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Government Assistance to Entrepreneurships: On Local, State/ Provincial, and Federal Levels - Canadian Speaker

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CANADIAN SPEAKER

*John Connell**

(presentation unavailable for publication)

DISCUSSION FOLLOWING THE REMARKS OF GILBERT GOLDBERG
AND JOHN CONNELL

MR. STRAATSMA: Thank you very much, John. Any questions for either of our panelists?

DR. HISRICH: John, my question is for you. You made the point that going forward, sustaining economic development in Canada would depend on a high level of immigration. At the same time, it is clear that countries like China and India are beginning to develop – they will not come to Canada and, in fact, are here and are going back. Given high demand and the access to supply, has anybody been thinking how the government is going to deal with the reality of high demand, no supply?

MR. CARMODY: We have heard a lot about additional financing from what appears to be government with aided sources, and we heard in the previous session about the fact that one of the inhibitors to entrepreneurial development in Canada is the whole role of banks.

I was very impressed with Gil Goldberg's presentation and looking at the materials his people passed out, and it is evident there are a lot of financial institutions in this country who are willing to take a risk, and you are not necessarily going to be blackballed if you don't make it once.

How can we perhaps adopt some of those peaks in our own country and Canada to promote economic growth in the entrepreneurial spirit?

* John Connell is a career public servant with the Public Service of Canada. He is currently Director General, Small Business Policy, Industry Canada. His responsibilities include the development of policies and programs addressing small business development throughout Canada. Between 1998 and 2003, John served as Senior Chief, Industry and Knowledge Economy, Finance Canada. He was responsible for analysis and advice concerning microeconomic investments and policies aimed at increasing industry productivity and competitiveness in the knowledge-based economy. Between 1995-1998, John served as Privy Council Officer in the Economic Regional Development Policy Secretariat of the Privy Council Office. John handled submissions from the Minister of Industry to Cabinet and briefings on priorities and issues concerning the Industry Portfolio. Prior to 1995, Mr. Connell had a long and varied career in transportation policy with Transport Canada, with assignments in Ottawa, Vancouver and Canberra, Australia. John engaged in studies leading to Bachelor of Arts (Honours) and Master's degrees from Queen's University in 1979 and 1980, respectively, concentrating in history, political studies and public administration.

MR. KANTER: This is a kind of comment as well. Mr. Connell, you mentioned the importance of exports, especially to the Canadian companies. I am with the U.S. Department of Commerce Office U.S. Export Sector System. Bob Abrahams is here from the Toledo office and Henry Adams. Our focus is on small and medium-sized companies and to encourage exports around the world, but particularly to Canada because neighbors are the logical choice for small and medium-sized companies, particularly to work their counterparts in Canada, to move their products across the border and northward.

I am sure the consulate at Detroit is working very hard to match the Canadian clients that you have on the northern side of the border in Canada. So the role of exports in both directions is probably very important for small and medium-sized companies, especially in Northern Ohio as well as in Canada because a lot of the trade is more north and south than east and west.⁵⁰

It is easier for an Ohio company to ship to Ontario than it would be to California.

MR. STRAATSMA: Any further questions or comments? Yes, sir.

DEAN ENTIN: I am just curious about the success rate on small businesses. I ask this because I know there have been studies in the U.S. suggesting that the failure rate of small businesses in the first couple of years is pretty high.

So I was struck, and I have two questions. One is for Mr. Connell: do you know what the corresponding figures are in Canada? And second, to Mr. Goldberg: granted, the data you have are based on defaults, but I wonder with the experience in your office in this area, if it is comparable to other SBA offices around the country? And if so, does that suggest that the SBA has figured out a way to pick the best risks for loans? It just seems like a notably higher success rate than some of the studies that I have seen more generally.

MR. GOLDBERG: On our statistics, please realize those statistics relate just to SBA financing, which may be a small percentage, even though I mentioned we are talking 110,000 loans, and \$16 billion annually. That's a lot of money but really is a small percentage of those businesses that are getting loans. Out of that 110,000, probably only 25,000 or so are what we would classify now as new businesses, two years or less.

But I think that businesses that do come to the SBA perform better, 1) because of that technical assistance portion, and 2) because of the proper

⁵⁰ State Trade Fact Sheets 2006: Ohio, Government of Canada, http://geo.international.gc.ca/can-am/washington/state_trade_2006/ohio-en.asp (last visited Sept. 29, 2007).

financial structure. They have the right amount of financing that they need with the right equity.

