

Rural Entrepreneurship: Necessity or Opportunity?



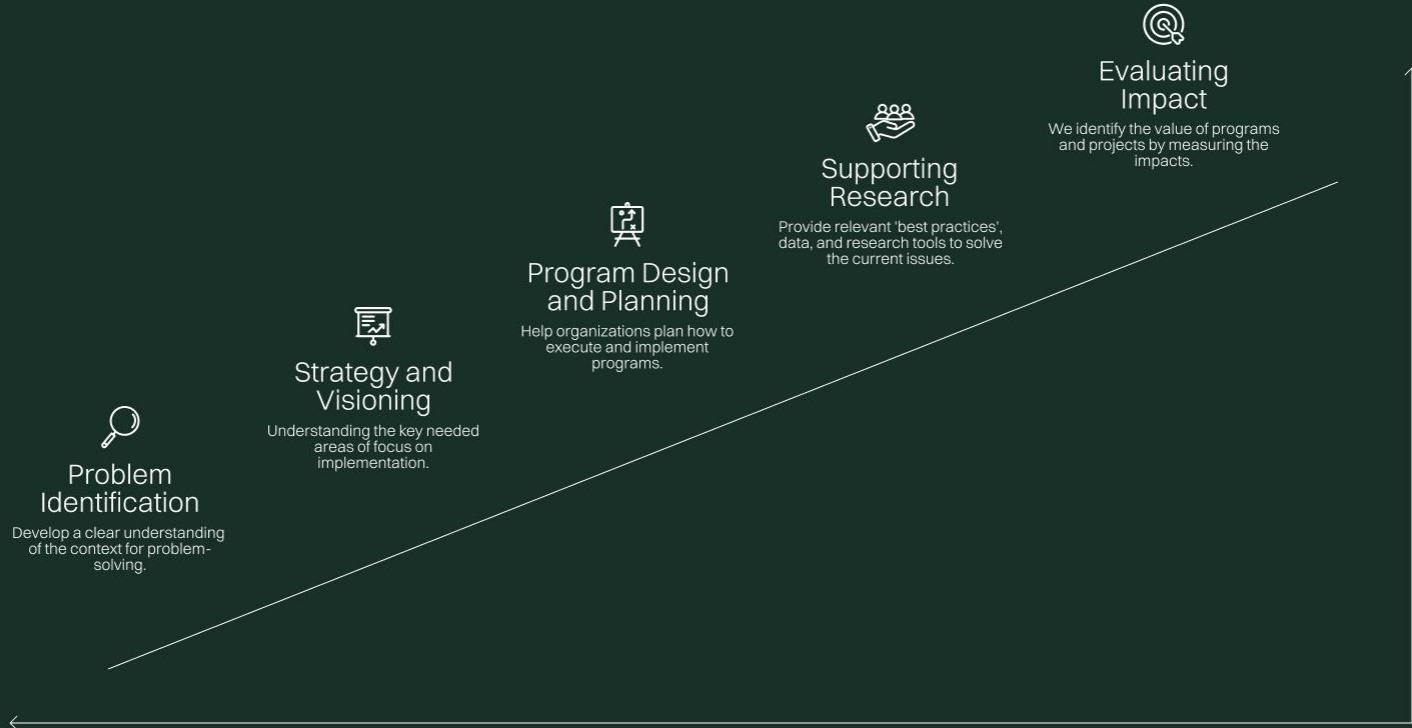


**“Stay close to
anything that makes
you glad you are
alive”.**

Hafez (c. 1320)

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ASBB Consulting is a social and economic advisory that empowers governments, non-profits, and industry to make economically and socially conscious decisions through evidenced-based research. We bring special expertise in serving our rural clients.



What is Rural?

Rurality is typically defined along 3 dimensions

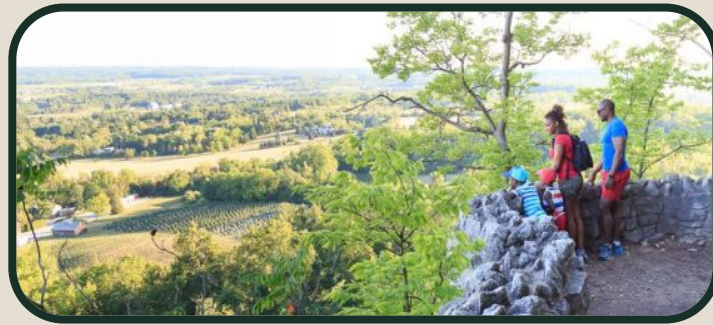
1. (Small) **population size**
2. (Low) **population density**
3. (Large) **distance to agglomerations**

Combinations of these 3 dimensions result in

- **different rural landscapes**
- **diverse rural opportunities and challenges**



