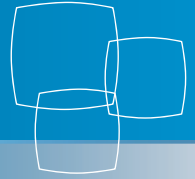




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Business Development Bank of Canada



10-Year Legislative Review: **2001-2010**

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10-Year Legislative Review:
2001-2010

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Message from the Minister of Industry

I am pleased to present this report on the legislative review of the Business Development Bank of Canada (BDC) for the 2001–10 period. This report examines the economic forces that have affected small and medium-sized enterprises (SMEs) over the review period. It assesses how the BDC has responded to the changing needs of its clients and to government priorities.

Over this period, Canada's entrepreneurs made an enormous contribution to our country's economic success. They created jobs and growth, and they demonstrated resilience and innovation, particularly during the 2008–09 global economic recession. While Canada had a good track record of creating new small businesses during the review period, not enough of these small businesses graduated to become medium or large businesses. We are committed to working with these businesses to help them grow.

Canada's continued economic recovery will be driven by the private sector. We are working to make it easier for SMEs to invest, innovate and ultimately grow and create jobs. As a Crown corporation dedicated to meeting the needs of SMEs, the BDC has an important role to play.

In today's international marketplace, SMEs must look beyond Canada's borders to take advantage of foreign markets and global supply chains. They have to keep up with rapid advances in information and communications technologies and build them into their business plans. And they must pursue and ultimately commercialize research to contribute to advances in productivity that will support our quality of life.

Canadian entrepreneurs and the SME community have a crucial role to play in Canada's economic development. This report outlines a way forward for the BDC to help SMEs grow and do what they do best: drive the economy forward.

Minister of Industry

James Moore

Executive Summary

The BDC is a Crown corporation that undertakes financial activities, including secured and unsecured loans, subordinate financing, direct and indirect venture capital (VC) investments, and business consulting services. In 2010, the Bank had 102 offices and 1,860 employees serving 29,000 clients across Canada. It held nearly \$17.7 billion in total assets, including a loan portfolio of \$15 billion.

The BDC has a public policy mandate and a requirement to operate in a financially sustainable manner and works to achieve the proper balance between these obligations. The Bank supports entrepreneurship and small and medium-sized enterprises (SMEs) by operating as a complementary lender in the market, offering loans and investments that supplement or complete services available from private sector financial institutions (FIs). The BDC must earn a rate of return at or above the government's long-term cost of capital.

The Minister of Industry, as the Minister responsible for the BDC, must conduct a review of the *Business Development Bank of Canada Act* (BDC Act, 1995) five years after its creation and every 10 years thereafter, in consultation with the Minister of Finance, and table a report on the review in Parliament.¹ This is the first 10-year review.

The review studies the provisions and operations of the Act, examines how the Bank has responded to the needs of SMEs over the 2001–10 period,² and considers how the BDC might best address emerging challenges for SMEs over the next 10 years.

As part of the review, the Standing Senate Committee on Banking, Trade and Commerce (SBTC) agreed to study the BDC Act. It held hearings and heard from key stakeholders and the BDC. In December 2010, it issued a report containing a range of recommendations.³

The Advisory Committee on Small Business and Entrepreneurship also provided input to the review based on consultations with stakeholders. This committee is composed of private sector business

professionals and entrepreneurs and was created by the Minister of State (Small Business and Tourism) to provide advice on small business issues.

Highlights of the Business Development Bank of Canada's performance

The BDC has grown over the review period and provided increased support for entrepreneurs and SMEs. For example, the BDC:

- served approximately 57,000 clients;
- extended its reach to SMEs in specific regions and underserved markets;
- was the cornerstone of the government's assistance to SMEs during the recent financial crisis, including delivering \$2.75 billion in financing and purchasing \$3.65 billion of asset-backed securities under Canada's Economic Action Plan;
- met its financial sustainability requirement and paid \$164.5 million in dividends to the Government of Canada, its sole shareholder; and
- increased its assets under management from \$6.2 billion to nearly \$17.7 billion.

Conclusions

The report concludes that the BDC's key objectives should be reaffirmed. That being said, four areas for improvement emerged during the review: extending more support to underserved markets, increasing accessibility and enhancing client service for SMEs, focusing on complementarity, and enhancing performance measures. Addressing these areas would improve the impact of the BDC's efforts going forward. In addition, changes to the Act should be considered to position the Bank to respond to the changing needs of SMEs. Such changes could include diversifying the BDC's financial tools and adjusting its role in helping SMEs grow beyond the domestic market. Consideration should also be given to modernizing the scope of the consulting services BDC can offer and modifying a number of governance practices.

Section A

THE BUSINESS DEVELOPMENT BANK OF CANADA AND THE PAST 10 YEARS

1. History of the Business Development Bank of Canada

The BDC was created in 1944 as the Industrial Development Bank (IDB), an arm of the Bank of Canada. It was mandated to undertake social policy initiatives, with its first task being the provision of support to small manufacturers that had contributed to the Second World War. The Bank's portfolio in 1945, which was made up of loans, stood at \$3 million.

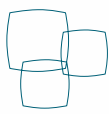
Over the years, the IDB's mandate was gradually expanded, and by 1975 its objective was to become a "one-stop shop" for Canadian entrepreneurs. On October 2, 1975, its link with the Bank of Canada was severed and the Federal Business Development Bank of Canada (FBDB) was created. The FBDB expanded its operations twofold: a management services division was created and it became a VC investor. The primary focus of the FBDB was to respond to the financing and management service needs of Canadian small businesses as a lender of last resort.⁴ By 1975, the Bank's portfolio had grown to \$1.3 billion in loans. In 1995, a refocused mandate and a new name modernized the Bank from a lender of last resort to a provider of solutions to meet the needs of the emerging knowledge economy. The BDC was assigned its complementary role, requiring it to provide loans, investments and guarantees to "fill out or complete services available from commercial financial institutions."⁵ Its mandate was to focus on the financing requirements of SMEs in knowledge-based industries (KBI) and in exporting while continuing to support traditional sectors.

As part of its complementary role, the Bank was instructed to increase its focus on the financial and management needs of Aboriginal, women and youth entrepreneurs. By 1995, the Bank's portfolio, made up of loans and VC investments, stood at \$3.3 billion. The current role and mandate of the BDC is described in subsection 4.

2. Findings and Recommendations from the 2000 Review

The first legislative review covered the 1995–2000 period.⁶ The review confirmed that there was a continued need for the BDC to provide financing and consulting services to Canadian SMEs and that no legislative changes were required. It was recommended that the BDC:

- ensure its services contribute to the success of Canadian SMEs whose financing needs cannot be satisfied by private sector FIs;
- deliver on its public policy mandate while operating in a financially sustainable manner;
- maintain its focus on complementarity;
- dedicate specific resources to support Aboriginal and youth entrepreneurs;
- develop the subordinate financing segment of the market;
- become recognized as an investment leader in the Canadian VC market; and
- improve customer satisfaction, with a focus on decentralizing decision making.



3. The Canadian Business Landscape

In 2000, SMEs were benefiting from one of the strongest growth cycles in Canada since the mid-1960s. Unemployment was 6.8 percent, the lowest in 24 years, businesses were investing in machinery and equipment, bankruptcies continued to trend downward, productivity growth was strong (though not as strong as in the United States⁷), and consumer spending was robust due to wage growth and tax reductions.

Investors were seized by the investment potential in small high-technology firms, and money flowed into the VC asset class.⁸ Markets peaked in 2000, largely on the strength of technology stocks. In the ensuing few years, the dot-com bubble burst. By May 2002, businesses of all sizes, including SMEs, were struggling.

