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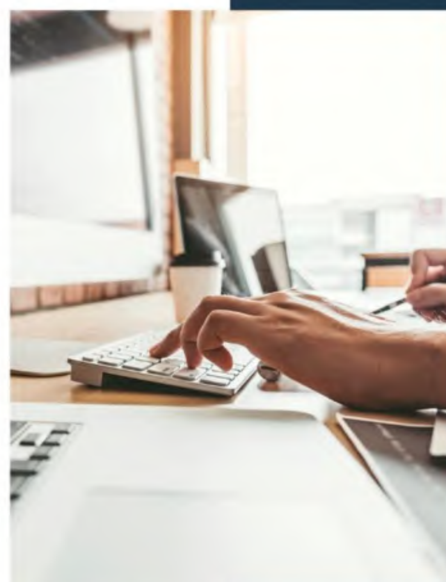

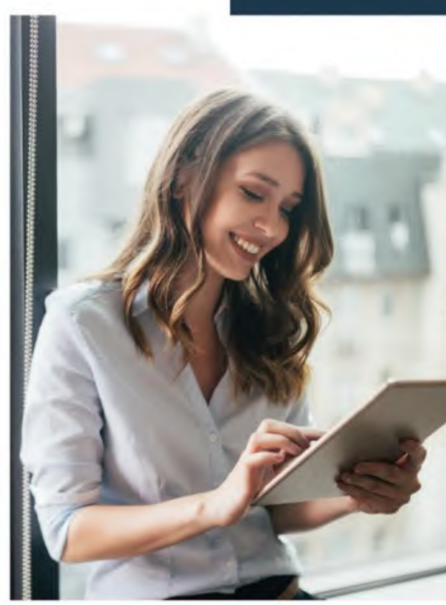

Business Development Bank of Canada

Legislative Review

Canada

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Web Services Centre
Innovation, Science and Economic Development Canada
C.D. Howe Building
235 Queen Street
Ottawa, ON K1A 0H5
Canada

Telephone (toll-free in Canada): 1-800-328-6189
Telephone (Ottawa): 613-954-5031
TTY (for hearing-impaired): 1-866-694-8389
Business hours: 8:30 a.m. to 5:00 p.m. (Eastern Time)
Email: ised-isde@ISED-ISDE.gc.ca

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Consultation Paper – Business Development Bank of Canada (BDC) Legislative Review

Table of contents

Executive summary 4
Introduction 6
The BDC and the SME landscape 8
Analysis of the BDC against its mandate 17
The BDC’s public policy role and governance 24
Conclusion 31

Executive summary

The Business Development Bank of Canada (BDC) is a Crown corporation which provides financing, advisory services, and access to capital to entrepreneurs and small businesses across Canada. Headquartered in Montreal, the BDC has 2,600 employees working at over 110 BDC business centres located across Canada. In total, the BDC has approximately $47.8 billion committed to more than 95,000 small and medium-sized enterprises (SMEs) as of fiscal 2022.[1]

The BDC operates at arm's length from the Government of Canada, balancing its public policy mandate to support Canadian entrepreneurship against a requirement to operate in a financially sustainable manner. The BDC operates as a complementary lender in the market, offering loans and investments that supplement or complete services available from private sector service providers. The BDC's governing legislation, the *Business Development Bank of Canada Act* (BDC Act), outlines the powers and limitations with regards to financing, investing, and advisory services.

To ensure its provisions and operations remain effective, Section 36 of the BDC Act requires the Designated Minister, currently the Minister of International Trade, Export Promotion, Small Business, and Economic Development, conduct a ten-year review of the legislation in consultation with the Minister of Finance, and table a report on the review in Parliament.

The current Legislative Review will cover the period from 2010–2022 (Review Period). The purpose of the 2022 Legislative Review is to evaluate the provisions and operations of the BDC Act while also examining how the mandate of the BDC has evolved and might continue to evolve to support SMEs over the coming decade. The public consultation is open to all Canadians, including experts and stakeholders in academia, business and industry, and will help support the evidence-based analysis and review of the legislation. The consultation is seeking input from Canadians on three priority areas:

- The BDC and the SME landscape
- Analysis of the BDC against its mandate
- The BDC's public policy role and governance

[1] BDC, *2022 Annual Report*, 2022

The BDC and the SME landscape

This section examines how the BDC's role has changed in response to economic developments since 2010 and outlines existing and emerging needs of SMEs with regards to financing, capital and advisory services. This section also provides an examination of what the BDC is doing, planning to do or should do, to address gaps and challenges related to access to financing.