Twillingate, Newfoundland and Labrador



Milton, Ontario



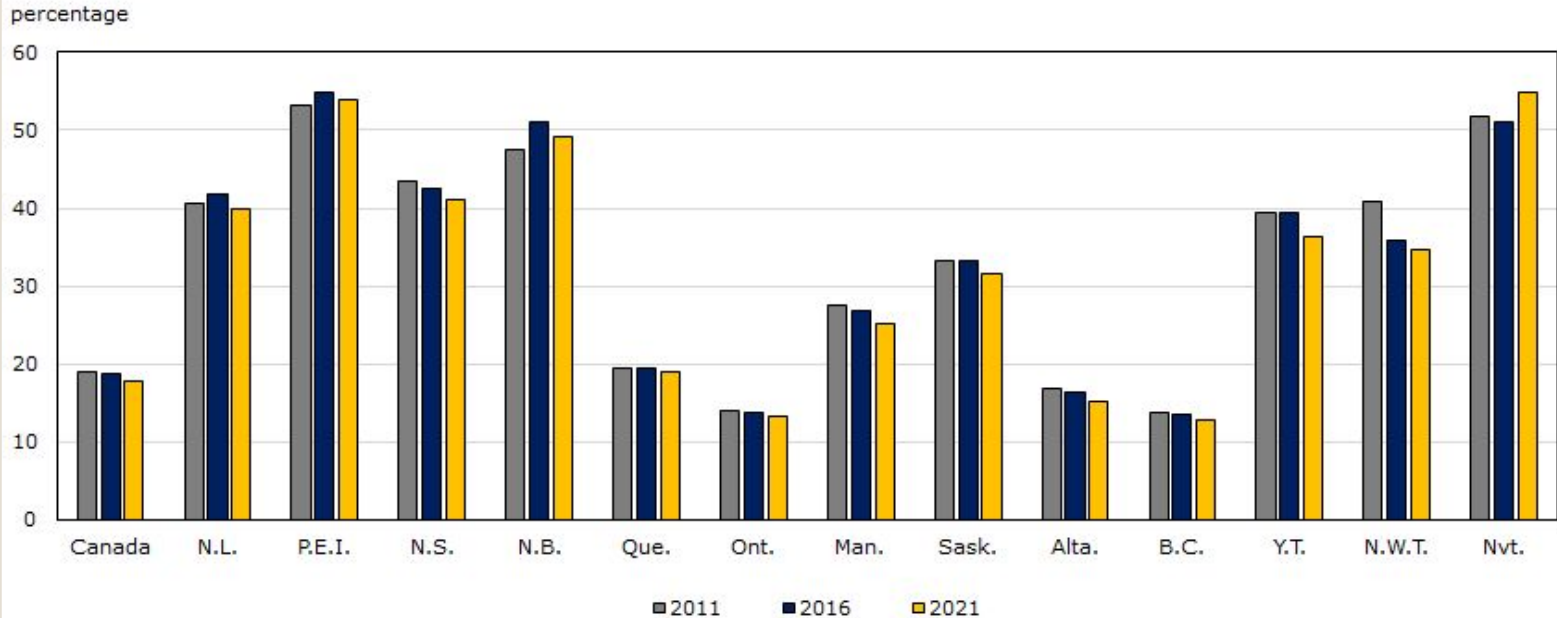
Town of Elrose, Saskatchewan

Table 1: Recent Population Trends in Rural Areas

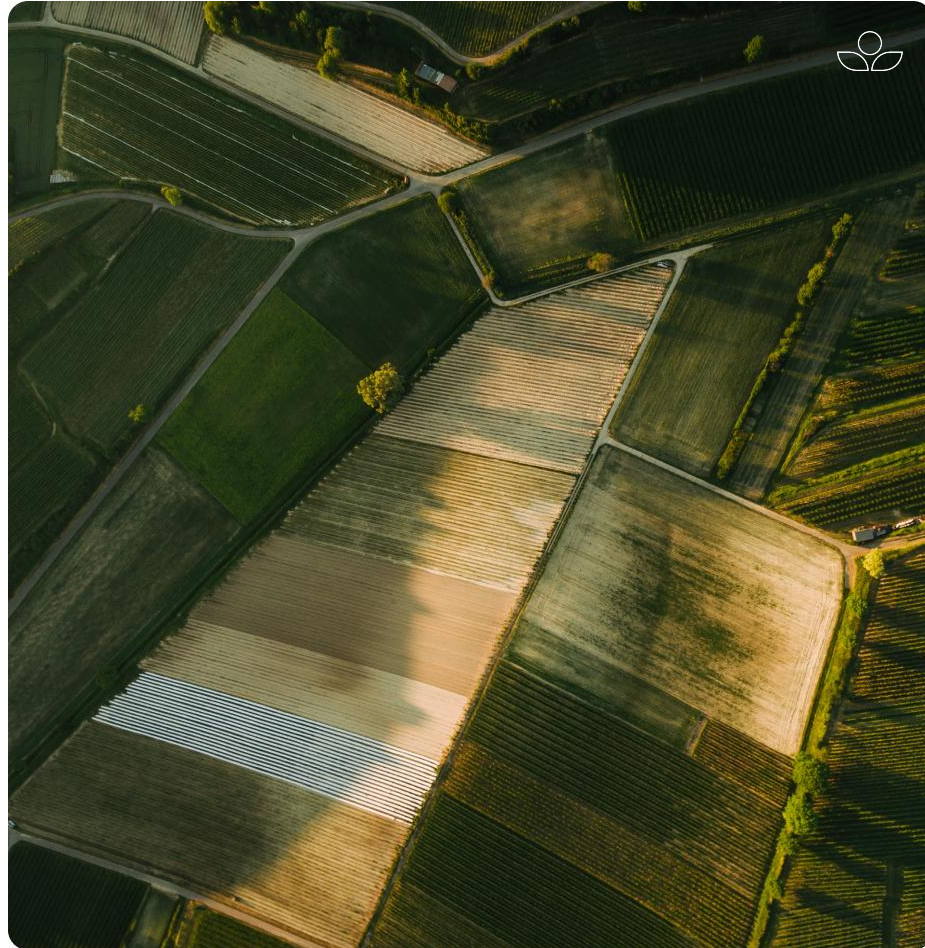
	Rural population in 2016	Rural population in 2021	Rural population growth, 2016 to 2021	Urban population growth, 2016 to 2021
	number		percentage	
Canada	6,575,373	6,601,982	0.4	6.3
Newfoundland and Labrador	217,988	204,086	-6.4	1.6
Prince Edward Island	78,498	83,350	6.2	10.2
Nova Scotia	393,629	398,776	1.3	7.7
New Brunswick	380,919	380,490	-0.1	7.9
Quebec	1,591,306	1,614,878	1.5	4.8
Ontario	1,857,981	1,888,658	1.7	6.4
Manitoba	343,136	338,894	-1.2	7.3
Saskatchewan	364,848	358,716	-1.7	5.5
Alberta	667,803	650,027	-2.7	6.3
British Columbia	631,776	634,976	0.5	8.7
Yukon	14,142	14,627	3.4	17.8
Northwest Territories	15,003	14,267	-4.9	0.1
Nunavut	18,344	20,237	10.3	-5.6

Figure 1: Recent Population Trends in Rural Areas

Proportion of population living in rural areas 2011, 2016 and 2021



Source: Statistics Canada, Census of Population.