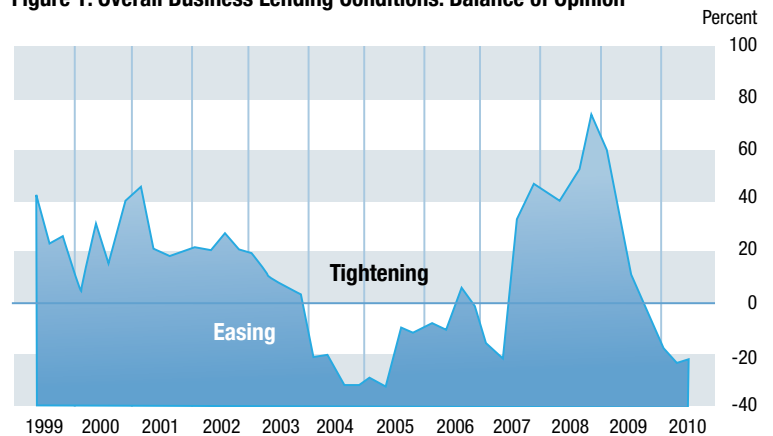
The economy began to recover in late 2003, and SMEs generally enjoyed access to inexpensive capital. Nevertheless, innovative firms—those that allocate more than 20 percent of their investment expenditures on research and development (R&D)—continued to find it difficult to obtain financing. Contributing to this was the increasing use of automated processes by private sector FIs for approving loans, with credit scores relying on historical data, statistical trends and financial indicators. Firms, particularly SMEs with unproven track records and short credit lives, struggled to meet the approval criteria built into mathematical scoring systems.⁹

Through the middle of the decade, the global economy was strong. However, signs of trouble emerged in 2007, leading to a global financial crisis and difficult lending conditions.¹⁰ Trade fell, production was curtailed and jobs were lost, particularly among SMEs.

Globally coordinated efforts were undertaken to minimize the impact of the recession. The Government of Canada injected liquidity into the market and saw a rebound in loan activity in 2010, and the economy stabilized by 2010.¹¹

Figure 1, which covers the entire review period, shows tight credit conditions in 2000 and then again in 2008 and 2009, before easing at the end of the decade. It also shows a direct correlation between economic conditions and the willingness of FIs to extend credit to SMEs.

Figure 1: Overall Business Lending Conditions: Balance of Opinion



Note: Above zero: Tightening in access to business credit. Below zero: Easing in access to business credit.

Source: Bank of Canada, *Monetary Policy Report*, Chart 20, January 2011

While the decade saw growth in the number of Canadian SMEs, Figure 2 shows this growth was driven by the establishment of small firms (those with fewer than 100 employees). In fact, the number of medium-sized firms (those with 100 to 499 employees) dropped over the decade by nearly 6 percent and the number of large firms (those with 500 or more employees¹²) did not grow. Given that large firms tend to be more productive, export more and invest more in R&D, their success is vital to helping Canada remain competitive.

4. The Business Development Bank of Canada's Role in Supporting Entrepreneurs and Improving Access to Financing

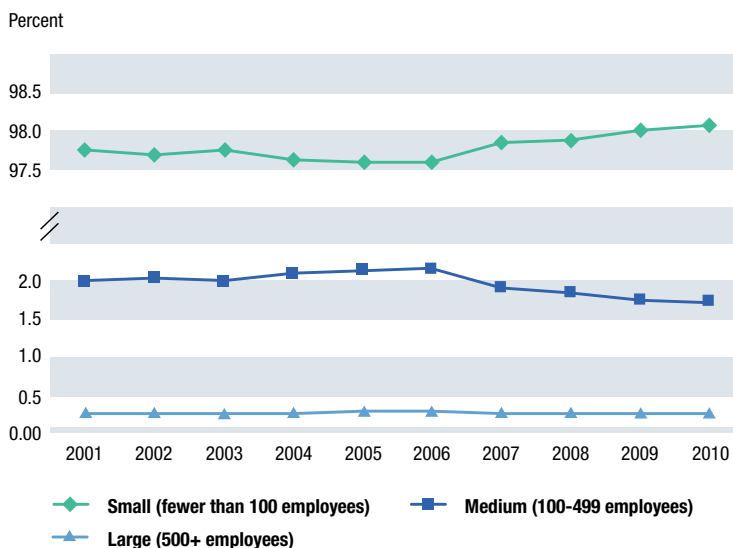
SMEs are drivers of job creation and economic growth. In 2010, there were over 1 million establishments in Canada employing staff, more than 99 percent of which had fewer than 500 employees. These firms account for about two-thirds of the private sector labour force and about 40 percent of Canada's gross domestic product (GDP).¹³ Due to the fact that SMEs are seen as higher risk,¹⁴ often requiring smaller loans and

more flexible terms than other business borrowers, they experience more difficulty in accessing financing than larger, more established businesses. Recognizing the contributions of SMEs to Canada's economy, as well as the need for SMEs to have capital to establish themselves and grow, the Government of Canada has a role in helping to fill market gaps and ensure that creditworthy firms have access to credit. The BDC is one in a series of tools the government uses to achieve this goal. The BDC's primary public policy mandate is to support Canadian entrepreneurship, giving particular consideration to the needs of SMEs. While fulfilling its public policy mandate, it must be a complementary lender in the market. It also has a requirement to earn a return on equity (ROE) at least equal to or greater than the Government of Canada's long-term cost of capital. The BDC does not receive government appropriations. It issues shares to its sole shareholder, the Government of Canada, and pays annual dividends to the government.

Within this context, the BDC offers secured and unsecured loans, subordinate financing, direct and indirect VC investments with a focus on early-stage high-technology ventures, and business consulting services. It does not offer grants or subsidies, nor does it take deposits. It earns a return from its financing activities while extending financing into areas that would not otherwise be served. The BDC serves approximately 29,000 clients (less than 3 percent of entrepreneurs seeking financing) across Canada through 102 offices and 20 entrepreneurship centres, which serve very small clients.

The BDC's consulting services, which include business planning, diagnostic services, guidance for management, training and market research, help SMEs develop and implement growth plans. The BDC does not engage in tied selling. In other words, its consulting services are not linked to the purchase of other BDC products or services. However, there is a perception by some that the BDC follows this practice.

Figure 2: Establishments by Firm Size as a Percentage of Total



Source: Business Register, Statistics Canada



5. The Business Development Bank of Canada's Role in the Venture Capital Market

High-potential firms contribute disproportionately to job creation, innovation, and thus economic growth. VC is an important source of financing for these types of firms.

There was a significant decline in VC investment over the review period, particularly for firms at the seed and start-up stages. Contributions to VC funds from the private sector decreased and those from the government increased, accounting for the vast majority of fundraising in 2009 and 2010.¹⁵

The BDC has played a public policy role in terms of VC since 1975, helping to address the financing needs of high-potential SMEs and fill market gaps. At the beginning of the review period, the BDC's VC portfolio was focused on KBIs and stood at approximately \$200 million. By mid-decade, the BDC had shifted its focus to addressing a financing gap for early-stage firms. It invested in high-potential firms that were undertaking R&D, commercializing the results of their work or growing rapidly. It had 200 firms in its VC portfolio.

In 2008, after a review of its VC operations,¹⁶ the BDC began divesting itself of underperforming companies. In 2009, it invested 58 percent of the value of its direct investments in early-stage firms (compared to the industry average of 44 percent) and was the lead investor in the \$300-million Tandem Expansion Fund—a fund focusing on businesses that are in need of later-stage financing. In the same year, the Government of Canada committed \$350 million to the BDC for VC activities. This included \$260 million for direct investments and \$90 million for indirect investments in VC funds. The government also provided \$50 million to the BDC for VC investments in Southern Ontario.

By 2010, the BDC's portfolio included \$393 million in direct investments in 76 companies and \$284 million in indirect investments to 22 funds. Investments were focused in life sciences (24 percent of total commitments); energy, the environment, electronics and materials (10 percent); and information and communications technologies, or ICTs (23 percent). The remainder (43 percent) went to indirect fund investments. The Bank's VC investments accounted for approximately 2 percent of its portfolio over the review period.

Section B

ANALYSIS OF THE BUSINESS DEVELOPMENT BANK OF CANADA AGAINST ITS MANDATE

6. The Business Development Bank of Canada's Support for Entrepreneurship and Small and Medium-Sized Enterprises

The purpose of the BDC is to support Canadian entrepreneurship by providing financial and management services. In carrying out its activities, it must give particular attention to the needs of SMEs. Additional elements of the Bank's mandate have been communicated over time through ministerial priority letters and its corporate plan. The following part of the report considers the Bank's performance in meeting its mandate by examining a series of indicators.

