

**Written Submission in response to
Innovation, Science and Economic Development
Canada (ISED) 2022 Legislative Review of the
Business Development Bank of Canada (BDC)**

Submitted by:
Tourism Industry Association of Canada

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Introduction

Founded in 1931, TIAC serves as the national private-sector advocate for Canada's tourism sector. Acting on behalf of thousands of tourism businesses across the suite of industries our sector encompasses, we represent tourism interests at the federal level, and our advocacy work involves promoting and supporting policies, programs and other initiatives that will foster the sector's overall development and growth.

TIAC is a not-for-profit, non-governmental organization. Based in Ottawa, Ontario, it is the national industry association representing Canada's tourism sector.

Before addressing the specific questions posed in the BDC Consultation Survey, we share the following background on the sector at large.

Background and Context

The tourism sector was the first hit, the hardest hit and is now the very last of all sectors to recover from the pandemic.

Prior to 2020, total tourism spending in Canada had been consistently growing for many years and even outpacing the annual growth rate of Canada's economy overall.

Going into 2020, total tourism spending hit an all-time high of \$105 billion, which represented 2% of Canada's total GDP. One year later, tourism spending dropped by half, down to just over \$53 billion. Domestic spending decreased by 40% and international spending dropped very significantly by 87%.

There is a direct correlation between tourism spending and GDP. Hence, tourism GDP also dropped by 50%, decreasing its contribution to Canada's total GDP to 1%.

No tourism industry was spared by the pandemic.

Before COVID, tourism accounted for 748,000 direct jobs and supported just over 2 million in total. One out of every ten workers in Canada had a job related to tourism. But, one year later, the number of direct jobs decreased by close to 30% (a decline of 533,000) and all related jobs dropped by 23% to 1.6 million.

The most recent estimates released by Destination Canada indicate total tourism spending is now on track to fully recover to pre-pandemic levels in 2024 – domestic spending is poised to fully recover in late 2023; US spending by 2024; and overseas visitation by 2025.

But in interpreting these estimates, current high inflation levels now must also be considered. As such, adjusted for inflation, “real” tourism spending will recover much slower than current estimates predict, lagging by 2 to 3 years. So, total spending is only really expected to recover mid-way through 2026.

With regard to the tourism labour market, a July 2022 report for Tourism HR Canada (THRC) produced by the Conference Board of Canada indicated that total job vacancies in the tourism sector amounted to more than 200,000 in 2021.

That same study showed that in 2021 tourism occupations had an average vacancy rate of 5.9 per cent, or almost two percentage points higher than the vacancy rate in the overall economy.

Further, the current projections to meet employment demand by 2025 in the Accommodation, Food and Beverage Services industries alone amount to over 1.2 million jobs. And projections from 2025 to 2030 show a growing shortage of workers in the five tourism sectors: Accommodation; Food and Beverage Services; Leisure and Entertainment; Transportation; and Travel Services. By 2030, a minimum of 2.5 million workers would be needed to meet expected demand.

Despite some improvement over the last few months, tourism businesses incurred a heavy debt load to get through COVID and continue to struggle. They face barriers to attracting investment and have considerable challenges attracting and retaining the necessary workforce to run their operations.

Disruptions in supply chains, inflation at a 40-year high, and rising interest rates are now also impacting our businesses.

TIAC thanks the Government of Canada for the suite of programs introduced during COVID-19 to provide some financial assistance to tourism businesses, including HASCAP. Administered through the BDC and designed to increase a company’s ability to access new credit, the **HASCAP** program provided loan guarantees to financial institutions for 100% of the value of loans, at low interest, between \$25,000 and \$1 million to Canadian small businesses that were heavily impacted by COVID. Many of our member operators across the country worked with BDC to take out a HASCAP loan.

TIAC has now heard from members that they are concerned about their capacity to repay these loans. As such, TIAC is leading a research program to understand this issue more fully across Canada.

Data Collection for BDC Legislative Review Consultation

TIAC consulted with its members across the country on the questions included in the BDC Consultation Survey. A summary of the most prominent responses and common feedback to each question is outlined below.

