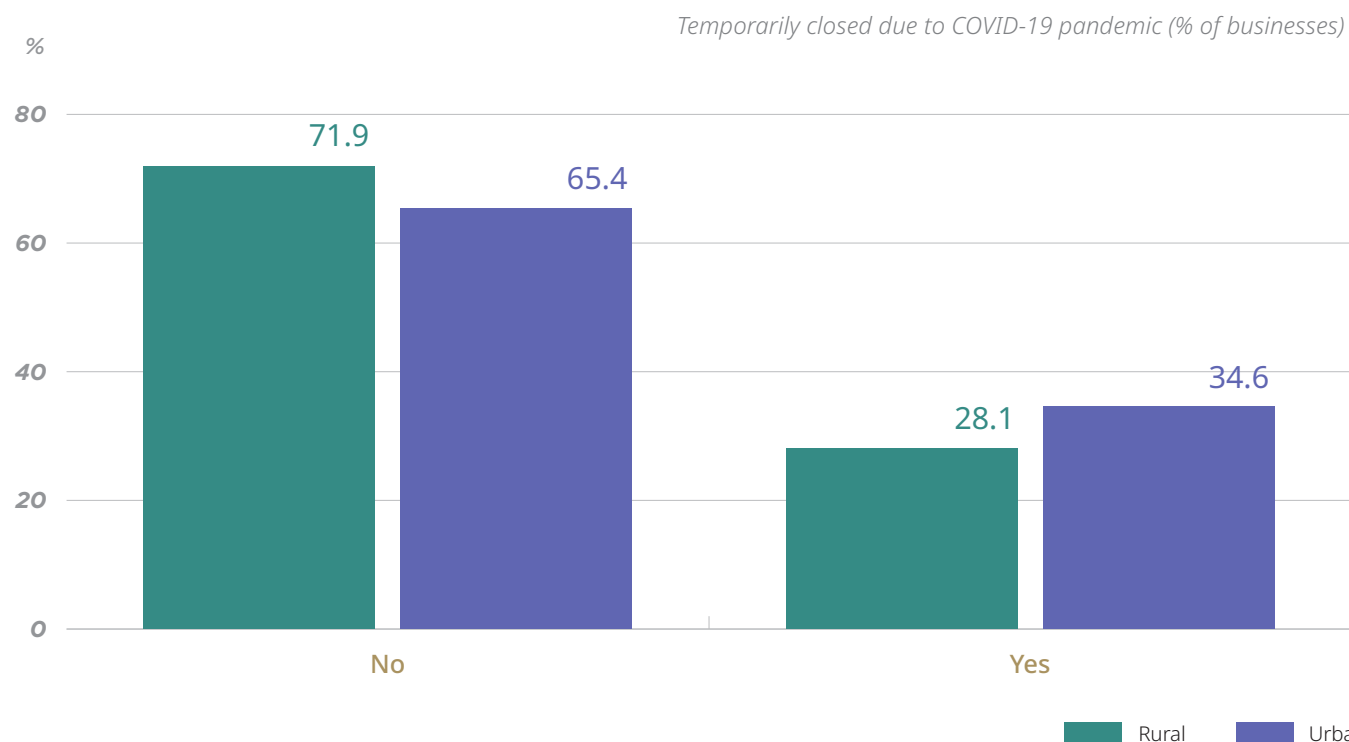
## 3.2 COVID-19 pandemic

In March 2020, government interventions related to the COVID-19 pandemic were implemented across Canada, significantly impacting all businesses, including SMEs. As a result, many businesses were forced to close temporarily.

In contrast to urban SMEs, fewer rural SMEs—which are less likely to operate in public-facing or high-contact industries—closed temporarily due to the pandemic: 28% of rural SMEs closed temporarily, for an average of 10 weeks, compared to 35% of urban SMEs, which closed for an average of 12 weeks (Figure 4).



**Figure 4: Rural SMEs were less likely to close temporarily during the COVID-19 pandemic**



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

Significant government support, such as the [Canada Emergency Business Account \(CEBA\)](#) and the [Canada Emergency Wage Subsidy \(CEWS\)](#), was made available to businesses throughout 2020.<sup>5</sup> Similar proportions of rural SMEs (76%) and urban SMEs (76%) applied for at least one type of government financing,<sup>6</sup> with approval rates of 99% and 98%, respectively.

Most urban and rural SMEs that sought government financing applied for CEBA or CEWS.<sup>7</sup> Eighty-seven percent of rural firms and 86% of urban firms applied for CEBA, while 52% and 61% applied for CEWS, respectively.

### 3.3 Firm characteristics

In 2020, rural SMEs were more likely to be smaller and older than urban SMEs. They were also more likely to operate in goods-producing industries, such as the agricultural sector, which is heavily concentrated in rural areas.

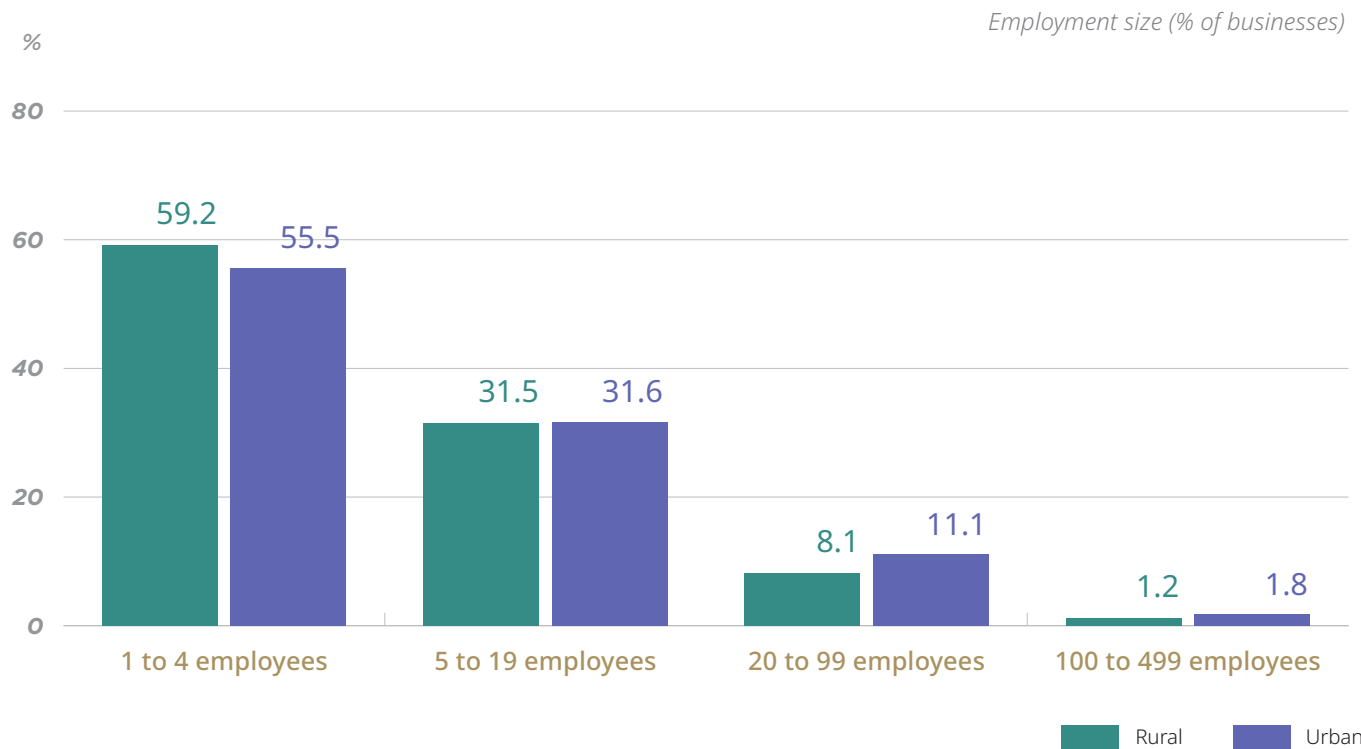
As shown in Figure 5, rural SMEs tended to be smaller than their urban counterparts, with 59% employing between 1 and 4 workers, compared to 56% of urban SMEs. Likewise, urban SMEs (13%) were more likely than rural SMEs (9%) to have 20 or more employees.