Portfolio growth

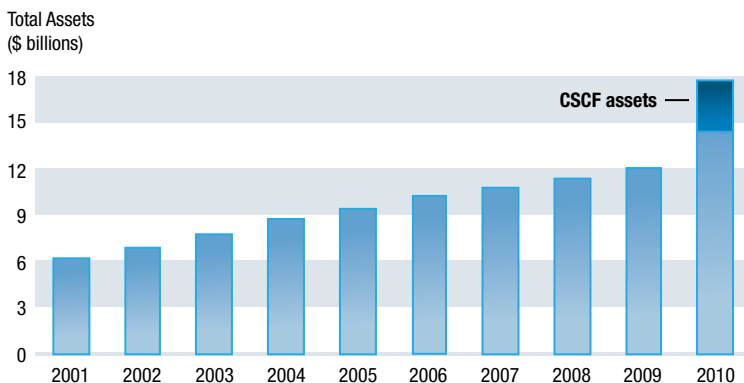
Growth in total assets shows that the BDC provided increasing financing to Canadian SMEs over the review period. A look at the BDC's assets under management (Figure 3) shows that the BDC has consistently grown its total assets (including financing and investments), from \$6.2 billion in 2001 to nearly \$17.7 billion in 2010, an increase of 185 percent. This increase was driven by growth in the loans portfolio and by the BDC's role in the Canadian Secured Credit Facility (CSCF) that the government introduced in Canada's Economic Action Plan.

While the Bank's assets grew considerably, its share of the market for SMEs seeking financing remained stable at about 3 percent over the review period.

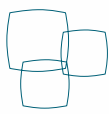
Number of clients

Another measure of the BDC's impact is the number of entrepreneurs it serves. Over the review period it extended service to nearly 57,000 clients. Its client base grew from 20,000 in 2001 to 29,000 in 2010, an increase of 45 percent. Its share of the term lending market (value) in 2010 was 3.9 percent.¹⁷

Figure 3: BDC Total Assets at Fiscal Year-End



Sources: BDC annual reports



Financing by loan size

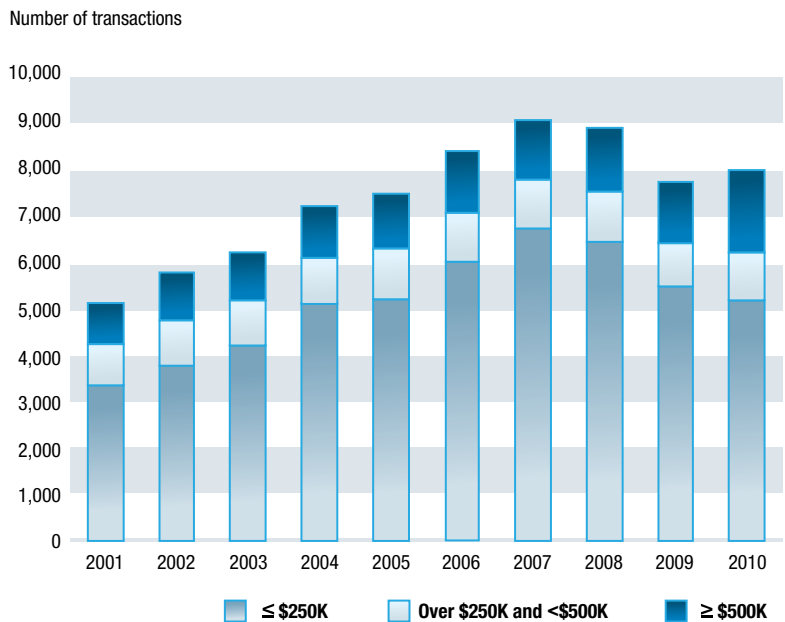
Loan size is typically used as a proxy for small business lending. As seen in Figure 4, the number of loans (authorizations) under \$250,000, a proxy for loans to small businesses, grew over the period before falling slightly in the latter years. Also, the median size of loans fell from \$157,000 in 2001 to \$114,000 in 2010¹⁸ (in constant dollars). Nevertheless, small and medium-sized loans (under \$500,000) represent a declining share of the value of BDC's annual net authorizations towards the end of the review period (Figure 5). It should be noted that the 2010 results could be distorted by a few large loans under the Business Credit Availability Program (BCAP).

Counter-cyclical support

The BDC serves a counter-cyclical role in the marketplace for SME financing. Its financing activity increases during periods of economic weakness or turbulence, when the private sector tends to restrict its financing. For example, during the financial crisis of 2009, approval rates of private sector FI loans for firms with 1 to 99 employees sank to 79 percent, a 15-percent decrease from 2007 and one of the lowest approval ratings of the decade.¹⁹ In response, the BDC extended a record amount of financing in fiscal year 2010, with loan volumes jumping from \$2.8 billion to \$4.3 billion.

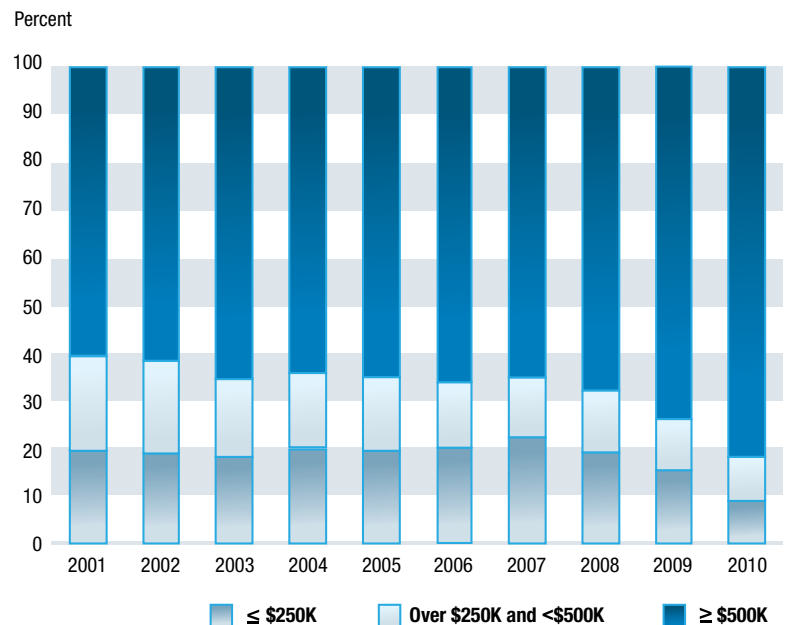
The majority of this increase in activity was a result of BCAP and was supported by capital BDC received through Budget 2009, including \$250 million for additional term lending, \$161 million for the Working Capital Support program²⁰ and \$100 million for the Operating Line of Credit Guarantee (OLCG).²¹ Budget 2009 also introduced the CSCF, a temporary program managed by the BDC whose goal was to stimulate economic activity by supporting sales of vehicles and equipment in Canada. The BDC purchased \$3.65 billion of asset-backed securities through five transactions before the CSCF ended on March 31, 2010.

Figure 4: Number of Net Authorizations by Size of Authorization



Source: BDC data

Figure 5: Value of Net Authorizations by Size of Authorization



Source: BDC data

In 2010, the BDC evolved its BCAP product offerings. Responding to a need for short-term working capital,²² it developed and offered the Economic Recovery Loans Program, which delivered almost \$250 million in pre-approved financing for working capital needs up to \$100,000 to approximately 3,700 businesses. Similarly, as the CSCF was not designed to support smaller issuers of asset-backed securities, Budget 2010 introduced the Vehicle and Equipment Financing Partnership to help address their needs.

The BDC and Export Development Canada (EDC) exceeded the program's goal by delivering more than \$10 billion in BCAP financing. By the end of the review period, the BDC had authorized \$2.75 billion in credit through nearly 9,900 deals.

Feedback from stakeholders on the BDC's role and counter-cyclical activity during the recession was positive. The Conference Board of Canada commended the BDC and EDC for their performance under BCAP, noting that "they stepped up to the plate and provided exceptional credit support in a time of crisis. These organizations have helped to speed the healing of the Canadian financial system."²³

Economic impact

One study estimates that \$54.2 billion of direct and indirect value-added economic activity was generated by BDC clients who received financing in 2010. Those clients contributed to some 687,000 jobs.²⁴ The BDC's VC clients have nearly \$900 million in total annual revenue and employ more than 5,700 mostly knowledge workers.²⁵

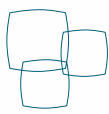
Analysis also suggests that BDC clients display higher survival rates over time. For instance, about 62 percent of BDC start-up clients survive at least five years, compared to 51 percent for all start-ups in Canada.²⁶ This could be related to the BDC offering more flexible financing terms than private sector FIs or to the business strategies developed in consultation with the Bank's advisory services. The BDC also plays a key role in supporting business creation. The percentage of start-up businesses in its loan portfolio is double that found in the total Canadian business population.²⁷

Client satisfaction

The BDC tracks its client satisfaction rates through an annual survey conducted by a third party. The reported client satisfaction rate was between 90 and 93 percent throughout the decade. It does not track satisfaction of its services among SMEs at large.