Developments in financial markets in the aftermath of the pandemic; the impacts of COVID-19 and changing economic conditions on SMEs; and the evolution of the BDC's suite of products and services are discussed in the context of the BDC's role in the SME lending marketplace.

Analysis of the BDC against its mandate

This section investigates the BDC's growing role in the Canadian SME lending marketplace and examines how it will continue to ensure its complementary role.

This section also examines the performance of the BDC's various lines of business, with a view to assess whether the legislative, regulatory and policy framework in which the BDC operates provides sufficient flexibility to support current and anticipated needs of SMEs.

Finally, this section discusses how the BDC's activities complement and/or compete with the private sector and evaluates how the BDC has responded, and is equipped to respond, to periods of economic volatility as part of its countercyclical role.

The BDC's public policy role and governance

This section examines governance issues and the BDC's relationship with the Government of Canada with a view to ensuring continued balance between the BDC's operational independence and its public policy role.

This section also considers alignment between the BDC's activities and existing Government programs, such as the Canada Small Business Financing Program, as well as an examination of the BDC's complementary role vis-à-vis other federal partners such as Export Development Canada.

Introduction

Access to financing underpins the competitiveness of Canada's small and medium-sized enterprises (SMEs), enabling firms to acquire buildings and capital equipment, finance working capital, perform research and development, and compete in new markets.

One important source of financing for SMEs is the Business Development Bank of Canada (BDC), a financial Crown Corporation wholly-owned by the Government of Canada. While the BDC has a public policy role to support Canadian entrepreneurship, it also has a commercial requirement to be financially self-sustaining and does not receive appropriations from the Government of Canada. The BDC reports to Parliament through its Designated Minister, currently the Minister of International Trade, Export Promotion, Small Business, and Economic Development.

The BDC operates at arm's length from the government and is governed by an independent Board of Directors appointed by the Governor in Council. The BDC's governing legislation, the *Business Development Bank of Canada Act* (BDC Act), outlines the powers and limitations with regards to financing, investing, and advisory services. Additionally, the BDC is also governed by the *Financial Administration Act*, Part X, and associated regulations, which set out additional rules relating to topics, such as accountability to Parliament and financial management, which are applicable to all financial Crown Corporations in Canada.

To ensure it remains effective, Section 36 of the BDC Act requires a Legislative Review be conducted five years after the Act comes into force, and every ten years thereafter. The current Legislative Review will cover the period from 2010–2022 (Review Period). The objective of the Legislative Review is to examine how the BDC's mandate has evolved and how it will continue to remain relevant over the next 10 years, as well as how the BDC can be best positioned to respond to the changing needs of SMEs and support Government of Canada priorities.

Quick Facts

Founded in 1944

Established in 1944, the BDC is a Crown corporation that offers a suite of services, including financing, advisory services, and access to capital, to entrepreneurs and businesses across Canada.

From coast to coast

Headquartered in Montreal, the BDC has 2,600 employees working at over 110 BDC business centres located across Canada.

Recent Data

As of fiscal 2022, the BDC has committed approximately $47.8 billion to more than 95,000 SMEs.

As part of the Legislative Review, Innovation, Science and Economic Development Canada (ISED) is seeking to identify changing market needs, gaps and ongoing trends in technological development, to ensure the BDC has the tools it needs to support Canadian entrepreneurs and SMEs over the coming decade.

This public consultation is open to everyone—including entrepreneurs, experts, academia, business and other interested Canadians—and will support the evidence-based analysis and review of the legislation. The consultation will be guided by several themes, which will be reflected in the following consultation paper as well as other activities carried out as part of the Legislative Review.

Section	Theme
The BDC and the SME landscape	1. Overview and history of the BDC 2. The Canadian business landscape 2010–2020 3. The impact of COVID-19 and changing economic conditions on SMEs 4. SME debt lending 5. Growth and risk capital investment 6. SME services
Analysis of the BDC against its mandate	1. Access to capital and financing for entrepreneurship and SMEs 2. Advisory services 3. Complementing private sector lenders and advisory service providers 4. The BDC's countercyclical role
The BDC's public policy role and governance	1. Underserved markets 2. Governance and oversight 3. Alignment with Government priorities

The BDC and the SME landscape

1. Overview and history of the BDC

The BDC is an independent, arm's length Crown Corporation wholly-owned by the Government of Canada. Its mandate is to support Canadian entrepreneurship while operating in a financially sustainable manner. In support of its mandate, the BDC enhances access to financing, capital and advisory services for all Canadian entrepreneurs, across all sectors, regions and stages of development through three primary business lines:

BDC Financing	Extends financial support through a variety of products, including term lending, working capital and asset-backed securities
BDC Capital	Offers a range of venture capital (VC), growth financing and transition capital products to help entrepreneurs reach their full growth potential
BDC Advisory Services	Provides companies with the advice they need to scale up, become more productive, innovate and globalize

The BDC undertakes specific activities, programs, and spending to support Canadian entrepreneurship within the scope of a shareholder-approved corporate plan and budgets, which are recommended by the Designated Minister and approved on an annual basis by Treasury Board.