What factors foster Entrepreneurship?

Pull Factors: Factors related to business opportunity, networks, disagreement with colleagues, market opportunities etc. Found to be higher in urban entrepreneurs.

Push Factors: The main examples of push factors are workplace distress, anxiety of losing a job, unemployment rate, and market condition (Shapiro and Sokol, 1982; Cromie and Hayes, 1991; Carrasco, 1999). Higher among rural entrepreneurs.



What factors foster Entrepreneurship?

Opportunity entrepreneurship can be defined as starting a business to take advantage of a business opportunity.

Necessity entrepreneurship, on the other hand, involves starting a business because there are no better choices for work.

The literature has generally shown that start-up firms driven by opportunity are expected to have better economic outcomes, such as longer survival rates and a higher impact on economic growth (e.g., Wennekers et al. 2005). This is due to more opportunities to geographic markets, networks, education and so on. Some of it is changing due to e-commerce.

Table 2: Entrepreneur by necessity or opportunity

Entrepreneurship in Rural Canada: Necessity or Opportunity? ISED The datasets used for this paper are the pooled, cross-sectional microdata of the 2016, 2017, 2018 and 2019 GEM's *Adult Population Survey* on Canada.³ GEM's *Adult Population Survey* provides a rich source of information on the economic, demographic and location characteristics of a representative national sample of non-entrepreneurs and entrepreneurs between 18 and 99 years of age. In the dataset, entrepreneurs are divided into three main groups: nascent entrepreneurs, new entrepreneurs and established entrepreneurs.⁴ The GEM survey also provides information on individuals' perceptions of entrepreneurship and detailed information about motivations, attitudes and ambitions of individuals who are willing to start, or have started, a business.

Nascent Entrepreneurs: Nascent entrepreneurs are individuals that were actively involved in start-up activities over the past 12 months preceding the survey, and personally owned all or part of the business. New entrepreneurs are individuals that managed and owned a business that is up to 42 months old. Established entrepreneurs are individuals that managed and owned a business that is older than 42 months.

	Nascent entrepreneur Mean (std. dev.)	Nascent entrepreneur driven by opportunity Mean (std. dev.)	Nascent entrepreneur driven by necessity Mean (std. dev.)	Difference (opportunity versus necessity)
Rural Canada	0.048	0.062	0.026	0.036***
Male	0.598	0.586	0.616	-0.030
Age	39.070 (13.394)	39.334 (13.408)	38.678 (13.379)	0.655
Less than secondary education	0.031	0.025	0.040	-0.016
Secondary education	0.141	0.129	0.160	-0.030
Post-secondary education	0.668	0.654	0.688	-0.034
Graduate education	0.160	0.192	0.112	0.080***
Working, full-time or part-time	0.906	0.931	0.870	0.061***
Not working	0.060	0.034	0.100	-0.066***
Retired, student	0.034	0.035	0.031	0.005
Observations	1,086 (100%)	663 (61%)	423 (39%)	-

Notes: * indicates 10 percent level of significance.
 ** indicates 5 percent level of significance.
 *** indicates 1 percent level of significance.

Standard deviations are in parentheses.

Source: Global Entrepreneurship Monitor, *Adult Population Survey*, 2016–2019.



Figure 2: SME Profile (Urban vs Rural)

Rural Canada plays a key role in both the lives and economic success of Canadians. According to the *Labour Force Survey*, 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.

From 2011 to 2020, the proportion of SMEs operating in rural areas decreased steadily from 21% to 18% (*Survey on Financing and Growth of Small and Medium Enterprises, 2020*).