<sup>5</sup> The [Canada Emergency Business Account](#) provided interest-free and partially forgivable loans of up to \$60,000, while the [Canada Emergency Wage Subsidy](#) directly subsidized employees' wages for employers who sustained significant drops in revenue over the course of the pandemic.

<sup>6</sup> In this text, the term government financing refers to grants, subsidies, government-guaranteed loans, or non-repayable contributions.

<sup>7</sup> SMEs may have requested more than one type of government financing.

**Figure 5: Rural SMEs are smaller than urban SMEs**



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

The distribution of rural SMEs by sector contrasted with that of urban SMEs, with rural SMEs being much more likely to operate in the goods sector, particularly the primary sector: 20% of rural SMEs were in the Agriculture, Forestry, Fishing and Hunting, and the Mining and Oil and Gas Extraction sectors, 20% were in the Construction sector, and 6% were in the Manufacturing sector.

This compared to 3%, 16%, and 5% of urban SMEs, respectively (Table 1). On the other hand, urban SMEs were more often present in service industries, such as the Professional, Scientific and Technical Services sector.

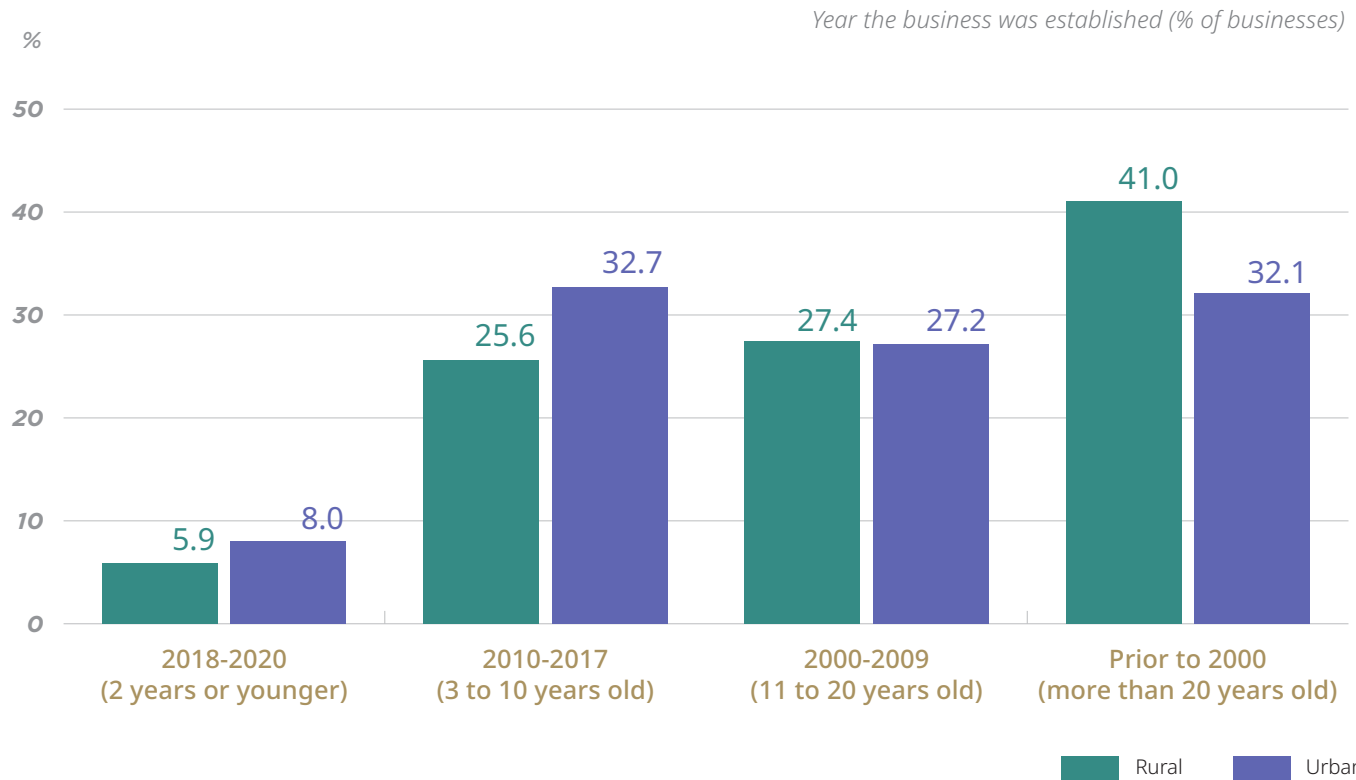
**Table 1: Rural SMEs were more likely to operate in goods-producing sectors**

Distribution of SMEs by industry sector		
Industry	Rural	Urban
	%	%
Agriculture, Forestry, Fishing and Hunting (NAICS 11), Mining and Oil and Gas Extraction (NAICS 21)	20.2	2.6
Construction (NAICS 23)	19.8	15.5
Manufacturing (NAICS 31–33)	6.0	5.1
Wholesale Trade (NAICS 41)	3.1	5.1
Retail Trade (NAICS 44–45)	10.0	11.2
Transportation and Warehousing (NAICS 48–49)	7.1	7.1
Professional, Scientific and Technical Services (NAICS 54)	6.2	16.5
Accommodation and Food Services (NAICS 72)	7.6	7.9
Other Services (NAICS 81)	6.9	6.8
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)	13.0	22.3

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

As shown in Figure 6, rural SMEs were more likely than urban SMEs to be older, with 41% of rural SMEs being more than 20 years old, compared to 32% of urban SMEs. Correspondingly, there were fewer rural SMEs in operation for 10 years or less. The average age of rural firms was 20 years, while that of urban firms was 17 years.