The BDC corporate plan summary and annual report, which highlight the BDC's activities and achievements and include consolidated financial statements, are submitted to the Parliament of Canada annually.

The Government of Canada is the sole shareholder of the BDC, and the Designated Minister, currently the Minister of International Trade, Export Promotion, Small Business, and Economic Development, is the Minister responsible for the BDC under the BDC Act.

Under the BDC Act, the Designated Minister has the authority to communicate the Government of Canada's expectations for the BDC's broad policy direction and to implement specific programs to support Canadian entrepreneurship, while respecting its operational autonomy.

This means that the Government of Canada cannot direct or intervene in the organization's day-to-day operations.

History of the BDC

Created in 1944 as the Industrial Development Bank (IDB), the BDC was initially designed as an arm of the Bank of Canada. The IDB's original mandate (providing support to small manufacturers that had contributed to the Second World War) eventually expanded until its link with the Bank of Canada was severed. In 1975, the Federal Business Development Bank of Canada (FBDB) was created as a "one-stop shop" for Canadian entrepreneurs. The FBDB expanded its operations twofold: a management services division was created, and it became a VC investor.

With the introduction of the BDC Act in 1995, the BDC received its current name and was assigned its complementary role, mandating it to provide loans, investments and guarantees to "fill out or complete services available from commercial financial institutions." An initial five-year Review of the Act (1995–2000) confirmed the need for the BDC to provide financing and consulting services to Canadian SMEs while underscoring that the BDC should increase its reach in order to address gaps in the market. The first Business Development Bank of Canada 10-year Legislative Review: 2001–2010 was completed in 2014. In summary, the Review highlighted the BDC's critical countercyclical role in response to the 2008 financial crisis and proposed incremental legislative changes, which included updating the legislation around BDC's advisory services, broadening BDC's financial tools, and enhancing BDC's ability to support companies with international presence.

2. The Canadian business landscape 2010–2020

Though the immediate impact of the 2008 financial crisis was less severe in Canada compared to the United States of America and Europe, Canada fell into recession in October 2008 and did not recover to its pre-crisis peak until the end of 2010. At the onset of the crisis, businesses of all sizes faced severe financing pressures, prompting unprecedented action by governments and central banks to restore liquidity to markets—including countercyclical support delivered by the BDC through the Business Credit Availability Program (BCAP) and the Canadian Secure Credit Facility.

Though conditions stabilized by 2011, weaker than expected global growth,[2] ensured accommodative credit policies would remain in place with the Bank of Canada's overnight lending rate remaining below 1.75 percent throughout the Review Period. Meanwhile, federal and provincial governments assumed more active roles fostering innovation and business growth in the aftermath of the crisis. This included the creation and scaling of new Regional Development Agencies, Innovation Canada (which delivers key support for innovative SMEs through the Strategic Innovation Fund and the Innovation Superclusters Initiative), the implementation of the National Research Council's new five-year Strategic Plan including a scaled-up Industrial Research and Assistance Program (IRAP), expansion of the Canada Small Business Financing Program (CSBFP), and an expanded BDC, which grew from 3 percent to an estimated 7 percent of SME lending market share from 2010 to present. Beyond efforts to improve the supply of capital, the Government of Canada also took steps to improve SME demand for investment over the period by encouraging firms to become more ambitious and globally competitive.

With the exception of specific disruptions affecting SMEs in certain regions/sectors (e.g. the 2014 oil crash), the balance of opinion among firms is that access to credit improved consistently since 2010.[3] Data from the *Survey for Financing and Growth of Small and Medium-Sized Enterprises, 2017*, indicates that the overall approval rate for new SME debt loans reached approximately 89 percent with the number and amount of business credit disbursements regularly increasing year-over-year throughout the Review Period.[4]

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[2] Bank of Canada, *Staff Analytical Note: The Case of Serial Disappointment*, July 2016
[3] Bank of Canada, *Business Outlook Survey*, 2019
[4] Statistics Canada, Business credit outstanding, by supplier type and authorization level, October 2022