7. Financial Sustainability

In addition to fulfilling its public policy mandate, the BDC must meet a requirement for financial sustainability. It must maintain an ROE at least equal to the government's average long-term cost of capital. To measure its performance, the BDC benchmarks itself against the 10-year moving average returns for Government of Canada 3-year and 5-year bonds.²⁸ The BDC was successful in meeting its financial sustainability objective by surpassing the government's cost of capital by 3.5 percent over the review period.²⁹



Profitability

The cyclical nature of the economy is reflected in the BDC's financial statements. Net income declined from \$88.3 million in 2001 to \$31.9 million in 2003 after the high-tech bubble burst and due to a weak U.S. economy affecting the Canadian economy. It grew to \$138 million in 2007 as economic growth resulted in fewer loan losses, but it fell again in 2010 as loan and VC losses eroded earnings when the global financial crisis took its toll (see Figure 6). Net income over the review period totalled \$804 million.

It is difficult to compare the BDC and private sector FIs based on net income because of differences in their size, mandates and activities. Two other measures for assessing profitability are ROE and return on assets (ROA). The data show the ROE for the BDC averaged 6.31 percent over the period, compared to 9.81 percent for private sector FIs.³⁰ The BDC's average ROA over the period was slightly higher than that of private sector FIs (0.89 percent versus 0.77 percent). The BDC's ROA was also more volatile due to large changes in its VC returns and provisioning for credit losses.

Dividends

The BDC pays dividends to the government on its shares. Over the review period, the BDC paid a total of \$164.5 million in dividends.

Efficiency ratio

The BDC's efficiency ratio³¹ is an indicator of the efficiency of its operations. The lower the efficiency ratio, the fewer the dollars spent to generate each dollar of revenue. The BDC's efficiency ratio gradually dropped during the review period, from 53 percent to 44 percent. This drop indicates improved efficiency and reflects the BDC's investment in systems and training to streamline its operations. The BDC's ratio is lower than that of private sector FIs, which is understandable given the absence of a large and expensive retail deposit network.

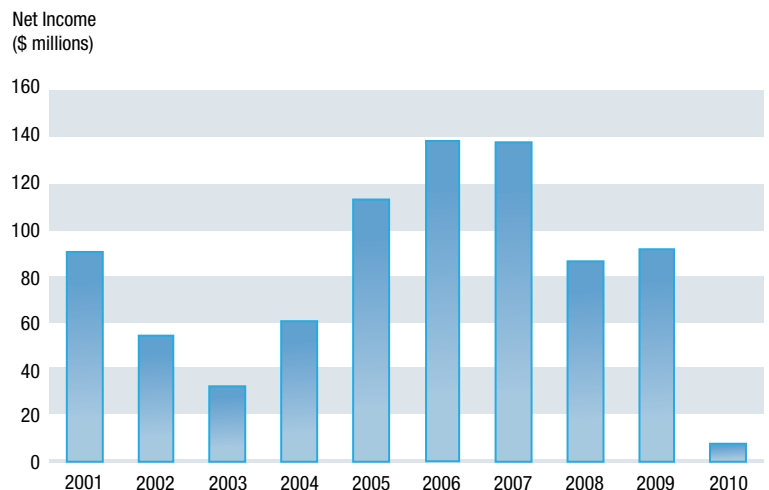
8. Managing Risk

The BDC's main clients, including start-ups and firms in cyclical sectors, have a higher risk profile than other types of borrowers. As such, effectively managing risk is important. The BDC has significant experience in evaluating risk and employs an Enterprise Risk Management (ERM) policy, which considers risk in all strategic, planning, investment and lending decisions. It allows the BDC to identify, manage and report risk across its divisions and product lines.

Pricing to risk

To finance riskier transactions, the BDC prices to risk, assigning higher interest rates as transaction risks increase. In theory, if lenders occupy all segments of the risk curve, most businesses should be able to access funds. However, most commercial FIs will increase rates to some degree to address increased risk but usually do not approve loans above a certain risk level. This means categories of borrowers at the upper end of the risk curve are unable to access financing. The BDC plays an active role in serving these higher-risk borrowers. A comparison of loan yields between the BDC and private sector FIs³² shows that the BDC charges more for its loans than private sector lenders.

Figure 6: Net Income



Sources: BDC annual reports

Capital adequacy and financial leverage

Analysis of the BDC's financial leverage (or capital adequacy levels) gives a measure of the financial risk it is taking. This refers to the proportion of funds the BDC holds compared to the amount it can lend or invest in firms, and it is often expressed as a ratio. Generally, a higher use of leverage (i.e., a higher ratio) reflects a riskier financing portfolio.

The BDC's capital comes from two sources: capital injected by the government (i.e., paid in capital); and retained earnings generated by BDC operations. Under the BDC Act, the maximum amount of capital that the government can inject into the BDC is \$3 billion. This limit was doubled from \$1.5 billion in Budget 2009, allowing the government to inject capital into the BDC to respond to emerging market needs.

Unlike private sector FIs, the BDC's capital adequacy levels are not set by the Office of the Superintendent of Financial Institutions Canada, which regulates Canada's commercial banking industry. The BDC's overall capital adequacy ratio is set by the BDC Act, which requires that its debt-to-equity ratio not exceed 12:1. The BDC is further

restricted by capital adequacy ratios, as set by the Treasury Board, for specific activities (20:1 for securitization, 10:1 for term lending, 4:1 for quasi-equity loans, 3:1 for guarantees and 1:1 for VC).

Over the review period, the BDC averaged a debt-to-equity ratio of 5:1, well below the statutory financial risk limit. This figure was also well below that of private sector FIs, which averaged a ratio of 13.4:1 over the period.³³

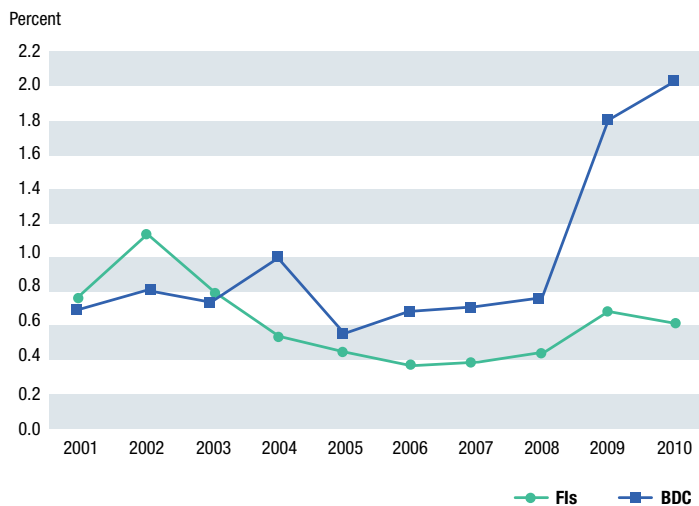
Asset mix

By design, the BDC assumes more risk than commercial FIs and its lending activities should cover a range of risk levels. The majority of its assets (71 percent at the end of the review period) are in its lower-risk activities, which are nevertheless riskier than those of private sector FIs. The higher-risk financing that the BDC undertakes accounts for a small proportion of its assets (i.e., the value of its VC portfolio was approximately 2 percent of total assets, and the value of its subordinated financing portfolio was about 1 percent of total assets).

Loan loss rates

Loan loss rates measure the value of loans an institution has written off (deemed non-recoverable) as a percentage of the outstanding portfolio. The BDC's loan loss rate averaged 1 percent over the review period. It ranged from 0.6 percent to 1 percent until 2009, when it spiked as a result of the recession. By comparison, private sector FIs saw loan loss rates ranging from a low of 0.4 percent to a high of 1.1 percent in 2002 (this increase resulted when the dot-com bubble burst, which affected private sector FIs more than the BDC as they were more exposed to high-tech companies). The lower loss rates of private sector FIs reflect their lower appetite for risk (Figure 7).