We are available at your convenience to expand on these responses or to answer any questions you may have.

Demographic Information on Respondents:

Q1: Which tourism subsector does your business operate in?

Accommodations	– 17%
Destination Marketing Organizations	– 21%
Inbound Tour Operators	– 10%
Local Tour Operators	– 15%
Sectoral Associations	– 16%
Other, including campaign, F&B and cruise businesses	– 21%

Q2: What region(s) does your business operate in?

All provinces and territories are reflected in these answers, however majority of respondents operated in Ontario, Quebec, New Brunswick, British Columbia, PEI and Nova Scotia.

Q3: In which province/territory is your head office located?

Quebec	– 36%
Ontario	– 26%
Nunavut	– 10%
New Brunswick	– 10%
Nova Scotia	– 6%
British Columbia	– 6%
Alberta	– 6%

Q4: Do you identify as an Indigenous operator?

16% of respondents indicated identifying as Indigenous operators.

Q5: If you are responding on behalf of a business, which of the following best describes its size?

Sole proprietor/partnership (unincorporated, no employees)	– 10%
Micro Business (fewer than 10 employees)	– 10%
Small Business (10 to 99 employees)	– 20%
Medium sized Business (100 to 499 employees)	– 15%
Large Business (500 or more employees)	– 10%

Q6: What is your annual gross revenue range?

\$0 to \$1,999,999	- 32%
\$2,000,000 to \$9,999,999	- 37%
\$10,000,000 to \$25,000,000	- 10%
More than \$25,000,000	- 21%

Q7: The majority of respondents (73%) answered this survey as a not-for-profit organization, an entrepreneur or a Canadian SME.

Q8: What is the age of your business?

Startup/in development	- 10%
0-2 Years	- 10%
2-5 Years	- 10%
5-10 Years	- 5%
10+ years	- 50%

Q9: What percentage of your business/organization is led by the following?

Women	- 37%
Indigenous Persons	- 16%
Racialized Persons	- 10%
Black Canadians	- 0%
Persons with a disability	- 0%
LGBTQ2SIA+ persons	- 5%
NA	- 32%

Q10: What is your age group?

Under 18 years	- 0%
18 to 24 years	- 0%
25 to 44 years	- 30%
45 to 64 years	- 55%
65 years or older	- 5%
Prefer not to say	- 10%

Q11: Do you identify as a...

Woman	- 47%
Man	- 48%
I prefer not to say	- 5%

Q12: Do you identify as any of the following? Select all that apply.

Indigenous person	- 10%
Racialized person	- 20%
LGBTQ2SIA+ person	- 10%
Person with a disability	- 5%
New immigrant to Canada	- 10%
None of the above	- 50%
I prefer not to say	- 5%
Other	- 10%

Respondents Experience with BDC

Q13: Which BDC product and/or service has your business or organization accessed?
(Select all that apply)

BDC Financing	- 21%
BDC Online Financing Platform	- 5%
BDC Capital	- 5%
BDC Advisory Services	- 16%
Have previously engaged with BDC, but did not access a product or service	- 11%
Have not previously engaged with BDC	- 42%

The BDC and the SME Landscape

Q14: How do you see the current business environment and what do you feel will be the greatest opportunities and challenges for Canadian SMEs that could be seized in the coming decade, whether through the BDC or another mechanism?

Majority of respondents indicated that they see the current business environment as challenging and unstable.

- Cautious clientele with current market, limited leisure budgets
- Decline in consumption
- Struggling with debt loads, supplier issues and consumer uncertainty
- Tough to plan staffing and investments

The greatest opportunities for Canadian SMEs were identified by respondents as:

- Growing with technology to reduce costs
- Indigenous tourism development and support

The greatest challenges for Canadian SMEs were identified by respondents as:

- Rising interest rates
- Trouble staffing
- Cost of living and doing business
- Repayment timelines looming for debt incurred throughout COVID period
- Access to capital

Q15: Considering the effects of the COVID-19 pandemic and the changing economic conditions on SMEs, how has Canada's business landscape changed and how can the BDC best position itself to support Canadian businesses in this evolving environment?