3. The impact of COVID-19 and changing economic conditions on SMEs

The onset of the COVID-19 pandemic in early 2020 triggered the deepest global recession since the Great Depression, with economic activity estimated to have fallen 15 percent below its level at the end of 2019.[5] In any economic crisis, new and small businesses tend to be more vulnerable than their larger, more established peers, and the pandemic was particularly damaging for small businesses given their significant presence in hard-to-distance service industries most impacted by government-mandated closures and restrictions.[6]

Lower-than-expected insolvency rates were due in large part to the immediate impact of government liquidity supports. Extraordinary monetary stimulus implemented by the Bank of Canada was complemented by fiscal stimulus from provinces, regional governments, and the Government of Canada's COVID-19 Economic Response Plan—which included programs such as the Canada Emergency Business Account (CEBA), the Canada Emergency Wage Subsidy (CEWS) and initiatives delivered by the BDC like BCAP and the Highly Affected Sectors Credit Availability Plan (HASCAP). Together these efforts had the effect of protecting otherwise sustainable SMEs from insolvency and helping to keep workers attached to their employers. Over three-quarters of Canadian SMEs applied for at least one of Canada's COVID-19 Economic Response Plan programs with an approval rate of 98 percent.[7] While emergency programs proved to be a critical lifeline for many businesses, signs of financial uncertainty have deepened for many businesses as support winds down.

During the fourth quarter of 2021, one-third of businesses reported to Statistics Canada that the absence of government support programs over the next 12 months combined with elevated levels of debt assumed during the pandemic would have a medium-to-high impact on their survival.[8] According to Statistics Canada data from November 2022, challenges have persisted, and small businesses are struggling to recover as demand in the economy normalizes. While large firms are more likely to face labour-related obstacles, small firms face more risk from insufficient demand, have more difficulty with cash flow, and anticipate lower profitability.[9]

In addition, inflation has increased sharply across the world over the past year. Central banks, including the Bank of Canada and the U.S. Federal Reserve, have been raising interest rates and tightening monetary policy in a synchronized manner. Although global growth is expected to slow in 2023, there is uncertainty regarding Canada's ultimate economic trajectory.[10]

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[5] Bank of Canada, *Monetary Policy Report*, July 2020
[6] TD Economics, *Small Business Outlook Improves, but the Post Pandemic Economy Creates New Challenges*, November 2021
[7] ISED, *Summary of the Survey on Financing and Growth of Small and Medium Enterprises*, March 2022
[8] Statistics Canada, *Impact of COVID-19 on small businesses in Canada, fourth quarter of 2021*, January 2022
[9] Statistics Canada, *Research to Insights: Recent Economic and Social Developments*, November 2022
[10] Department of Finance Canada, *Fall Economic Statement 2022*, November 2022

The tightening of monetary policy and deepening economic uncertainty will continue to test the resilience of the financial system and could worsen existing vulnerabilities, including: the aging of Canada's population which is expected to deepen weaknesses in Canada's labour market and lower the number of entrepreneurs over the next decade; changing trade patterns; and other challenges which may emerge as the global economy continues to adapt to post-COVID realities. Over the medium to long-term, SMEs expect to face further difficulties which may threaten the broader long-term recovery.

4. SME debt lending

In general, the overall debt financing market in Canada is highly competitive as SMEs can borrow from a wide variety of active financial suppliers. Typical of advanced economies, domestic chartered banks represent the main source of debt capital in Canada, with these lenders representing the majority (58 percent) of the total $312.5 billion in outstanding loans to SMEs in 2021.

Credit market share by type of financing institution

Credit Outstanding – SME (<$5 million)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Domestic banks	49.3%	51.7%	53.5%	54.2%	56.6%	56.5%	57.2%	56.9%	57.6%	57.4%	58.0%
Other banks	10.0%	9.8%	9.5%	8.3%	7.9%	7.5%	7.2%	7.3%	7.0%	6.5%	6.2%
Credit unions and caisses populaires	17.4%	18.7%	18.2%	18.7%	18.0%	18.7%	18.9%	19.3%	19.1%	19.2%	19.7%
Finance companies (includes fintech)	14.7%	16.1%	15.3%	15.4%	14.8%	15.0%	14.9%	14.8%	14.7%	15.4%	14.8%
Insurance companies and portfolio managers	8.6%	3.7%	3.6%	3.3%	2.8%	2.4%	1.8%	1.6%	1.5%	1.4%	1.3%

Source: Statistics Canada. Table 33-10-0013-01 Business credit outstanding, by supplier type and authorization level.