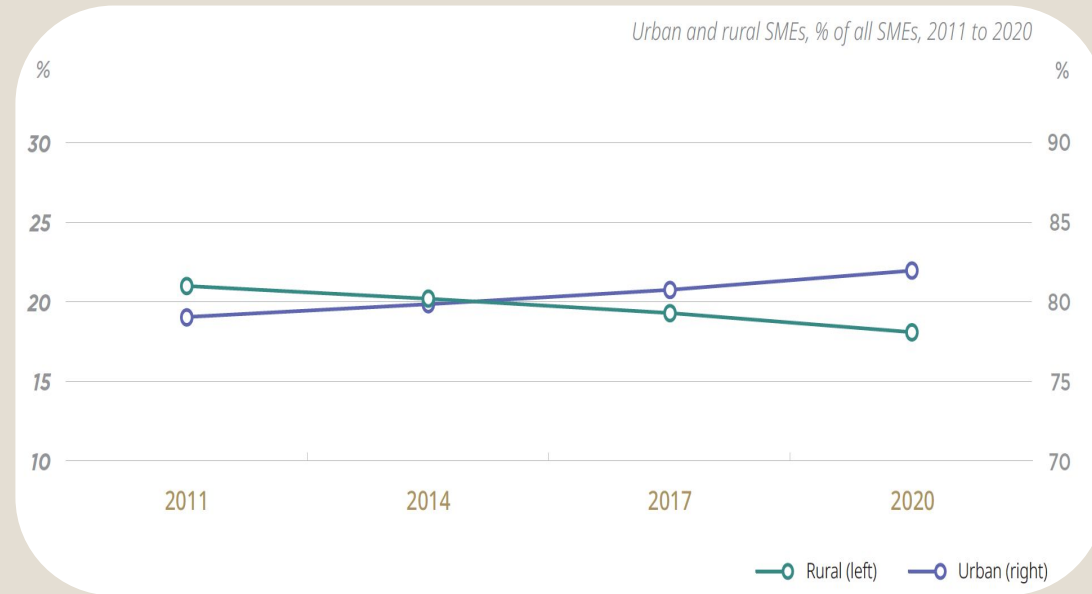


Table 3: Rural SMEs were more likely to operate in goods-producing sectors

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 3). On the other hand, urban SMEs were more often present in service industries, such as the Professional, Scientific and Technical Services sector.

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.

Figure 3: Rural SMEs were well established

As shown in Figure 3, 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.

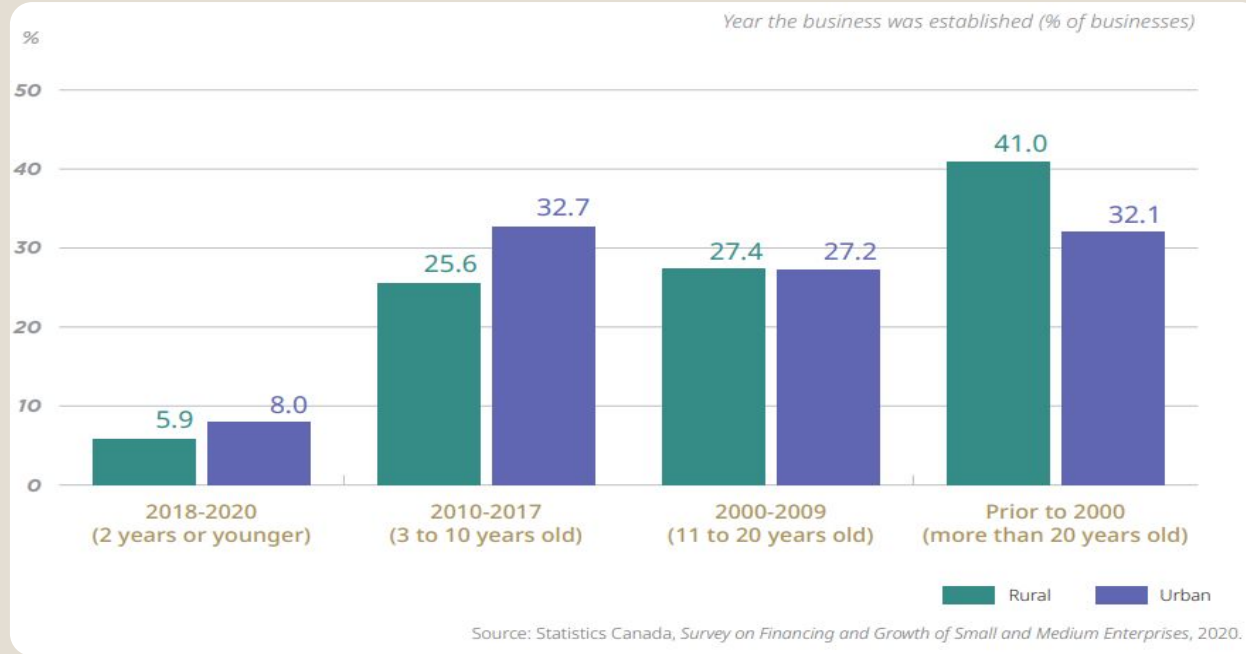


Figure 4: Most rural and urban SMEs applied for external financing, typically government financing

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 4). 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.