Figure 7: Comparison of Loan Loss Rates Between Private Sector FIs and the BDC



Note: Loan loss rates are equal to write-offs as a percentage of the total portfolio (in the case of FIs, this is average net loans and acceptances). The BDC's loan loss figures exclude subordinate financing and centralized corporate loans.

Sources: BDC, Risk and Portfolio Insights, presentation to government officials; Annual reports of FIs (BMO, BNS, CIBC, RBC, TD, NB).



Striking a balance between managing risk and supporting small and medium-sized enterprises

The Bank must deliver its public policy mandate while meeting its requirements for financial sustainability. It must not favour financial sustainability over providing support to SMEs. A number of indicators suggest that the BDC is conservative in its lending and capital usage strategies. For example, it is significantly below its maximum debt-to-equity ratio, a large proportion of its assets are in cash, its asset mix is tilted toward term lending and its loan loss rate remains low.

9. Complementarity and Underserved Markets

During the review period, there were changes to the Canadian SME financing marketplace and to the credit conditions for SMEs. Given the BDC's complementary role and its market expertise, there should be evidence that the type of lending it extended to SMEs changed in response to changing credit conditions. This was demonstrated in the Bank's delivery of the OLCG and the Economic Recovery Loans Program under BCAP.

Complementarity can also be about product differentiation. Stakeholders noted during consultations that there is a need for SMEs to have access to loans with more flexible terms and conditions than those offered by private sector FIs. To address this demand, the BDC provides flexible repayment options, including postponement of capital repayment—an offering that was used by approximately 4,000 clients during the recession.³⁴

As private sector FIs moved away from longer-term loans during the 2008–09 recession, the BDC moved in to help fill the gap. An example is the BDC's support for commercial mortgages and its purchase of bulk commercial mortgages under BCAP.

Promoting commercialization and the adoption of information and communications technologies

The BDC has been effective in contributing to government priorities while acting in a complementary manner. One example is its work under the Government of Canada's Science and Technology Strategy (S&T Strategy). In 2007, the BDC formed a partnership with National Research Council Canada and the Natural Sciences and Engineering Research Council of Canada. The goal of the partnership is to accelerate the commercialization of publicly funded research. The BDC has broadened the initiative to include federal, regional and provincial organizations and has increased collaboration through co-location with its partners.

The S&T Strategy also identified the development of the ICT sector as a priority for Canada. ICTs are important for SMEs because they enable them to grow, innovate and access global value chains. However, adoption in Canada is low, and all sectors must better integrate digital technologies into their business operations. As a result, the BDC conducted market research and identified gaps in the market that were not being filled by the private sector. It subsequently developed financing solutions to increase lending for ICT investments and consulting solutions to promote the successful adoption of ICTs.

Youth entrepreneurs

Within the context of complementarity, the BDC serves a series of underserved markets. Almost one-tenth of Canadian SMEs are led by youth entrepreneurs, many of whom find it difficult to secure financing due to limited management experience, few financial resources or a short track record. They face higher rejection rates and the amount of financing authorized is often lower than for other entrepreneurs.³⁵

The BDC serves youth entrepreneurs largely through its partnership with the Canadian Youth Business Foundation (CYBF), a national organization for entrepreneurs aged 18 to 34 seeking financing or mentoring. In 2008, the BDC signed an agreement with the CYBF to provide borrowers with up to \$15,000 in financing, an amount equivalent to the funding provided by the CYBF. In 2010, the BDC raised its limit to \$30,000. Through this partnership, the BDC supported more than 400 clients with small loans totalling more than \$7.3 million.

Over the review period, the BDC extended roughly \$1.5 billion in financing to youth entrepreneurs. While BDC financing to youth entrepreneurs increased over the period, it decreased as a percentage of overall financing from 6 percent in 2001 to less than 4 percent in 2010 (Figure 8).

Aboriginal entrepreneurs

There are approximately 32,000 Aboriginal-owned SMEs in Canada, representing about 2 percent of SMEs. Studies indicate that Aboriginal entrepreneurs face challenges accessing financing from private sector FIs³⁶ due to the fact that many lack collateral, are unable to use assets on reserves as collateral and often lack firm profitability.³⁷

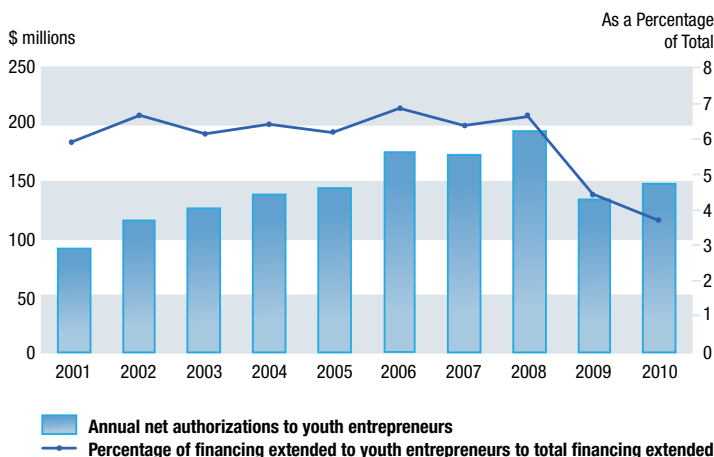
In 1996, the BDC established an Aboriginal Banking Unit, and in 2001, it created the Aboriginal Business Development Fund, a micro-credit program that provides management training, mentorship and loans between \$2,000 and \$20,000. The BDC also reaches Aboriginals through peer lending, which is based on the principle of group borrowing. Since 2001, the BDC’s Aboriginal portfolio has grown from \$43 million to \$112 million, while its Aboriginal client base has increased from 149 to 266 (less than 1 percent of its portfolio).

Women entrepreneurs

In 2007, 47 percent of Canadian SMEs were either entirely or partly owned by women, whereas 16 percent of Canadian SMEs belonged exclusively to women. Proportionately fewer majority women-owned enterprises request financing, and they also receive less financing.³⁸ However, recent studies indicate that there is little difference between majority female-owned firms and majority male-owned firms with respect to access to financing.³⁹

The BDC has provided targeted lending during the period, including through the Co-Vision loan program to women entrepreneurs in sectors such as service and tourism. The BDC also served women through alliances with the Women Entrepreneurial Centre of Quebec, the Canadian Women Entrepreneur of the Year Awards and the Women Presidents’ Organization.

Figure 8: BDC Net Authorizations to Youth Entrepreneurs (18–34 years)



Note: Data include both financing and subordinate financing.
Source: BDC data



Between 2001 and 2010, the number of women entrepreneurs served by the BDC more than doubled to 7,500, which accounts for 26 percent of the BDC's clients. Although the amount of financing extended to women nearly tripled from \$277 million in 2001 to \$756 million in 2010, it remained a constant percentage of total financing at 19 percent.

Visible minorities and immigrant entrepreneurs

There are approximately 160,000 SMEs in Canada that are majority-owned by visible minorities. This represents 10 percent of total SMEs.⁴⁰ Since 1997, visible minorities have entered the SME marketplace at more than 1.5 times the rate per year of other entrepreneurs, and they are expected to be one of the fastest growing SME segments.⁴¹ Their businesses tend to be in large cities (with over 90 percent located in urban areas), and they are more likely to export than the SME community at large. Furthermore, new immigrant majority-owned businesses tend to invest more in R&D.⁴² In 2002, the BDC developed a Diversity Action Plan to reach visible minority and immigrant entrepreneurs. Collaboration with ethnic business associations is one of the plan's main elements. However, the BDC does not report on the results of this activity or its level of support for these groups.

SMEs that export

The government has identified expanding international trade as a priority for Canada.⁴³ In support of this, it delivered a long-standing directive to the BDC to assist SMEs that export. The 2000 federal budget provided \$80 million to the BDC to increase its support for exporters, among other things.