From 2011 through 2018, an average of 27 percent of SMEs sought access to external debt financing per year with approval rates averaging approximately 86 percent. The average interest rate on these debt financings increased marginally from 5.3 percent at the beginning of the Review Period to 5.7 percent in 2018.[11] Despite the affordable cost of credit, accessing traditional debt financing posed challenges for certain SMEs – particularly growth-oriented firms with higher risk profiles; intellectual property (IP) intensive firms; firms with irregular revenue cycles, large upfront costs or longer market-testing timelines, such as some firms in creative industries or clean technology and life sciences sectors; or, firms in emerging sectors deemed as higher risk by financial institutions, such as new firms in Canada's nascent cannabis sector and firms impacted by countercyclical trends – i.e. customer-facing service firms throughout the pandemic in tourism, hospitality or food-service.[12]

The current Legislative Review Period (2010–2022) was, for the most part, a favourable period for borrowers—in part, due to the proliferation of emerging financial technology (fintech) providers in Canada. The number of new fintechs grew significantly over the Review Period, peaking at 101 founded in 2017, compared to the annual peak of 15 new entrants over the previous Review Period.[13] Together, these new entrants introduced greater sophistication to the small business lending market, representing an important new source of funding for Canadian firms.

However, this has given rise to concerns that high debt obligations taken on by firms may have negative long-term impacts on firm productivity and growth.[14] In particular, higher levels of corporate indebtedness require businesses to reduce investment in the aftermath of economic crises, thereby slowing down the speed of the recovery; and, the injection of liquidity provided in the form of loan guarantees and new lines of credit increased firms' leverage ratios and hence their default risk.[15]

This structural issue is more prominent for SMEs in hard-hit sectors (e.g., accommodation and food services), where firms were more likely to have insufficient short-term assets to backstop short-term liabilities, in addition to a higher level of overall leverage before the COVID-19 pandemic.[16]

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[11] ISED, *Summary of the Survey on Financing and Growth of Small and Medium Enterprises*, March 2022
[12] Organization of Economic Cooperation and Development, *New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments*, April 2015
[13] Accenture, *Collaborating to win in Canada's Fintech ecosystem* – Canadian Fintech report, 2021
[14] Bank of Canada, *Staff Analytical Note: A Financial Stability Analysis of Zombie Firms*, February 2020
[15] OECD, *Insolvency and debt overhang following the COVID-19 outbreak: Assessment of risks and policy responses*, November 2020
[16] TD Economics, *Canadian Corporate Debt: Adding Another Layer of Risk*, February 2020

5. Growth and risk capital investment

In line with the broader economic environment, financing markets for Canadian growth-oriented technology firms remained in a period of adjustment at the beginning of the current Legislative Review Period. Private equity investment activity in 2010 measured $10.9 billion across approximately 150 deals – down approximately 67 percent from pre-financial crisis highs set in 2007.[17] In particular, the absence of new fund formations by mezzanine and other quasi-equity groups was cited as being of concern at the time.[18]

Meanwhile, a 2010 review of Canada's VC industry commissioned by the BDC concluded the market was broken in the aftermath of the 2008 financial crisis, with private limited partners (LPs) having left the asset class, thus creating a critical absence of capital for young firms with only $819 million invested in the asset class through the entirety of 2010.[19]

Since then, the environment for Canadian private equity and VC deal-making has improved considerably with Canadian VC garnering renewed interest from both Canadian and international investors. As of 2021, ten-year returns to investors reached 14 percent, an all-time high, while deal activity and valuations are both up, with total investments reaching an unprecedented $14.7 billion across 752 transactions.[20]

In particular, Canada's VC landscape has shown healthy growth relative to its peers over the Review Period, bringing it from a laggard position in 2010, to much closer to leading Organization for Economic Cooperation and Development (OECD) member states in terms of VC investment as a percentage of GDP in 2021.[21] An increased appetite for the Canadian VC asset class by foreign investors has helped to drive this growth. In 2021, 46 percent of the investor transactions in the Canadian VC space came from foreign investors, primarily those based in the U.S.[22]

While performance of Canadian VC has remained strong into the first quarter of 2022, concerns are beginning to be expressed over the potential impacts that the performance of public markets, inflation and geopolitics may have on Canadian VC going forward.[23]

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[17] Thomson Reuters and McKinsey—Private Equity, Canada, 2010
[18] BDC, *Venture Capital Industry Review*, 2010
[19] BDC, *Venture Capital Industry Review*, 2010
[20] BDC, *Venture Capital Landscape*, May 2022
[21] OECD Stat, Data set—July 2022
[22] BDC, *Venture Capital Landscape*, May 2022
[23] CVCA, VC & PE Canadian Market Overview, Q1 2022

Public policy, delivered through the BDC, also played a critical role in leading the recovery of private financing markets. As the delivery agent of the Government of Canada's Venture Capital Action Plan and Venture Capital Catalyst Initiative (VCAP and VCCI) and through its internal activities, BDC Capital took a leadership role in Canada's VC market, becoming the most active participant in the market since 2010.