**Figure 6: Rural SMEs were well established**



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

### 3.4 Financing

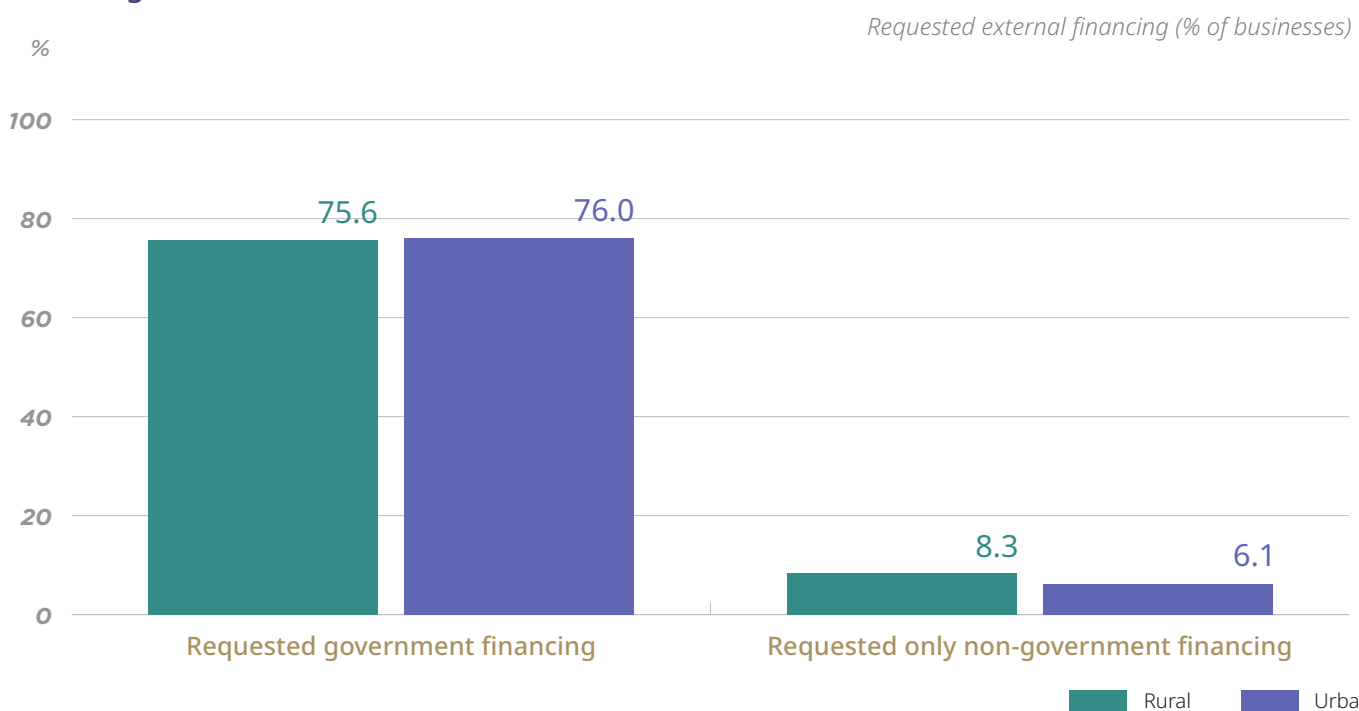
The financing activities of rural SMEs were similar to those of urban SMEs, with most applying for external financing, typically from government. As noted above, significant government support was made available to SMEs throughout the COVID-19 pandemic. Financing requests were nearly always approved, regardless of whether the SME was rural or urban, and few SMEs encountered difficulties in accessing financing.

Most SMEs sought financing in 2020, as demand for and supply of financing was high during the pandemic. Eighty-four percent of rural SMEs and 82% of urban SMEs requested financing (Figure 7). Prior to the pandemic, in 2017, roughly half or less of SMEs requested financing.

Most SMEs that requested financing applied for government financing, with only 8% of rural and 6% of urban SMEs requesting only financing from non-government sources.



**Figure 7: Most rural and urban SMEs applied for external financing, typically government financing**



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

Besides government financing, trade credit and debt financing were important sources of financing for rural and urban SMEs. Twenty-seven percent of rural and 24% of urban SMEs requested trade credit, while 21% and 15% requested debt financing, respectively.

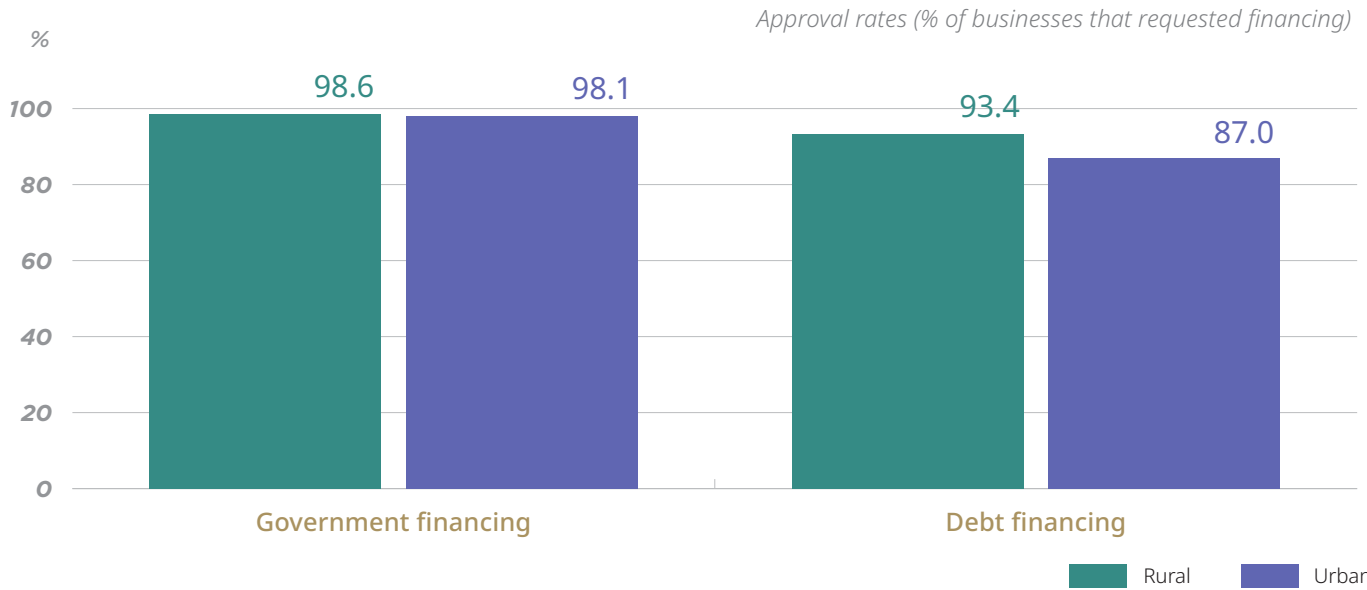
These results contrast with results from previous iterations of the survey, which indicated that prior to the pandemic, trade credit and debt financing were the most commonly requested types of financing, while government financing was a relatively unimportant source of financing for SMEs.<sup>8</sup> This contrast highlights the importance of government financing during the COVID-19 pandemic.

As shown in Figure 8, most financing requests for both rural and urban SMEs were approved. Ninety-nine percent of requests for government financing by rural SMEs and 93% for debt financing were approved.<sup>9</sup> Likewise, 98% of requests for government financing and 87% for debt financing were approved for urban SMEs. Approval rates for other types of financing, such as trade credit or lease financing, were similarly high.