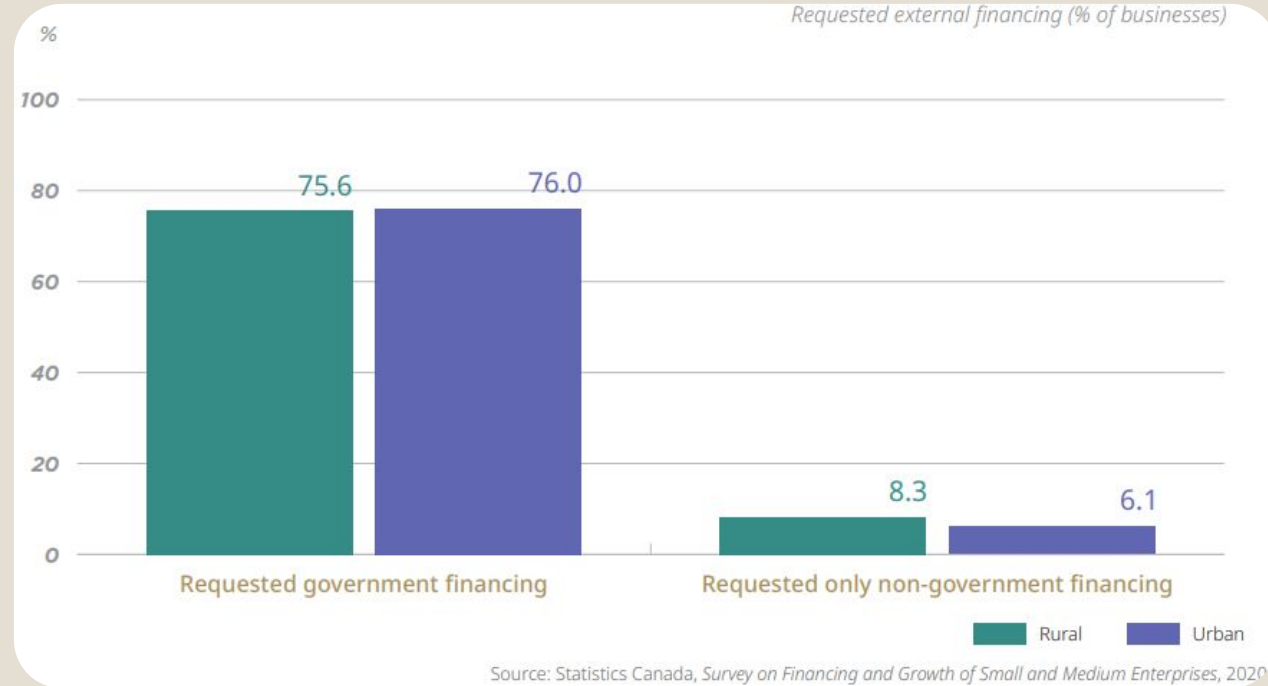


Figure 5: Rural SMEs were more likely to receive debt financing from credit unions or caisses populaires, government institutions, or online alternative sources

Figure 5 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

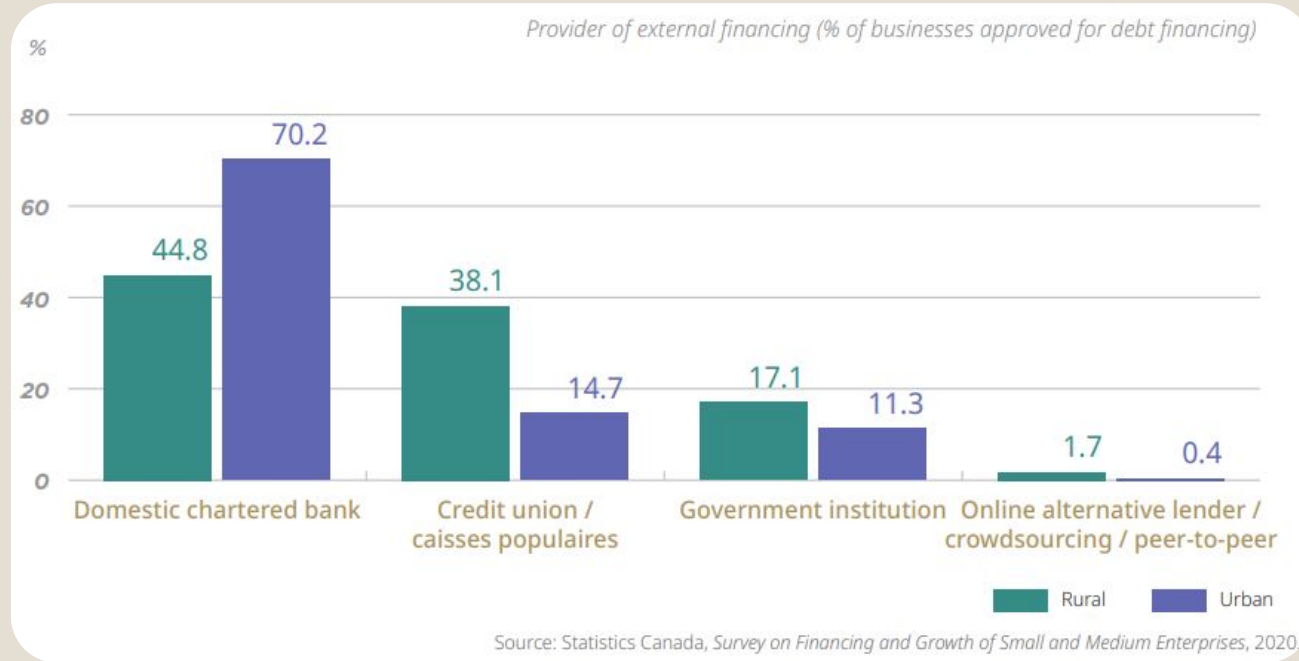


Figure 6: Rural SMEs were more likely to report positive growth

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 6). The proportions of rural and urban SMEs reporting growth of 11% or more were similar.