Meanwhile, BDC Growth and Transition Capital (GTC), which targets high-growth businesses with strong business models and management teams but limited tangible assets to offer as collateral, also expanded as its importance grew in acquisition and transition capital markets. In 2010, BDC GTC had $193 million committed, whereas by 2022, the portfolio calculated at fair value reached $914 million in commitments and is projected to reach $1.7 billion in fiscal 2027, representing 10 percent annualized growth.[24]

6. SME services

In general, Canadian businesses enjoy access to a wide variety of public and private services, which provide advice, counselling, and training services. In addition to the BDC's advisory services, the Government of Canada's Business Benefits Finder highlights the wide range of advisory services offered to SMEs through federal programs, including the Industrial Research Assistance Plan and the Canadian Trade Commissioner Service.

Beyond government support, Canadian businesses also enjoy access to best-in-class consulting, legal and accounting firms across the country that provide specialized services. Moreover, later stage, growth-oriented firms can also access world-class private sector consulting services.

A growing number of firms sought access to advisory services over the Review Period, with Canada's management, scientific and technical consulting services sector revenues growing approximately 37 percent from 2012 to 2020.[25] Businesses accounted for approximately two-thirds of the sector's sales,[26] with management consulting services accounting for 69 percent of all consulting sales, followed by scientific and technical consulting services at 17 percent, and environmental services at 10 percent, in 2020.[27]

The BDC is an active provider of consulting services for Canadian businesses, having done so since its inception in 1995. As recommended by the 2010 Legislative Review, the BDC delivers its services in an effort to "fill out or complete services available from private sector providers".[28]

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[24] BDC, *Corporate Plan Summary 2022-23 to 2026-27*, 2022
[25] Statistics Canada, *Consulting services, summary statistics Table 21-10-0166-01*, 2022
[26] Statistics Canada, *Consulting services, sales by type of client Table 21-10-0168-01*, 2022
[27] Statistics Canada, *Consulting Services, Breakdown of Sales Table 33-10-0162-01*, 2022
[28] ISED, Small Business Branch, *Business Development Bank of Canada - 10-Year Legislative Review: 2001-2010*, 2013

This ensures that entrepreneurs have access to high-value advisory services at an affordable price across the country, including a variety of solutions for both smaller and larger companies and free online educational content.

The BDC and the SME landscape: Questions for consideration

- 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?
- 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?

Analysis of the BDC against its mandate

1. Access to capital and financing for entrepreneurship and SMEs

The BDC's support for Canadian SMEs increased considerably over the Review Period. Whereas the BDC had nearly $17.7 billion committed to 29,000 clients located across Canada in fiscal 2010, as of fiscal 2022, it has approximately $47.8 billion committed in support of more than 95,000 SMEs – both direct and indirect.[29,30] The BDC is continuously growing and modernizing its services to meet demand, with its consolidated portfolio expected to grow at a rate of approximately 7 percent per year between 2022–2027, and could be higher during periods of economic instability. The BDC anticipates continuing this growth over the coming period and forecasts its consolidated portfolio to expand to over $53 billion by fiscal 2027.

Financing

Financing is the BDC's most active business line, representing an average of approximately 90 percent of the BDC's consolidated portfolio annually. The financing portfolio provides term lending to SMEs at each stage, comprising loans, asset-backed securities (ABS) and subordinate financing investments for firms at all stages.

Data from Statistics Canada indicates the importance of this financing to SMEs, with BDC's client firms having achieved better results in terms of revenue growth, employment growth and business survival rates than they would have achieved if they had not turned to the BDC.

In addition, the BDC further supplements SME access to finance by partnering with other financial institutions to increase financing availability in the market through syndicated loans and indirect financing.

Notably, the bulk of financing completed over the Review Period were direct loans made by the BDC to SMEs. By comparison, BDC's indirect lending activity, including approximately $4.7 billion in indirect financing to businesses through COVID-19-related programs HASCAP and BCAP, has been either smaller, targeted, or temporary.