<sup>8</sup> For example, in 2017, 31%, 27%, and 5% of rural firms requested debt financing, trade credit, and government financing, respectively, while 25%, 26%, and 3% of urban SMEs applied for these respective types of financing.

<sup>9</sup> Debt financing approval refers to overall approval (i.e., either full or partial approval) of a firm's largest debt financing request.

**Figure 8: Rural and urban SME financing requests had high approval rates**

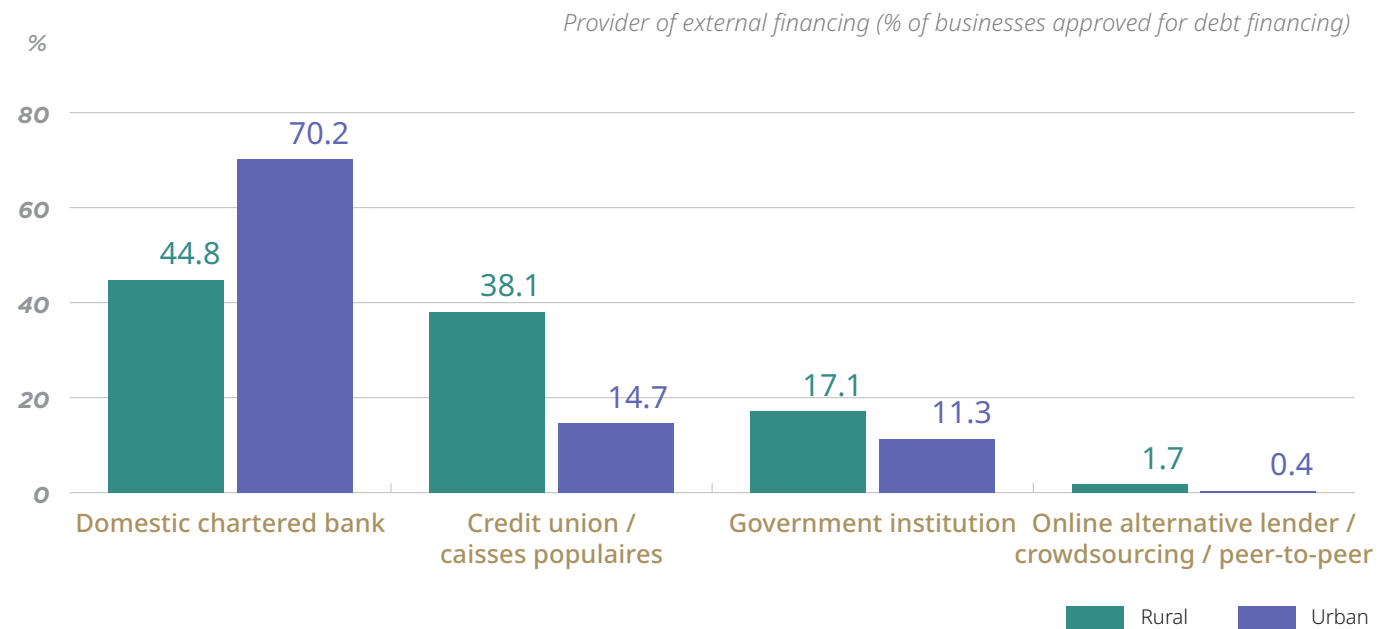


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Figure 9 shows rural-urban differences in sources of debt financing. Rural SMEs more often received financing from credit unions or caisses populaires, government institutions, or alternative sources (such as online lenders, crowdsourcing, or peer-to-peer), with 38%, 17% and 2% of rural

firms receiving financing from these sources, respectively, compared to 15%, 11%, and less than 1% of urban firms. By contrast, urban firms (70%) were more likely than rural firms (45%) to receive debt financing from domestic chartered banks.

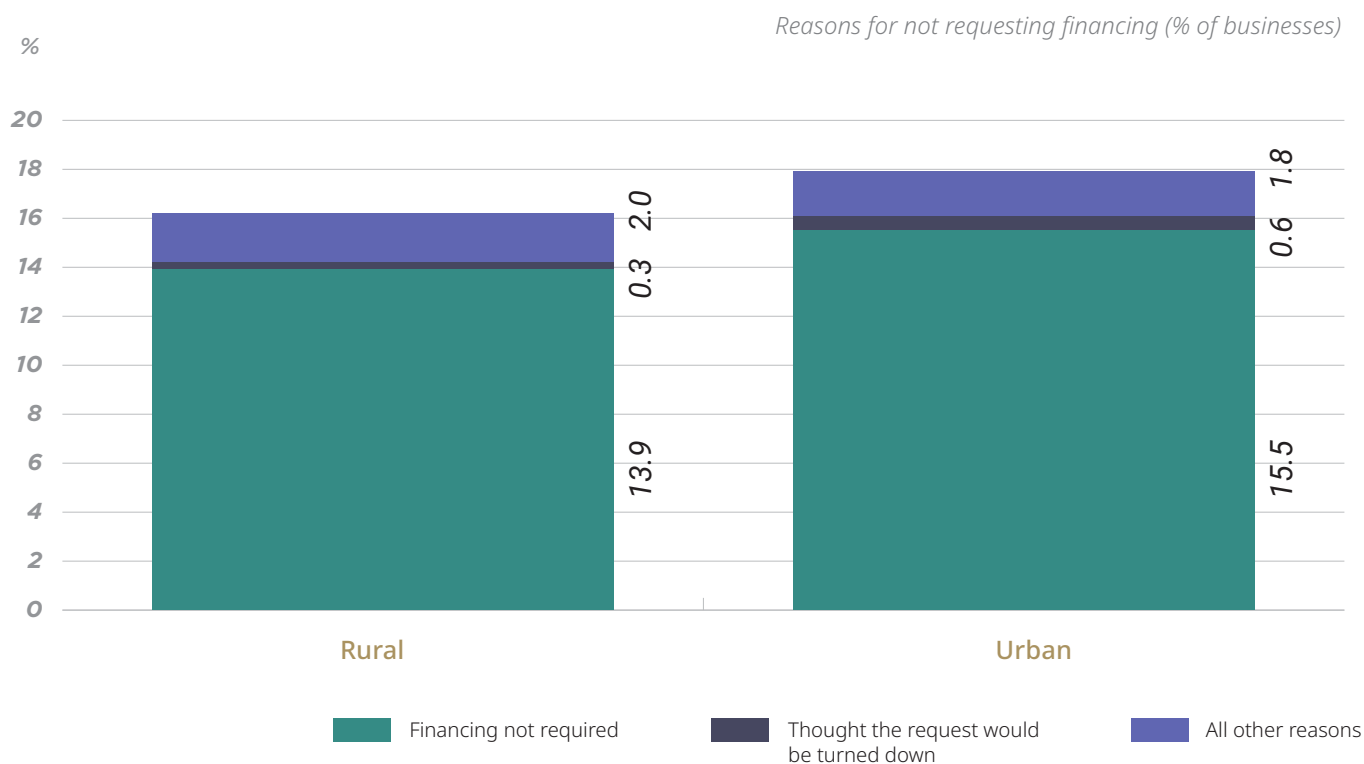
**Figure 9: Rural SMEs were more likely to receive debt financing from credit unions or caisses populaires, government institutions, or online alternative sources**



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

SMEs, regardless of their location, were unlikely to report difficulties accessing financing in 2020. Most rural SMEs that did not apply for financing reported that they had not done so because they did not require financing. Figure 10 shows that of the 16% of rural SMEs that did not seek financing, 86% did not require it. Similarly, of the 18% of urban SMEs that did not seek financing, 87% reported that they did not require it.