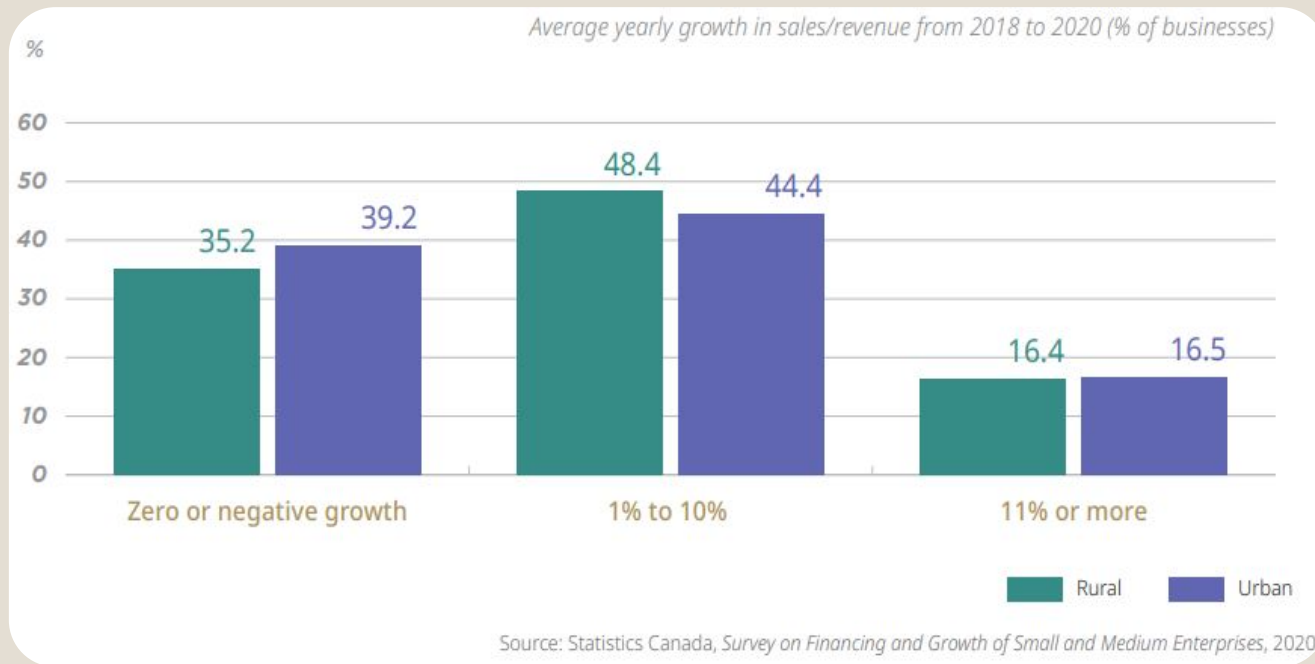


Figure 7: Rural SMEs more likely to sell outside their local municipality or region

In 2020, rural SMEs (57%) were more likely than urban SMEs (48%) to sell outside their local municipality or region (Figure 7). 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

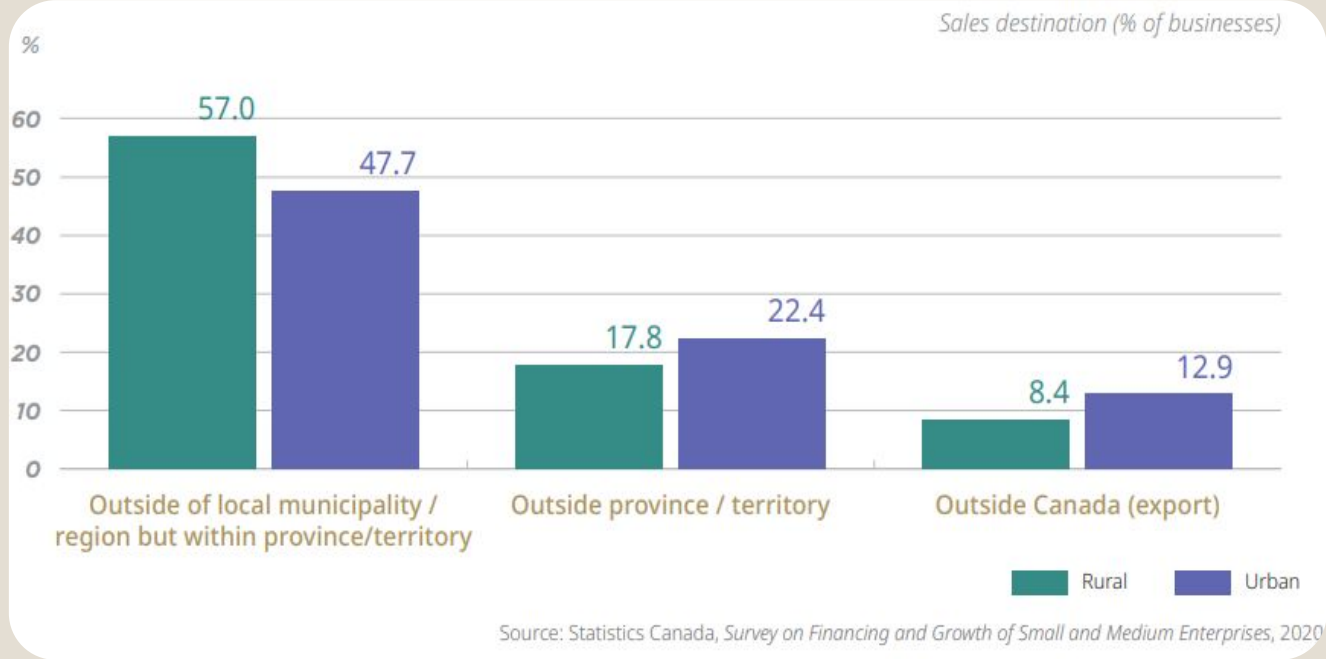


Figure 8: Rural SMEs are less likely to innovate, hold IP or adopt advanced technology

Rural SMEs were, relative to urban SMEs, less likely to innovate, hold intellectual property (IP), and adopt advanced technology (Figure 8). 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)