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[29] ISED, Small Business Branch, *Business Development Bank of Canada - 10-Year Legislative Review: 2001-2010*, 2013
[30] BDC, *2022 Annual Report*, 2022

In total, the BDC's financing line grew from $4.0 billion in 2010 to approximately $7.4 billion annually in term loans in 2020, before falling back to $5.2 billion in 2021. According to the BDC's projections, financing activity is expected to continue to grow over the near-term as SMEs look to finance projects that had been delayed during the pandemic. This, as well as initiatives to increase client retention, is projected to translate into portfolio growth of 7 percent annualized between 2022–2027, bringing the BDC's expected total financing portfolio to approximately $45 billion by fiscal 2027.[31]

Responding to growing client preference to be served digitally, the BDC continued to make progress in its digital transformation over the Review Period introducing mobile applications and devices for account managers, an online financing platform, and practical online tools for SMEs. For example, the BDC's Express Loan app allows credit managers to approve a loan during a single client visit with a disbursement between 24 and 48 hours, while the BDC's online financing platform allows the BDC to reach entrepreneurs across Canada, including in remote regions, in a way that is convenient for them. These financial technologies proved particularly helpful in supporting entrepreneurs at the onset of the COVID-19 pandemic when BDC saw a surge in demand for financing, with loan volumes reaching almost 10 times the normal number of loans and 14 times greater in terms of loan dollars approved.

Growth and Transition Capital (GTC)

The BDC's GTC portfolio offers a range of financing solutions such as mezzanine, cash flow and quasi-equity financing solutions designed to protect a high-growth company's cash flow without diluting ownership. Through these offerings, businesses can access between $250,000 and $35 million in financing, with an average loan size of $1.8 million during fiscal 2019. The BDC acts as a patient partner in these endeavours, taking on greater risk by offering a wide variety of customized and flexible repayment options designed to help conserve cashflow while maintaining their ownership to ensure these businesses have the capital necessary to execute their growth plans.

GTC's portfolio of loans has increased consistently over the Review Period. Starting at $193 million committed in fiscal 2010, the portfolio calculated at fair value reached $914 million in commitments in fiscal 2021. Emerging from the crisis, demand for business transition and acquisition financing is expected to increase, leading to an estimated 9 percent annual increase in acceptances, from $400 million in fiscal 2022 to $620 million in fiscal 2027. As a result, the portfolio at fair value is expected to reach $1.7 billion in fiscal 2027, representing 10 percent annualized growth over the planning period (2022–2023 to 2026–2027).

[31] BDC, *Corporate Plan Summary 2022-23 to 2026-27*, 2022

Venture Capital

As the most active VC investor in Canada, the BDC invests both directly into firms and indirectly through external VC funds with the objective of making Canadian VC a financially viable and attractive asset class for private sector investors. As of 2022, the BDC makes direct investments through five active investment funds – the Deep Tech Venture Fund, the Thrive Venture Fund and Lab for Women, the Industrial, Clean and Energy Technology Fund, the Industrial Innovation Venture Fund, and, to support the long-term scaling of companies, the BDC also makes larger co-investments in later-stage companies through its Growth Venture Co-Investment Fund.

BDC Capital also has several legacy funds, such as the IT Venture Fund, the Healthcare Venture Fund, Go Capital, and the Seed Fund and Diversified Portfolio, which are closed to new investment but have catalyzed other supports for businesses. Finally, the BDC has also taken an active role developing Canada's VC ecosystem through the Review Period, seeding investments in early-stage infrastructure for SMEs (e.g., accelerators and incubators).

The BDC's indirect investment strategy focuses on supporting a mix of emerging and established fund managers and helping top funds evolve into globally competitive performers over time. Currently, the BDC indirectly supports more than 800 companies through investments in 105 funds. Alongside the broader Canadian VC capital market, BDC Venture Capital has grown considerably over the Review Period from annual investment levels of $110 million in 2010 to approximately $367 million in 2021.

Moving forward, the BDC projects to disburse as much as $585 million annually in Canadian VC by 2027. Further, the BDC will also continue to be the delivery agent for the Government of Canada's VC policy initiatives, such as the Venture Capital Catalyst Initiative (VCCI).

2. Advisory services

The BDC continued to be an important provider of advisory services over the Review Period, offering a range of complementary services, including financial management, sales and marketing, human resources as well as more customized service offerings for high-potential firms, such as the Growth Driver Program. To ensure clients have the knowledge and skills they need throughout their business journey, the BDC invests an average of $45 million annually to provide advice that is practical and tailored to the size, sophistication and ambitions of individual companies. BDC Advisory Services provides approximately 1,500 advisory mandates per year.