You know, too many times I think a business fails because they don't get the right amount of funding they need and start behind the eight ball to begin with, and I think they can make it up as they go along, but they get further and further and deeper and deeper into trouble.

I mentioned the Youngstown initiative, and again, that's one where there is supplemental equity coming in, and there is technical assistance. We made our first loan in Youngstown in the year 2000.⁵¹ And it has been running constantly since that time, and we have helped approximately 70, 71, 72 companies in Youngstown.⁵² Some of them are startups, some of them existing, and out of those 70 or so companies, only three have gone bad. One was restructured.

But I think that is a good track record, and that's in Youngstown, Ohio, probably one of the most severely hit areas in Northern Ohio, and those 70 companies represent about 17 or so million dollars in Youngstown.

One more thing I would like to say. In your packet, that blue and white folder, there are three handouts. One is the government contract they hand out. The other one has a 7(a) lending guide on it, and the last one was the 504, another loan program that we have. It has everything you need to know about the U.S. Government, SBA lending, but were afraid to ask. And if you do have any questions, I have two experts from the Cleveland District, Mark Hansel, if he could raise his hand on the finance side, and on the government contract side, I have John Renner. So if you have questions now or during the cocktail reception, those are the two gentlemen you could approach.

MR. STRAATSMA: Yes, sir.

DR. BARBER: We have had a lot of input on financing, mainly on financing, and what I want to say is that I have been involved in studies, startup of early stage companies where I have talked to the CEOs of companies that may have been in startup for over five or six years. And the one question that I want to raise, because it came out of those conversations, was that their issues were not generally about science or technology or the ability to understand the applied technology. They were generally not about money.

Some of them got more money than they needed, which created problems for them. Some of them got less, which created problems for them. The really successful ones were all foreigners who didn't expect any help of any sort, and they were making it.

⁵¹ See generally Cleveland District Office News, U.S. Small Business Administration, available at http://www.sba.gov/idc/groups/public/documents/oh_cleveland/oh_cleveland_news07-06.pdf, 2 (last visited Oct. 6, 2007) (describing Youngtown initiative).

⁵² *Id.*

But the point that came out about it was that the real weakness was about competence in commerce. None of them had much sense about how to make the value exchange happen, whether you are in finance or whether you are in technology. So the question that I want to ask is: what about the human competence to make enterprises work? Are there any shortcomings here, and if so, who deals with those?

MR. GOLDBERG: Just one empirical comment. I couldn't add anything from a conceptual standpoint to what John had to say. I think we see that in our loan application process and in our various initiatives. I think it bears out in reality that those that really have the desire, who really have the skills and the passion are the ones that actually come forward and make it a success.

And when we first announced the Youngstown initiative, we did it with a lot of fanfare. The three TV stations were there in Youngstown, as well as the newspapers. And what people heard from that announcement was free money. Free money!

The next day, the City of Youngstown got something like 800 calls, the day after that another 800, the day after that another 800. Maybe a few people came in, but as you see, it is self-selecting. Suddenly loans were made out over a couple thousand phone calls and people looking for that free money. When they realized there was no free money, that they had to have that desire, passion and ten percent of their own equity, it was self-selecting.

MR. BROWN: My question actually relates to Mr. Barber's question, and this is for Mr. Goldberg.

In Cleveland, they have organizations like Team NEO and Nordac. What kind of role do those organizations play in fostering these issues with entrepreneurship? Mr. Connell, can you respond with something similar in Canada?

MR. GOLDBERG: They play a very important role of providing financial assistance, either in the form of venture fund, grants or subordinated funding to businesses. I think their's is an important role for economic development in the area, and economic development is very fragmented. It takes a lot of different pieces coming together to make it work. To make it work and know what business is a success. Team NEO and the others out there are one part. If we fit our part to someone else's part, that works, fine, but it is fragmented, and we are all there to make sure, hopefully, that anyone that has a successful plan or idea and the right passion to do it so it won't fall through the cracks.

MR. STRAATSMA: Very good. Gil, John, thank you very much for your time this afternoon. And we will have time during an hour of discussion.

MR. UJCZO: Just a few logistical announcements. On behalf of the Institute, we do thank all our speakers for this afternoon. As a native Youngstown, we particularly appreciated the last session and as well the work of the SBA in Youngstown. We are on a half hour break. Cocktail hour will begin at 5:30 in the room directly above where we had lunch, so it is just

upstairs. You go to the light, the sunlight, and that's where the cocktail hour will be. Dinner will be started shortly thereafter and the presentation is upstairs this evening. If you are not joining us for dinner, we will meet promptly tomorrow morning at 9:00 a.m.

Thank you.