It should be noted that the BDC is just one tool of government that works to promote exporting. EDC, another financial Crown corporation, is the primary vehicle through which the government supports exporting. The BDC provides support for SMEs that export through the provision of working capital and consulting services. EDC is mandated to develop Canada's export trade and the capacity

of Canadian firms to engage in international business opportunities. While both the BDC and EDC have a role in supporting Canadian businesses working abroad, stakeholders and parliamentarians stressed that the organizations' roles should be complementary so as to minimize confusion among stakeholders.

The BDC aims to help exporting clients expand their knowledge of how to export products and services, to develop and implement global supply chain strategies, to outsource lower value-added functions abroad and to expand internationally. More than 5,000 of its clients (about 18 percent of its total clients) are exporters, generating \$21 billion in export sales.

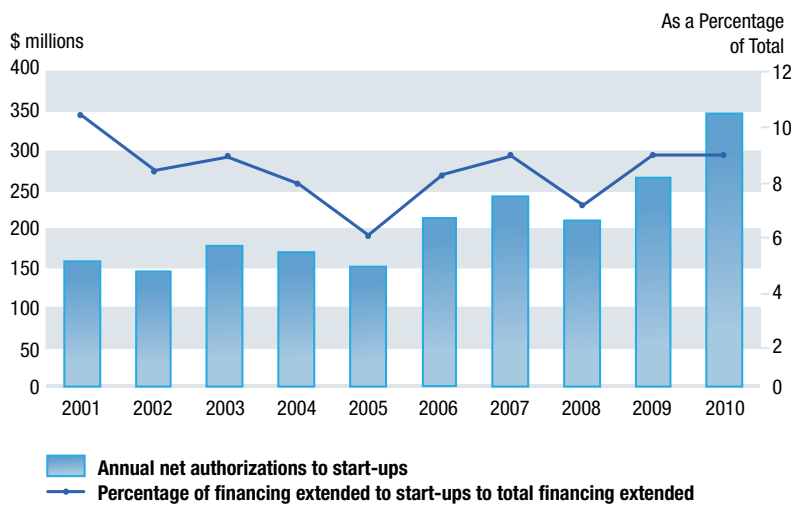
In conjunction with the Department of Foreign Affairs, Trade and Development Canada (DFATD), the Bank developed and introduced programs to provide working capital to help firms finance the expansion of their domestic market, explore new foreign markets, expand SME operations outside of Canada and buy equipment to install in foreign subsidiaries. In fiscal years 2009 and 2010, the programs delivered \$41.2 million in support through some 850 deals. The BDC and DFATD also work together to match Canadian companies with international business opportunities. Under this arrangement, they collaborate on marketing initiatives, including placing trade commissioners in five BDC offices in British Columbia and Ontario.

Despite efforts to increase support for exporters, the percentage of financing extended to exporters as a share of the BDC's total portfolio reached only 21 percent in 2010. The BDC's challenges in this respect can be partly attributed to the broader challenges of Canadian exporting, reflected in a decline in the ratio of exports to GDP over the review period,⁴⁴ and the fact that only 9 percent of SMEs are involved in exporting.⁴⁵

Young firms

Young firms and start-ups continue to face challenges in acquiring financing. Figure 9 shows that the BDC’s annual net authorizations for start-ups have grown from \$158 million in 2001 to \$347 million in 2010. The percentage of financing extended to these firms as a share of total financing has been stable.

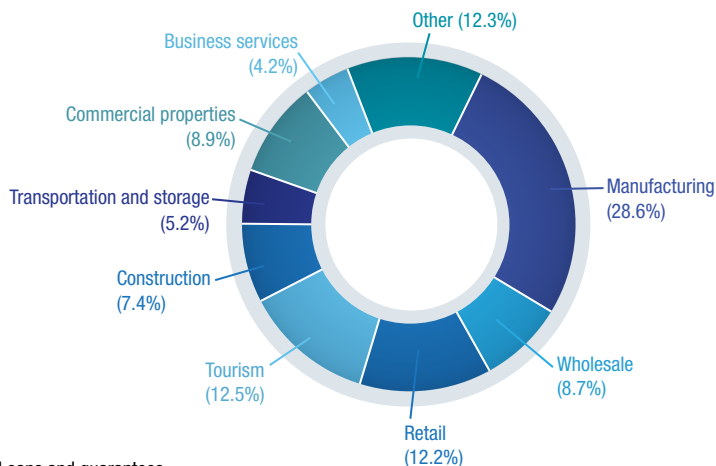
Figure 9: BDC Net Authorizations to Start-Ups



Note: Data include both financing and subordinate financing.
Source: BDC data

Figure 10: BDC Financing Commitments* by Sector

As at March 31, 2010 (\$ millions)



* Loans and guarantees
Source: BDC data

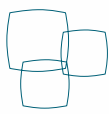
Sectors in transition and seasonal industries

As a complementary lender, the BDC plays a role in supporting SME sectors in transition, cyclical industries and seasonal industries, which often pose too much of a risk for private sector FIs. Throughout the review period, the BDC provided sector-specific support for manufacturing. Figure 10 shows that by the end of the decade, the largest segment of the BDC loan portfolio was the manufacturing sector, accounting for 28.6 percent of its financing commitments.

This sector also represented 23 percent of BDC’s clients. Considering that manufacturing accounted for 13 percent of GDP in December 2011,⁴⁶ this suggests that the BDC is providing significant support to the sector.

One subsection of the manufacturing sector that was hard hit toward the end of the review period was the automotive sector.⁴⁷ The BDC provides specialized support for this industry, serving nearly 1,000 auto sector clients to whom \$937 million in commitments were made by the end of the period.

Access to financing is a key challenge for businesses in seasonal and cyclical industries. One-quarter of SMEs in the tourism sector report that obtaining financing is an obstacle to growth and flexible financing arrangements are often required.⁴⁸ With \$1.6 billion in financing committed to tourism, this sector accounts for 13 percent of the BDC’s loan portfolio and 11 percent of its clients. In Canada, only 5 percent of SMEs are involved in tourism.

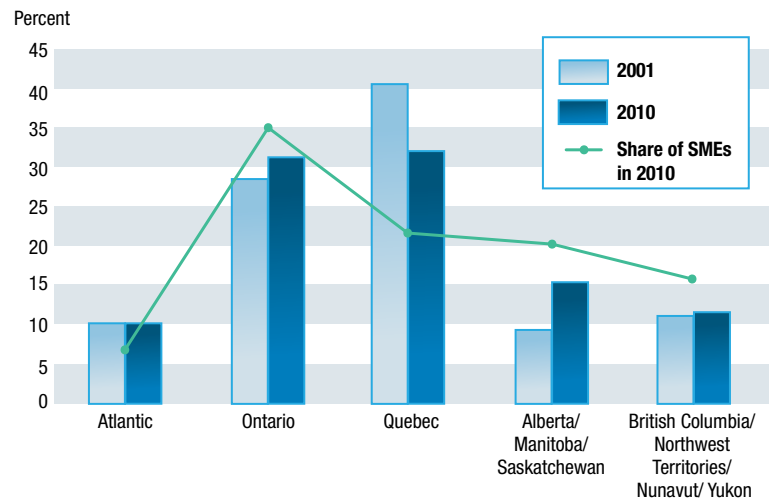


10. The Business Development Bank of Canada's Reach Across Markets

Regionally, Atlantic Canada accounted for about 10 percent of the value of the BDC portfolio over the review period. Quebec saw a drop in its share from 41 percent to 32 percent. Ontario's share grew from 28 percent to 31 percent. Manitoba and Saskatchewan remained in the range of 1 percent and 2 percent of the value of the portfolio, while the Northwest Territories/Nunavut remained at less than 1 percent. Alberta saw an increase from 6 percent to 11 percent, and British Columbia / Yukon saw an increase from 10 to 11 percent (see Figure 11).