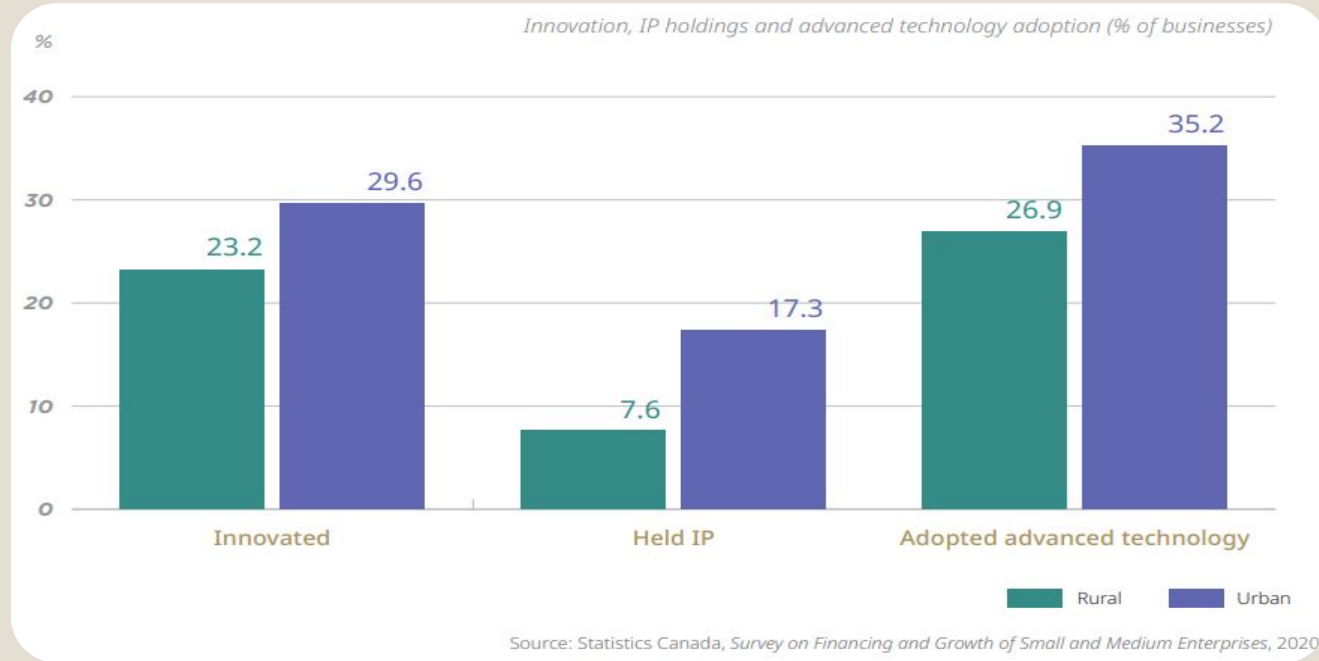


Figure 9: Rural SMEs were less likely to expect higher growth

Figure 8 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



Table 4: Rural and urban SMEs reported challenges related to rising input costs and finding skilled employees

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.¹⁰

Finally, as shown in Table 4, 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.

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.

Figure 10: Rural SME ownership was less diverse

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 10). 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%).

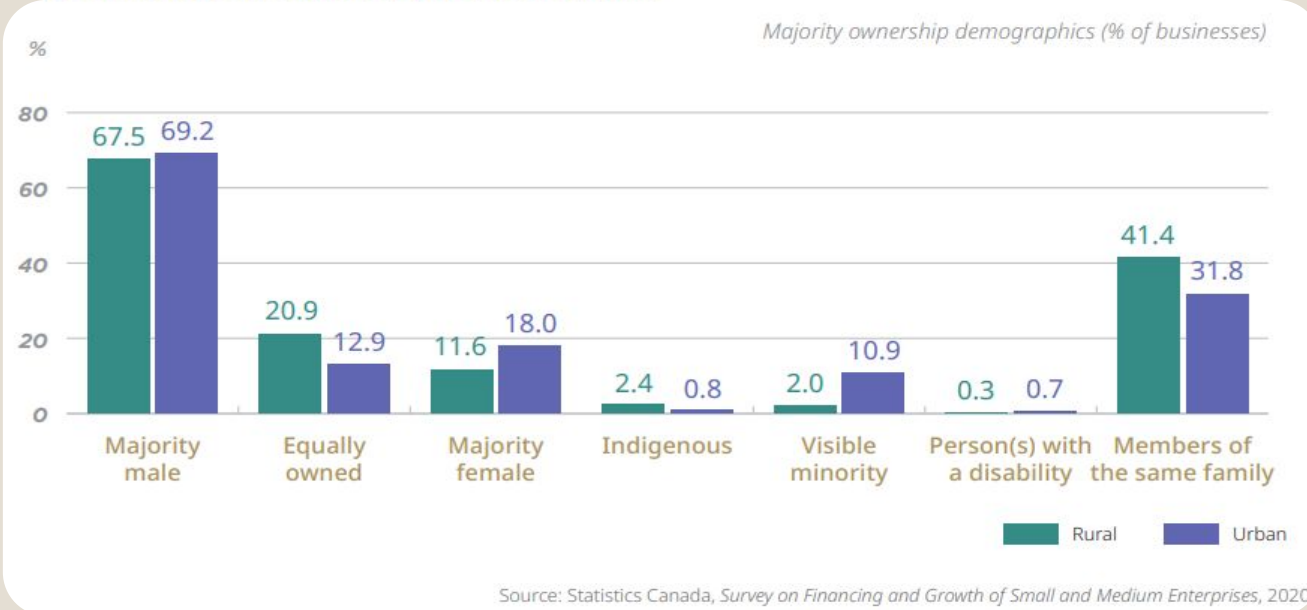


Figure 11: Rural SME primary decision makers were less likely to be university educated

The primary decision makers of rural SMEs (20%) were less likely than those of urban SMEs (45%) to be university educated (Figure 11). 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.