**Figure 10: Few discouraged borrowers among rural and urban SMEs**



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

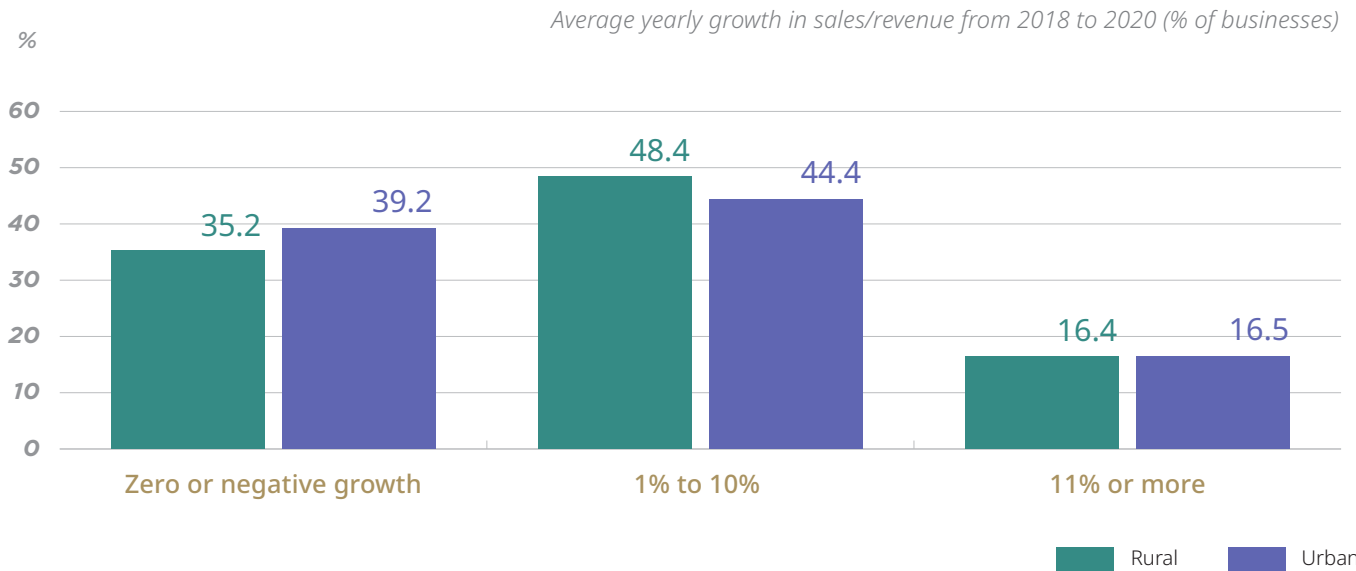
In addition, less than one percent of all rural and urban SMEs reported that they did not seek financing because they expected their request to be turned down (discouraged borrowers). Finally, only 7% of rural SMEs and 10% of urban SMEs considered obtaining financing to be a major obstacle to growth.

### 3.5 Growth activities

Compared to urban SMEs, rural SMEs were more likely to report and expect positive growth, but less likely to report or expect high growth. Rural SMEs were less likely to sell outside their province, export, innovate, hold intellectual property, and adopt advanced technology—activities often linked to growth. Both rural and urban firms reported challenges related to the rising cost of inputs and finding skilled labour.

Rural SMEs were more likely than urban SMEs to report positive average yearly growth in their previous three years of operation (from 2018 to 2020), with 65% reporting positive growth, compared to 61% of urban SMEs (Figure 11). The proportions of rural and urban SMEs reporting growth of 11% or more were similar.

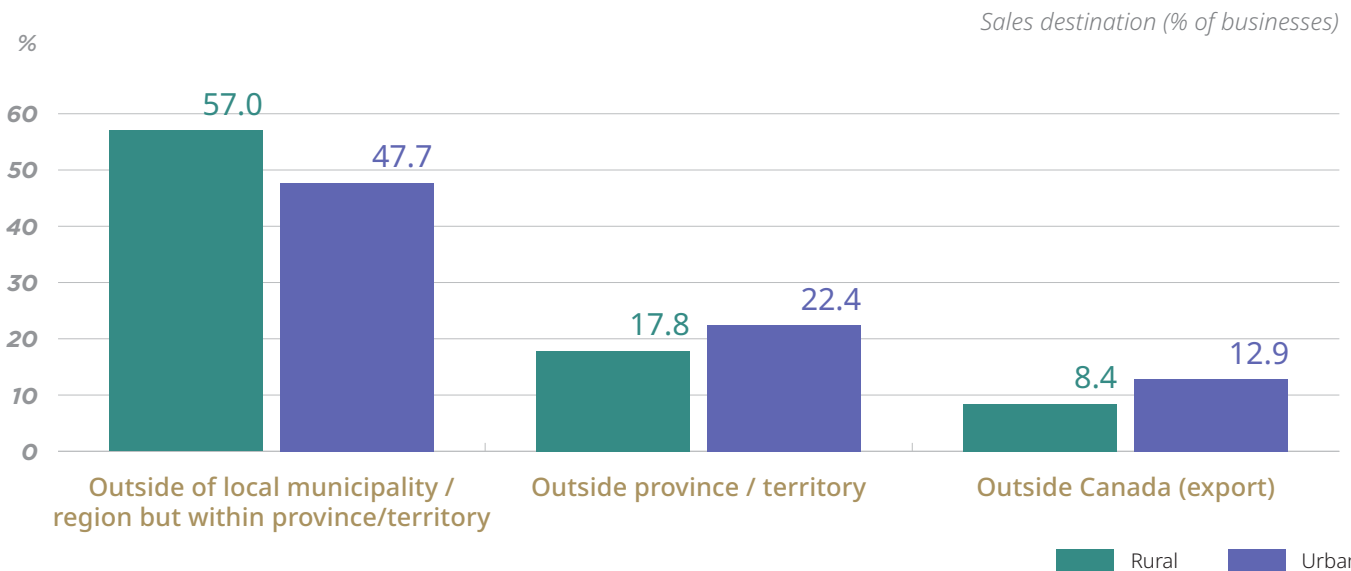
**Figure 11: Rural SMEs were more likely to report positive growth**



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

In 2020, rural SMEs (57%) were more likely than urban SMEs (48%) to sell outside their local municipality or region (Figure 12). By contrast, rural SMEs had a lower propensity to sell beyond their province or territory: 18% sold outside their province or territory but within Canada, and only 8% exported, compared to 22% and 13% of urban SMEs, respectively.