As a national lender, the BDC's support by region should reflect the distribution of SMEs across Canada. In the legislative review of the BDC conducted in 2000, the government raised the issue of disparity in the BDC's support by region and asked that it focus on strengthening its activities where it is relatively under-represented, including the Western regions. As shown in Figure 11, the BDC has made progress in this area. The BDC works effectively with other federal, provincial and territorial government bodies, including regional development agencies, to coordinate services. The BDC has offices in the Northwest Territories and Yukon, and serves clients in Nunavut from the Northwest Territories. The BDC has agreements with 6 of the 14 Community Futures Development Corporations (CFDCs) in the Northwest Territories and Nunavut. It also has a partnership agreement with Denendeh Development Corporation and works with business development centres that are part of the territorial government and are often co-located with CFDCs. In rural communities, the BDC has \$2.1 billion in total commitments outstanding to 5,000 clients. Since 2006, the BDC extended more than \$468 million in loans through its alliance with 228 CFDCs. Stakeholders commented that CFDCs are effective in rural areas, providing

Figure 11: Distribution of BDC Commitments by Region Compared with the Share of SMEs by Region



Sources: BDC data; *Key Small Business Statistics— July 2011*

micro-loans to start-ups. In its submission to the SBTC, the Community Futures Network of Canada commented positively on its relationship with the BDC.

The BDC works with Canadian Manufacturers and Exporters to encourage greater global involvement among established exporters. Originally piloted in Quebec, this effort expanded to British Columbia and includes presentations on specific foreign markets by senior trade commissioners and experienced exporters. The Bank is also a co-sponsor of Quebec's Ministère du Développement économique, de l'Innovation et de l'Exportation's program aimed at helping 10 companies each year grow from \$5 million in annual sales to \$20 million.

Section C

KEY OBJECTIVES GOING FORWARD

The BDC is an important part of the government's support for SMEs and its key objectives of providing complementary support for entrepreneurs and SMEs across Canada should be reaffirmed. That being said, four areas for improvement emerged during the review that, when addressed, could improve the impact of the BDC's efforts going forward. These areas are: extending more support to underserved markets; increasing accessibility and enhancing client service for SMEs; focusing on complementarity; and enhancing performance measurement.

11. Extending More Support to Underserved Markets

As discussed in subsection 9 of the report, as part of the requirement for complementarity and consistent with its public policy mandate, the BDC pays particular attention to gaps in available financing and the needs of underserved markets, including start-ups. While the number of smaller loans the BDC makes to SMEs remains significant, the value of those loans as a percentage of its portfolio has dropped from 30 percent in 2001 to 13 percent in 2010. The BDC has gradually shifted its financing activity to larger loans (partly due to inflation and its activities under BCAP), and while some medium-sized firms require larger loans, there remains a gap in the market for smaller loans. The BDC has the capacity to meet this need and to help small businesses grow.

The BDC also has the opportunity to build on its efforts to support other underserved markets by supporting:

- specific types of entrepreneurs (e.g., youth, Aboriginal, Inuit and visible minority entrepreneurs) through expanded partnerships and new market strategies;
- sectors in transition and seasonal businesses (e.g., manufacturing and tourism) and taking steps to address gaps facing SMEs that export; and
- innovative firms and encouraging them to adopt ICTs and accelerate the commercialization of research.

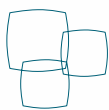
In summary, consistent with its mandate, the BDC could extend more support for the underserved market segments noted above. This would have the result of increasing the risk of its lending activities while staying within the risk limits imposed by government.

12. Increasing Accessibility and Enhancing Client Service for SMEs

For SMEs to access the BDC's services, they need to be aware of the Bank's products and services. As such the BDC needs to be visible. Some stakeholders noted that its high-profile advertising has been successful, particularly in large markets. However, this outreach has not translated into increased accessibility for financing in all markets, including small enterprises in rural areas.

The BDC should continue with its efforts to ensure it is visible and ultimately accessible in all regions. It should take steps to ensure that it is active in local communities across Canada, including by establishing partnerships with local economic development organizations and similar groups where these partnerships do not already exist.

With regards to client service, it is important that the BDC's processes be clearly articulated and easy to navigate. Some stakeholders called for more transparency in the BDC's decision-making process, including being provided with more information when a loan is declined. Others, while reporting an overall positive experience, noted that the BDC's process



could be costly and was lengthy, and that these impediments could threaten arrangements with other sources of financing.

Some entrepreneurs did not feel that they benefited from the expertise of staff from across all of the Bank's business lines. For example, those clients who engaged with the BDC through one channel, such as subordinate financing, felt that the sector expertise of other groups, such as BDC VC, could have better facilitated financing arrangements. Some clients who negotiated for term financing were not aware that the BDC provided other forms of financing.

That being said, over the review period, those BDC clients who were surveyed reported a high level of satisfaction in their dealings with the Bank.⁴⁹

Considering its mandate to support entrepreneurs and its "Entrepreneurs First" motto, the BDC should ensure that it is responsive to the needs of entrepreneurs and gives proper consideration to their realities when approached for support, while maintaining appropriate measures to evaluate and control risk. It should also consider taking steps to address the perception that it is engaged in tied selling.

13. Focusing on Complementarity

The requirement that the BDC act in a complementary manner is a fundamental aspect of its mandate. The BDC Act states: "The loans, investments and guarantees are to fill out or complete services available from commercial financial institutions."⁵⁰

This complementary function relates to both structural and cyclical deficiencies in the market. Structural deficiencies are ongoing market gaps where private sector lenders are reluctant to lend money, for example to higher-risk types of businesses such as small businesses, start-ups and exporters. The BDC is complementary in that it is more likely to finance these types of firms, as reflected by the composition of its portfolio.

Cyclical deficiencies are more temporary and are the outcome of downturns in the economic cycle.

The BDC is complementary in that it provides increased financing during such periods. For example, it provided a record amount of financing in 2009-10 when entrepreneurs faced challenges accessing credit from the private sector as a result of the recession.

As the marketplace is dynamic, the BDC's complementarity role is called upon to evolve. This was evident at the end of the review period when the BDC increasingly provided financing "beside" the private sector when it was asked to partner on deals. The BDC should continue to look for opportunities to refine its explanation of its complementary role in the marketplace.

14. Enhancing Performance Measurement

Improved performance measures related to the BDC's public policy mandate would allow other stakeholders, the public and parliamentarians to better assess its performance. These measures should be visible through regular reporting activities.

In this context, the BDC should consider expanding its performance measures to:

- a) capture its complementary activities, such as by measuring its support to higher-risk market segments, and by tracking its changing financing activities against changing market conditions.
- b) report support for SMEs by business size (i.e., small, medium, large) using the measures of business size employed by Statistics Canada.
- c) gauge SME perception of the BDC's products and services. This measure should include input from non-BDC clients to capture a more balanced perception of the BDC in the marketplace.
- d) capture its support of underserved markets, for example, visible minority entrepreneurs.
- e) better measure the impact of the BDC's efforts in support of SMEs that export, both through its partnerships and its direct support.
- f) demonstrate its effect on accelerating the commercialization of research and ICT adoption.

Section D

CONCLUSIONS

As previously noted, the legislative review is an opportunity to examine how the BDC has responded to the needs of SMEs, and consider any legislative changes that would allow it to best address the emerging challenges facing SMEs. The first two conclusions, below, relate to this. The review is also an opportunity to consider clarifying or modernizing certain governance provisions of the BDC Act. The next three conclusions pertain to these goals.

15. Diversifying the Business Development Bank of Canada's Financial and Consulting Tools

Currently, the types of financial tools that the BDC can offer are limited to loans, investments and guarantees,⁵¹ and if new tools were to be added, legislative amendments would be needed to the BDC Act. Given the dynamic nature of the economy, it is difficult to foresee the needs of SMEs over the next 10 years. As such, consideration should be given to creating a more flexible mechanism for governing what other financial tools the BDC could offer its clients, should the need arise.

Consulting is a fundamental part of what the BDC delivers, and the suite of consulting products it offers must evolve over time to reflect the needs of Canadian SMEs. Amendments to the Act should be considered to clarify the scope of the consulting services that the BDC currently offers, including counselling, mentoring and training; referral, network and advisory services; and research and information. Amendments should also be considered to provide flexibility to deliver additional services, such as sourcing and pooling services.

Amendments to the BDC Act should be considered to allow the BDC to act as an agent or intermediary for business support activities, which would give it the ability to aggregate services for the benefit of entrepreneurs.

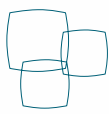
16. Helping Small and Medium-Sized Enterprises Beyond the Domestic Market

In the global economy, Canadian SMEs must operate with a global mindset, for example, by tapping into new markets and participating in global supply chains. This can help them overcome the challenges associated with operating in a relatively small domestic market, and help them lower production costs, improve productivity, and get closer to customers.