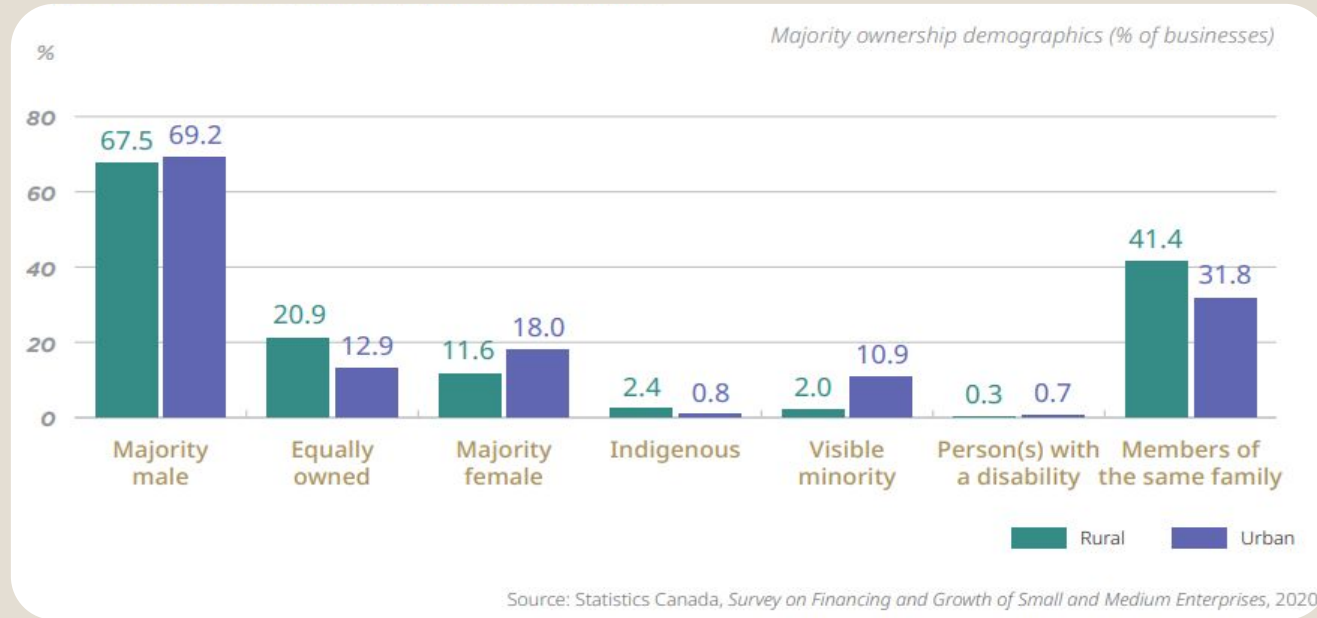


Table 5: Financial ratios for rural vs urban Businesses (Canada)

Business characteristics (2021)	Rual (Inc)	Ubran (Inc)
Debt to equity ratio (times)1, 2	1.1	1.2
Interest coverage ratio (times)1, 2	6	8.3
Revenue to equity ratio (times)1, 2	1.3	1.5
PERCENT		
Current debt to equity (percentage)1, 2	38.8	49.7
Net profit to equity (percentage)1, 2	12.4	20
Net fixed assets to equity (percentage)1, 2	106.7	77.6
Net fixed assets to equity (percentage), second quartile1, 2	131.3	121.1
Gross margin (percentage)1, 2	64.8	59.1
Return on total assets (percentage)1, 2	7.1	10.2

Source: Statistics Canada, Table 33-10-0588-01 Rural Canada Business Profile, financial ratios of incorporated small businesses by industry and location indicator: profit margin-based calculations, (2023).



How can policy makers help?

Asking the following questions:

- How do we create better productivity opportunities for rural entrepreneurs (capital, technology, labour investment, networks)
- How do we create better knowledge spillovers (lack of density etc)?
- How do we create better financing opportunities for rural entrepreneurs?
- How do we create better growth opportunities? Access to market, knowledge, and capital subsidies.
- How can we promote diversity in rural entrepreneurship?



Resources

Bousman, Ershim, “Entrepreneurship in Rural Canada: Necessity or Opportunity Driven”, ISED, 2021. Web: <https://ised-isde.canada.ca/site/sme-research-statistics/en/research-reports/entrepreneurship-rural-canada-necessity-or-opportunity-driven>

- ISED, SME Profiles: Rural Enterprises, (2023). Web: <chrome-extension://efaidnbmninnibpcapjpcglclefindmkaj/https://ised-isde.canada.ca/site/sme-research-statistics/sites/default/files/attachments/2023/sme-profile-rural-2023-en.pdf>
- Statistics Canada, Table 33-10-0588-01 Rural Canada Business Profile, financial ratios of incorporated small businesses by industry and location indicator: profit margin-based calculations, (2023). Web: <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3310058801>
- Statistics Canada, Summary of the Survey on Financing and Growth of Small and Medium Enterprises, (2020). Web: <https://ised-isde.canada.ca/site/sme-research-statistics/en/survey-data-and-analysis/survey-financing-and-growth-small-and-medium-enterprises/summary-survey-financing-and-growth-small-and-medium-enterprises-2020>



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Economics and Research Ltd is a social and economic advisory. **We empower decision makers such as governments, not-for-profits, and social advocates to implement socially optimal decisions through providing evidence-based research.** We have unique expertise in serving rural communities and projects through our regional experience in Atlantic Canada.

We pride ourselves as a research-focused organization that excels in all aspects of the research process, from design to delivery. Our comprehensive services encompass economic and policy research, labor market analysis, data collection, designing and executing research, program evaluation, and conducting customized research solutions. With a team of experts specializing in health, social science, and economics research, we ensure the highest standards of research excellence for our clients.



About Mani

Mani is an economist and founder of **ASBB Economics and Research Ltd** based in Atlantic Canada. Mani grew up in Yellowknife, NWT, where she found her desire to make a social impact through looking at world problems with a community-oriented lens.

She holds a **business degree and a master's degree in Economics** from the University of Alberta and a **master's degree in Comparative Politics** from the London School of Economics and Political Science (LSE). Mani's work experience spans both the public and private sectors. She was an economist with Canada Mortgage and Housing Corporation (CMHC) and, most recently, a Senior Consultant with Deloitte. Mani is pleased to call Yarmouth her current home.



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