**Figure 12: Rural SMEs more likely to sell outside their local municipality or region**

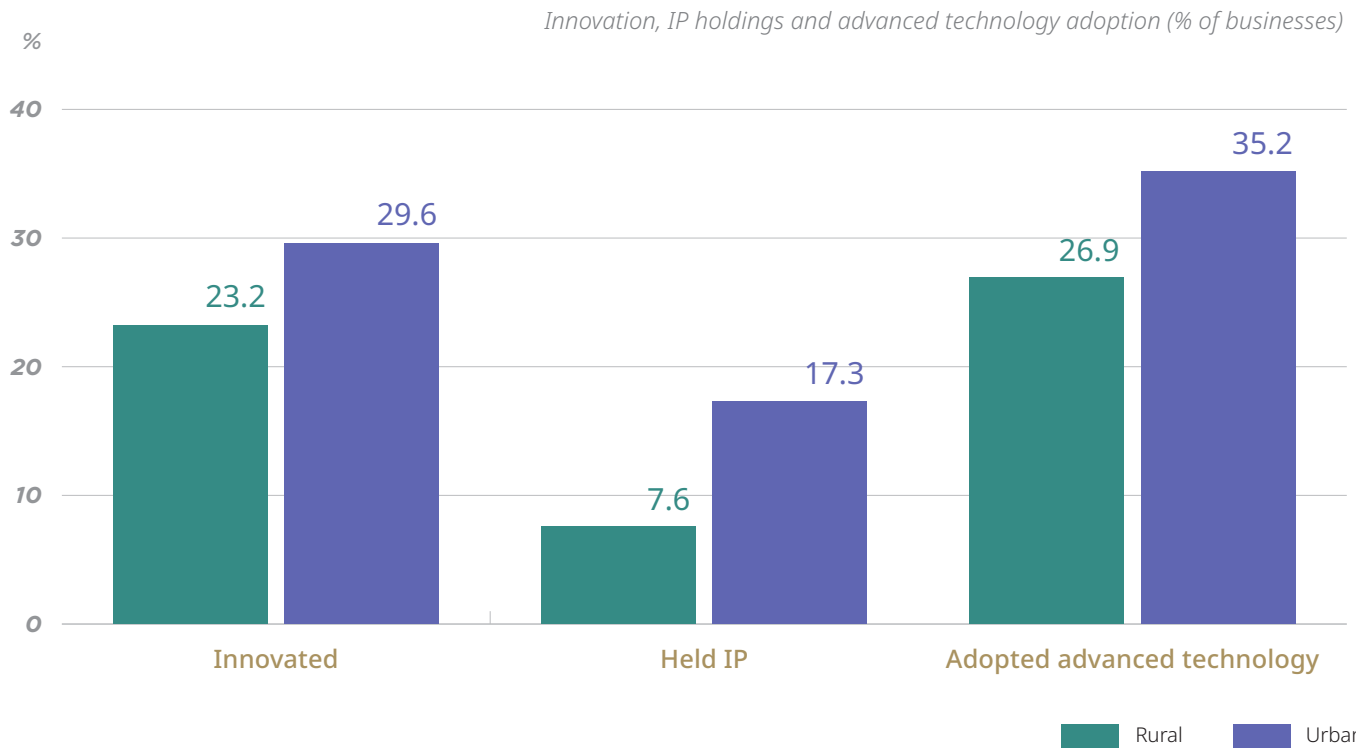


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Rural SMEs were, relative to urban SMEs, less likely to innovate, hold intellectual property (IP), and adopt advanced technology (Figure 13). Twenty-three percent of rural SMEs introduced at least one type of innovation between 2018 and 2020, compared to 30% of urban SMEs. Rural SMEs were less likely to introduce all types of innovations (product, process, organizational, and marketing).



**Figure 13: Rural SMEs are less likely to innovate, hold IP or adopt advanced technology**



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

Likewise, rural SMEs were less likely to hold IP: 8% of rural SMEs held at least one type of intellectual property, compared to 17% of urban SMEs. Rural SMEs were less likely to hold all types of IP, including registered trademarks, patents, and registered industrial designs.

Furthermore, rural SMEs (27%) were less likely than urban SMEs (35%) to adopt at least one type of advanced technology between 2018 and 2020.

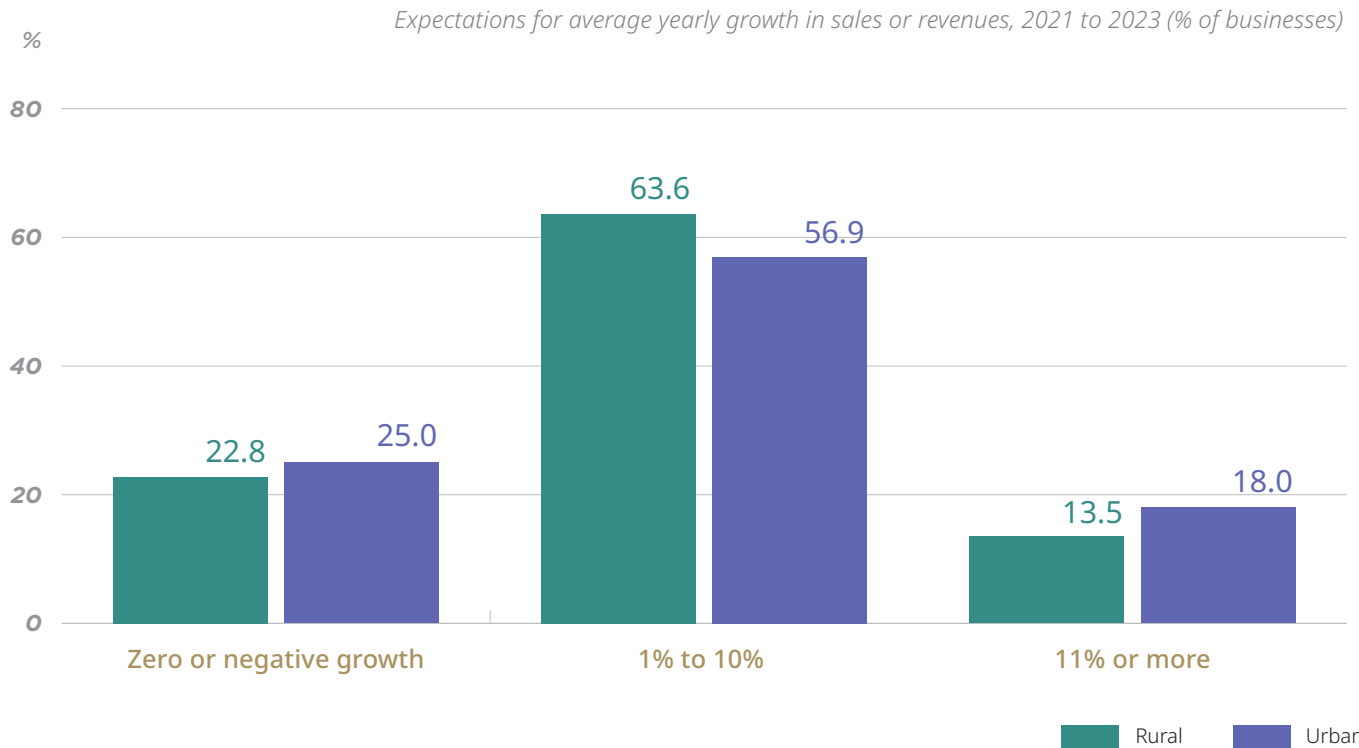
***Relative to urban SMEs, rural SMEs were less likely to adopt business intelligence technologies, design or information control technologies, or security or advanced authentication systems.***

Rural firms were also less likely than urban firms to have an online presence (e.g., website, social media account, or digital marketing service).