While the BDC can assist with financing, it can only provide this financing through a Canadian parent company. Holding this debt restricts the parent company from investing in its domestic operations, which may hamper its ability to create jobs and economic activity in Canada.

This review found that there is general support for an expanded role for the Bank in supporting firms in their international activities. There is also a view that these services should be complementary to those of EDC and should not compromise the BDC's support for domestic SMEs.

Amendments to the BDC Act should be considered to provide the BDC with additional mechanisms to deliver financing to further help Canadian SMEs wishing to grow their businesses in international markets.



17. Supporting Small and Medium-Sized Enterprises Through Trusts or Not-for-Profit Organizations

Currently, the BDC provides loans directly to youth entrepreneurs to finance business start-ups through partnerships. It could more effectively help SMEs by providing indirect support, for example through the CYBF, which in turn could leverage its resources in the area of youth entrepreneurship and deliver loans more efficiently.

As such, amendments to the BDC Act should be considered to enable the BDC to offer indirect financing through, for example, not-for-profit organizations and trusts. This would allow it to further reach underserved markets, would lead to the more efficient delivery of loans, and would ultimately benefit Canadian SMEs.

18. Clarifying and Modernizing Governance Provisions

Increased emphasis on accountability and transparency for governments and Crown corporations requires that institutions follow the most up-to-date governance procedures.

There is an opportunity to update the BDC's governance regime to reflect best practices. More specifically, amendments to the BDC Act should be considered to:

- a) allow the BDC Board of Directors to delegate powers to any of its committees, while retaining overall authority and responsibility, and to remove reference to an Executive Committee.
- b) increase the time during which an acting President may act from 90 days to 180 days.
- c) allow for the selection of an acting Chair whose acting period should be limited to 180 days.
- d) ensure that provisions regarding privileged information apply equally to any subsidiaries of the BDC.

19. Extending Complementarity

While the Canadian consulting industry is relatively strong, research shows that SMEs cannot access these services in a cost-effective manner.⁵²

Recognizing the value of consulting, SMEs have turned to the BDC for assistance. As a result, the BDC has steadily grown its consulting services over the review period and it continues to evolve its offerings in response to market needs.

The BDC Act states that the Bank's provision of loans, investments and guarantees must "fill out or complete services available from commercial financial institutions."⁵³ This requirement in the BDC Act does not apply to consulting.

The government believes that the BDC should continue to fill market gaps and deliver flexible services tailored to the needs of SMEs, while respecting the role of the private sector. Therefore, amendments to the BDC Act should be considered to ensure that the consulting services the BDC offers are complementary.

20. Summary

From an increasingly globalized marketplace to rapid advances in information technology, events of the last 10 years have forced businesses of all sizes to consider both the opportunities and challenges presented by constant change. Throughout this time, Canadian SMEs proved themselves to be strong engines of economic growth, creating jobs and contributing to a high standard of living in their communities and across the country.

The BDC has been an important partner. It has supported entrepreneurs in their goal of starting and building companies, it has served as an effective instrument of public policy, and it has done so while remaining financially sustainable. Just as this review is an opportunity to look back, it is also a chance to look forward to the challenges and opportunities ahead. If there is one certainty, it is that change will continue, as will the need to adapt.

Overall, the BDC has done a good job of meeting its mandate. However, given the evolving needs of SMEs in a global economy, changes should be considered so the BDC can better support entrepreneurs and help SMEs grow.

Endnotes

- ¹ *Business Development Bank of Canada Act*, s. 36.
- ² This review covers fiscal years 2000–01 to 2009–10.
- ³ Standing Senate Committee on Banking, Trade and Commerce, *Ten-Year Statutory Review of the Business Development Bank of Canada*, December 2010 (www.parl.gc.ca/Content/SEN/Committee/403/bank/rep/rep07dec10-e.pdf).
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- ⁵ *Business Development Bank of Canada Act*, ss. 14(4).
- ⁶ The *Supporting Small Business Innovation: Review of the Business Development Bank of Canada* report can be found on the BDC website (www.bdc.ca/en/Documents/about/corporategovernance/E-BDC.pdf).
- ⁷ In 2000, the productivity gap between Canadian and U.S. business sectors was 19 percent. This gap had grown to approximately 30 percent by the end of the decade. Source: Industry Canada calculation based on data from Statistics Canada and U.S. Bureau of Labor Statistics.
- ⁸ In Canada alone, the period between 1998 and 2000 saw approximately \$8 billion in VC fundraising and \$10 billion in VC investment. Source: Canada's Venture Capital and Private Equity Association, *Venture Capital Industry Resources and Liquidity*, 2000 (www.cvca.ca/resources/statistics/2000_table5.aspx).
- ⁹ Organisation for Economic Co-operation and Development, *The SME Financing Gap (Vol. I): Theory and Evidence*, 2006.
- ¹⁰ In 2009, approval rates of private sector FI loans for firms with 1 to 99 employees sank to 79 percent, representing a 15-percent decrease from 2007, which was one of the lowest approval ratings of the decade. Source: Industry Canada, *Credit Conditions Survey*, 2009.
- ¹¹ Department of Finance Canada, *Canada's Economic Action Plan: A Sixth Report to Canadians*, September 2010.
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- ¹³ Industry Canada, *Key Small Business Statistics—July 2010*, and *Key Small Business Statistics—July 2011*.
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- ¹⁷ BDC data.
- ¹⁸ BDC data.
- ¹⁹ Industry Canada, *Credit Conditions Survey*, 2009.
- ²⁰ The Working Capital Support program offered partially secured and unsecured working capital for businesses.
- ²¹ The Operating Line of Credit Guarantee enables eligible companies to obtain up to a 40-percent increase in their current operating line of credit and is designed to help creditworthy businesses overcome temporary liquidity problems.
- ²² BDC employees responding to Local Market Intelligence Study, May 2010.
- ²³ Conference Board of Canada, *Lessons from the Recession: Lesson 2—Public Sector Financial Institutions Prove Their Worth*, January 2010.
- ²⁴ Statistics Canada, Input / Output Model Results, 2010 (special tabulation).
- ²⁵ BDC internal estimates on companies active between September 2009 and September 2010.
- ²⁶ Business Development Bank of Canada and Statistics Canada, *Economic Impact Study—BDC's Financing and Consulting Services*, 2010.
- ²⁷ Business Development Bank of Canada, *BDC 2010 Legislative Review: Building an Innovative Nation—One Entrepreneur*



at a Time, November 2010.

- ²⁸ Business Development Bank of Canada, *2011–2015 BDC Corporate Plan Summary*, 2010.
- ²⁹ Business Development Bank of Canada, Annual reports from 2004 to 2010, Bank of Canada, *Bond Yields 2004–10*.
- ³⁰ Statistics Canada, *CANSIM Table 187-0002, Quarterly statement of changes in financial position, by NAICS, selected financial ratios, ROE, 2001–2010*.
- ³¹ An efficiency ratio is defined as operating and administrative expenses divided by net interest and other income.
- ³² Loan yield is loan interest income divided by average loans outstanding net of allowances for losses.
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- ³⁵ Industry Canada, *Small Business Financing Profiles—Young Entrepreneurs*, SME Financing Data Initiative, 2006. “Young entrepreneurs” are defined as business owners between ages 25 and 34.
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- ⁴² Industry Canada, *Key Small Business Financing Statistics—December 2009*, SME Financing Data Initiative, December 2009.
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- ⁴⁶ Statistics Canada, *Gross Domestic Product by Industry*, May 2012.
- ⁴⁷ Department of Finance Canada, *Canada's Economic Action Plan: A Seventh Report to Canadians*, January 2011.
- ⁴⁸ Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004.
- ⁴⁹ The BDC's client satisfaction rate was 92 percent over the review period. Source: Business Development Bank of Canada, *BDC 2010 Legislative Review: Building an Innovative Nation—One Entrepreneur at a Time*, November 2010.
- ⁵⁰ *Business Development Bank of Canada Act*, ss. 14(4).
- ⁵¹ *Business Development Bank of Canada Act*, s. 14.
- ⁵² Victoria Lennox, Industry Canada, *How BDC Fits Within the Range of Federal SME Support Programs*, December 2010.
- ⁵³ *Business Development Bank of Canada Act*, ss. 14(4).