- Offer much more accessible financing and subsidy plans to small SMEs that have been in existence for 2 years or more
- Provide longer term assistance and payback terms
- Business advice and advisory services on accessing capital

Analysis of the BDC Against its Mandate

Q16: The BDC's mandate, as set out in the Business Development Bank of Canada Act, is to support Canadian entrepreneurs by providing financial, consulting and venture capital services that complete services available from private sector service providers. This role becomes particularly pronounced during periods of economic volatility when, as a countercyclical investor, the BDC increases activity as the private sector tends to restrict its financing. To ensure the BDC can meet the evolving needs of SMEs, we are seeking input on how the BDC has performed against its mandate since 2010 and how the BDC can continue to expand services, as necessary, while maintaining a complementary role in the market. How has the BDC performed in delivering its mandate and achieving its objectives since 2010?

Positive feedback included:

- Terms are simple and easy to understand
- Tourism sector needs a financial partner that understands how unique our businesses are – BDC does offer some solutions that are tailored

Q17: What actions and activities are needed for the BDC to address market gaps in the Canadian SME ecosystem, while ensuring the BDC remains complementary to private sector service providers?

- Lower interest rates
- Become more attractive and attainable to SMEs
- More education to inform about services offered
- Awareness

Q18: How can the BDC position itself to support the long-term sustainability of the risk, venture and growth capital ecosystem in Canada?

- More partnership and collaboration to help entrepreneurs
- Provide longer term loans
- Work closely with sector associations to better understand economic sector forecasting

Q19: Are there underserved segments, industries or regions of the Canadian SME ecosystem for which the BDC should look to adjust its activities, including emerging sectors of the economy?

- Indigenous tourism and youth
- Tourism
- Transportation

Q20: What types of activities should the BDC undertake to provide countercyclical support during economic downturns?

- Lower proposed interest rates
- Be more proactive to help start ups and create awareness on offerings

The BDC's Public Policy Role and Governance

Q21: The BDC operates at arm's length from the Government of Canada, is governed by a Board of Directors, and currently reports to Parliament through the Minister of International Trade, Export Promotion, Small Business and Economic Development. While the BDC has a public policy role, it also has a commercial requirement to be financially self-sustaining and does not receive appropriations from the Government of Canada. To ensure it remains effective and transparent, we are seeking input concerning the governance and oversight of the BDC, as well as consideration of its role in supporting Government of Canada policy priorities.

How can the BDC best promote equity, diversity and inclusion in the Canadian SME ecosystem?

- Engage with and hire staff from the LGBTQ2SIA+ community
- Participate in DEI events
- Support small businesses owned by Indigenous, visible minorities and LGBTQ2SIA+ community members

Q22: Considering the evolving operating environment since 2010, what steps can be taken to ensure that the BDC continues to employ best practices with regards to governance and oversight?

- Tie sustainability to financing
- Rigorous reporting
- Careful selection of educated advisory board
- Continued transparency

Q23: How can the BDC support SMEs to adapt to climate change or reduce their climate related impacts?

- Through subsidies
- Invest strategically in companies that are prioritizing sustainable tourism
- Attractive lending packages around improved efforts

Q24: Although the BDC has an Ombudsman in place to provide impartial service to fairly and equitably address concerns from clients, are there additional best practices that could be adopted to enhance the BDC's conflict resolution process?

- A more diversified Board of Directors
- A more effective and timely Ombudsman process
- Improve ease of access

Q25: Are there any considerations that we have missed or elements we should explore further when addressing the top priorities for the BDC Legislative Review?

- Partner with industry associations to ensure your offering and message is shared with businesses across the country
- More tailored help to young persons and entrepreneurs
- Debt relief for tourism businesses who took advantage of the HASCAP loan

The TIAC Team is available at your convenience to discuss any information outlined in this submission. Please contact Madison Simmons, Director of Government Affairs, at msimmons@tiac-aitc.ca with any comments or questions.

Thank you.