However, rural SMEs were more likely to adopt clean technologies. Figure 14 shows rural and urban SME expectations for average yearly growth for the years 2021 to 2023.

The proportions of rural SMEs (77%) and urban SMEs (75%) expecting positive growth were similar, although urban SMEs (18%) were more likely than rural SMEs (14%) to expect growth of 11% or more.

**Figure 14: Rural SMEs were less likely to expect higher growth**



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

Both rural (75%) and urban SMEs (77%) were likely to report intentions to expand sales into new markets over the next three years. The proportion of both types of SMEs reporting expansion intentions was higher than in pre-pandemic years, when less than half of rural or urban SMEs reported such intentions.<sup>10</sup>

Finally, as shown in Table 2, the most commonly reported moderate or major obstacles to growth, for both rural and urban firms, were the rising cost of inputs and recruiting and retaining skilled employees. Rural SMEs also faced challenges related to shortage of labour (50%), fluctuations in consumer demand (46%), and maintaining sufficient cash flow or managing debt (46%), while urban SMEs reported fluctuations in consumer demand (49%), increasing competition (46%), and the corporate tax rate (45%) as obstacles to growth.

<sup>10</sup> *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

**Table 2: Rural and urban SMEs reported challenges related to rising input costs and finding skilled employees**

Moderate or major obstacles to growth (% of businesses)		
	Rural	Urban
	%	%
Shortage of labour	49.9	42.5
Recruiting and retaining skilled employees	53.3	49.6
Fluctuations in consumer demand	45.7	49.4
Obtaining financing	18.3	21.6
Government regulations	37.9	30.1
Rising cost of inputs	67.0	55.3
Increasing competition	37.6	46.3
Corporate tax rate	45.4	45.2
Maintaining sufficient cash flow or managing debt	45.6	42.6

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

### 3.6 Ownership

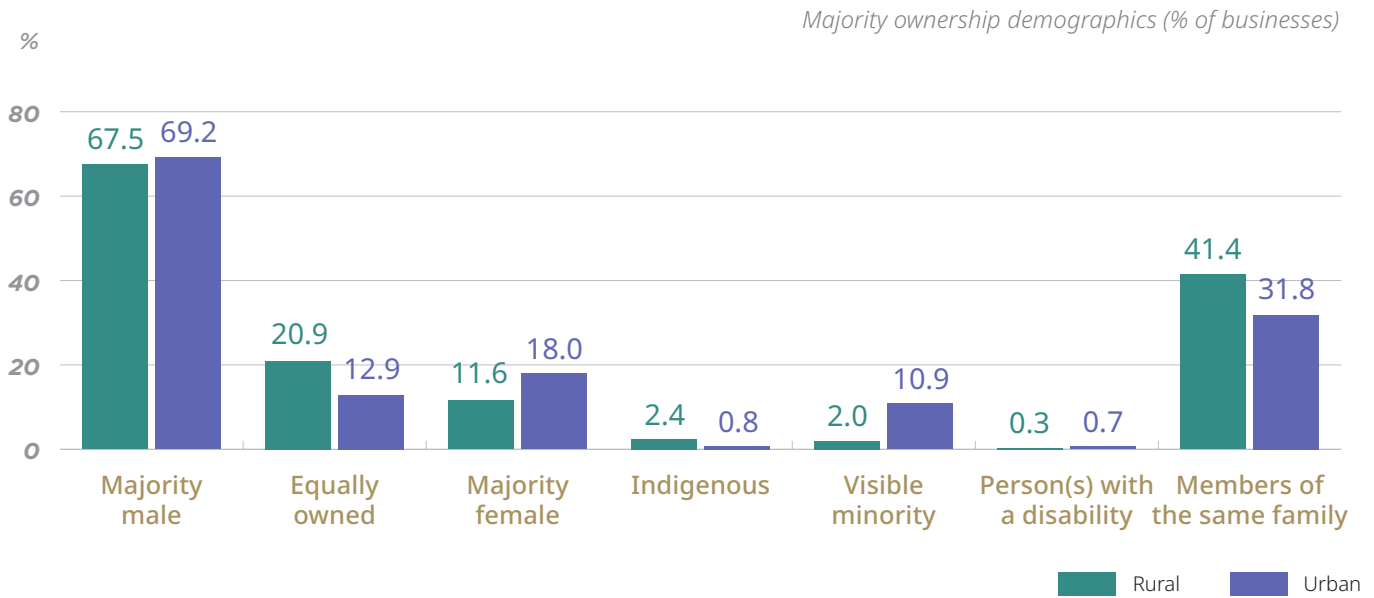
The ownership of rural SMEs was generally less diverse than that of urban SMEs, with majority ownership of rural SMEs less likely to be comprised of individuals from underrepresented demographic groups, such as women or visible minorities. Rural SMEs tended to be operated by primary decision makers with more experience and less education than the primary decision makers in urban SMEs.<sup>11</sup>

In 2020, both rural and urban SMEs tended to be owned by men: 68% and 69% for rural and urban SMEs, respectively, were majority male owned (Figure 15). Rural SMEs were more likely than urban SMEs to be equally owned by men and women and less likely to be majority female owned. Notably, between 2017 and 2020, the gender of majority ownership shifted, for both rural and urban SMEs, away from equal ownership and towards majority male ownership.

Rural SMEs were less likely to be majority owned by visible minorities or person(s) with a disability and more likely to be majority owned by Indigenous person(s). Likewise, the primary decision makers of rural SMEs (91%) were more likely to be Canadian born than the primary decision makers of urban SMEs (67%).

<sup>11</sup> Primary decision makers tend to be the majority owner of an SME. Fifty-one percent and 47% of rural and urban SMEs were operated by primary decision makers with the title of "majority owner," respectively, while 27% and 31%, respectively, were operated by primary decision makers with the title of "president."

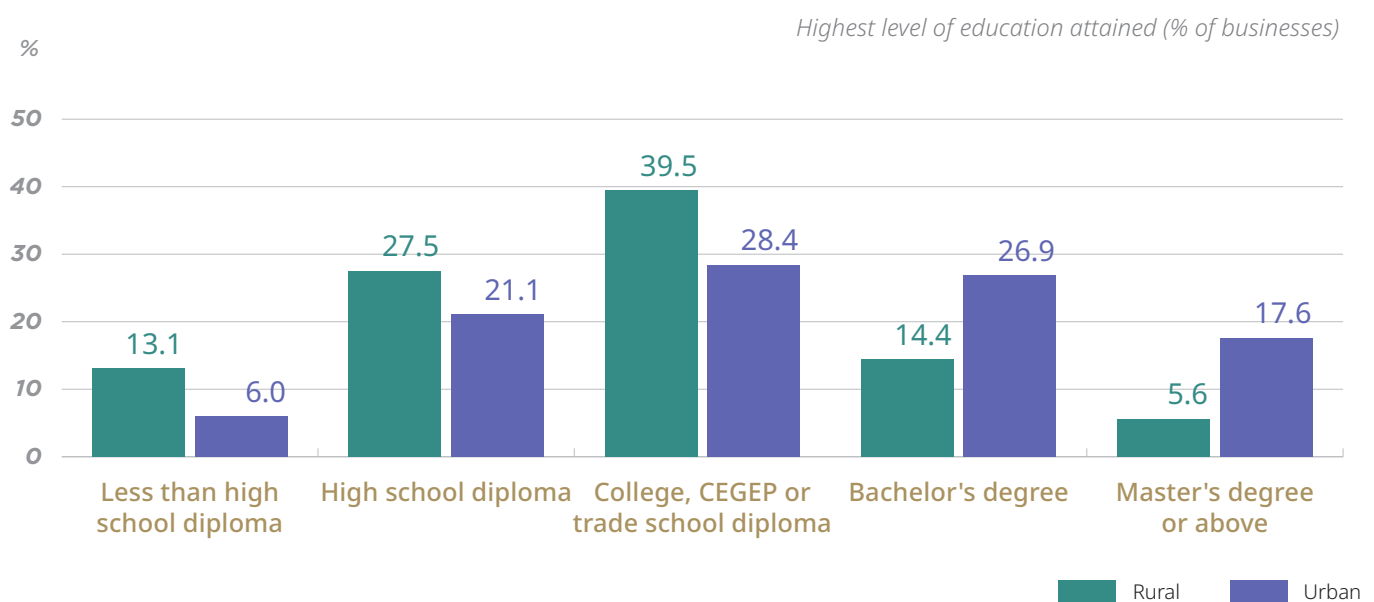
**Figure 15: Rural SME ownership was less diverse**



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

The primary decision makers of rural SMEs (20%) were less likely than those of urban SMEs (45%) to be university educated (Figure 16). On the other hand, rural SMEs were more often operated by primary decision makers who had graduated from college, CEGEP, or trade school. In addition, primary decision makers in rural SMEs were more likely than those in urban SMEs to have obtained a high school diploma or less.

**Figure 16: Rural SME primary decision makers were less likely to be university educated**

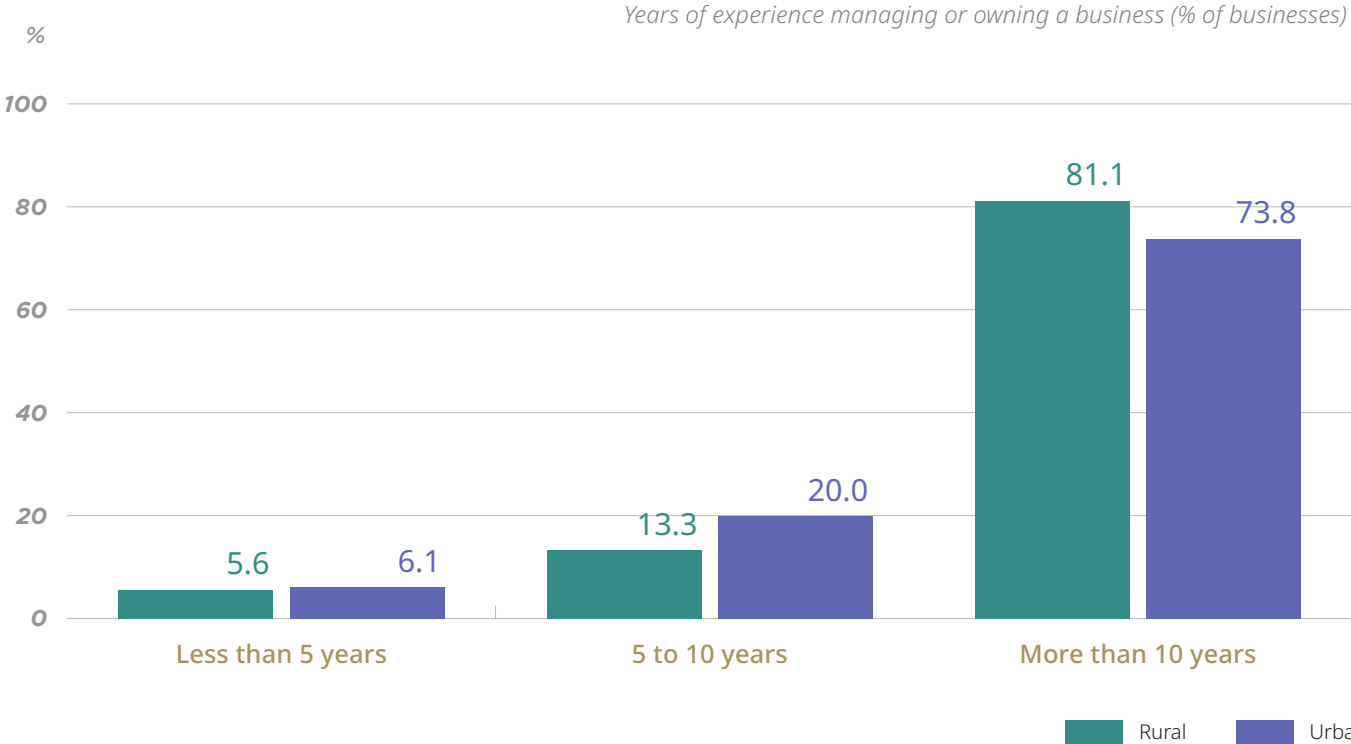


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.



Finally, the primary decision makers of rural SMEs tended to have more experience than those of urban SMEs. In 2020, 81% of rural SMEs had primary decision makers with more than 10 years of experience in managing or owning a business, compared with 74% of urban SMEs (Figure 17).

**Figure 17: Rural SME primary decision makers were more experienced**



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

## 4. CONCLUSIONS

This report offers a snapshot of the financing and growth activities of rural SMEs in Canada. As the country continues to urbanize—with people, jobs, and businesses moving to urban areas—policymakers may be interested in understanding the rural SME landscape based on recently available data.

Detailed statistics are presented on rural SMEs operating in 2020. The results, based on the *Survey on Financing and Growth of Small and Medium Enterprises*, show that rural SMEs were less likely than their urban counterparts to close temporarily due to the COVID-19 pandemic.

***In contrast to urban SMEs, rural SMEs tended to be smaller and older, and were more likely to operate in goods-producing industries.***

The financing activities of rural SMEs were similar to those of urban SMEs, with most seeking external financing—most often government financing—and seeing their requests for financing approved.

However, urban SMEs tended to borrow from banks, while rural SMEs were more likely to borrow from other types of lenders, such as credit unions or caisses populaires.

Rural SMEs were more likely than urban SMEs to report positive growth over the previous three years, yet were less likely to export, innovate, hold intellectual property, or adopt advanced technology—activities often linked to growth.

Furthermore, rural and urban SMEs had similar intention expansions and expectations of growth; urban SMEs, however, were more likely to expect higher growth.

***Both rural and urban SMEs reported rising input costs and challenges finding skilled labour as obstacles to growth.***

Finally, ownership of rural SMEs tended to be less diverse than that of urban SME, and rural SMEs were more likely than urban SMEs to be operated by primary decision makers with less education but more experience.