The BDC partners with independent consultants to supplement its delivery capacity and leverages this nation-wide network to extend its reach and impact in providing advisory services to SMEs. The BDC's advisory services are designed to complement offerings from private consulting firms.

Whereas private consulting firms' service offerings are generally directed towards larger organizations with significant resources, the BDC's advisory solutions are customized to assist smaller companies which may not have access to services from private consulting firms.

The BDC's advisory solutions cover a range of topics: including leadership, sales and marketing, and digital adoption, among others.

Additionally, in recent years, the BDC has taken steps to improve its digital advisory services offering SMEs free tools—including a productivity assessment tool, a tariff finder tool, and an IP simulation game—to help businesses benchmark themselves within their respective industry and identify areas where they need help.

3. Complementing private sector lenders and advisory service providers

The BDC's legislation requires its services be provided in a manner that complements offerings extended by the private sector. To do so, the BDC typically assumes a greater level of risk, providing financing to SMEs with a higher risk profile where traditional lenders are not as active, or co-lending with private-sector financial institutions. This is why 90 percent of the BDC's portfolio is sub-investment grade (businesses with less than a Standard and Poor's equivalent grade of BB+) compared to 33 percent for chartered banks.[32] As the BDC is required to be financially sustainable, it prices to risk, with interest rates that are generally greater than those offered by other lenders.

The BDC's complementary mandate has helped create a more robust financing environment for Canada's innovative, high-growth potential companies—with the BDC regularly acting as an anchor investor in syndicated deals which draw capital and expertise from private sector partners. For example, the larger role assumed by BDC Capital Canadian VC markets at the beginning of the Review Period ensured the presence of a reliable dealmaking partner during a period of transition. In addition to financing, BDC Capital further assumed an active facilitator/coordinator role in Canada's risk capital ecosystem, leveraging the BDC's position in the market to improve the sophistication of sector participants and organizations. This has included investments and training for the growing number of business incubators and accelerators which support new firms.

An important element of the BDC's complementary mandate is its role as a financing partner, which allows the BDC to extend its reach and support for entrepreneurs by working with private lenders. The BDC improves the availability of financing for SMEs through such day-to-day partnerships, including: co-lending, where the BDC enhances partners' lending appetite by sharing or taking on more risk; syndicating loans, which involve a group of lenders coming together to finance larger projects than they otherwise would individually; indirect financing, where the BDC offers securitization and secured lending facilities to independent financing and leasing companies, conducted through the Funding Platform for Independent Lenders (F-PIL), in partnership with TAO Asset Management or to support increased access to financing during major economic events.

The BDC's complementary mandate is perhaps most pronounced as a countercyclical lender, ensuring viable SMEs have access to credit during difficult times. For example, in response to the collapse in oil prices in 2014–2016, the BDC increased its financing for the oil and gas industry and SME ecosystem at a time when private investment slowed and followed up with an additional envelope in December 2018. In addition, the BDC also supported more than 16,500 clients via relief programs delivered in partnership with the private sector in response to the COVID-19 pandemic.

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[32] BDC, *Corporate Plan Summary 2022-23 to 2026-27*, 2022

4. BDC's countercyclical role

As a countercyclical investor, the BDC increases activity during periods of economic weakness or turbulence when the private sector tends to restrict its financing. This includes countercyclical support for specific sectors or for the entire economy, as was the case at the outset of the COVID-19 pandemic when entrepreneurs were suddenly confronted with severe cash-flow difficulties and an urgent need for credit. The BDC cushioned the impact of the pandemic for many SMEs, by substantially increasing its support for entrepreneurs and modifying eligibility criteria to address the needs of a greater number of entrepreneurs. Some of these steps included:

Online Financing	The BDC broadened its credit threshold and reduced pricing to get $1 billion into the hands of entrepreneurs quickly through 13,500 online loans.
Working Capital Loans	For businesses that needed larger amounts than those available online, the BDC disbursed $1.5 billion through 4,500 working capital loans with more flexible terms.
Venture Capital	The BDC invested $175 million in firms previously backed by VC by matching up to 100% of the contributions of private investors syndicated through a new Bridge Financing Program.
Advice	Provided eligible clients with free consultation with BDC experts to get advice on how to address challenges related to the pandemic.

BDC also worked with financial sector partners to introduce and extend measures that encouraged commercial banks to lend to SMEs, including BCAP and, more recently, HASCAP which, together, authorized approximately $4.7 billion in financing in low-interest loans to cover the operational cash flow needs of viable SMEs continually impacted by COVID-19.

Analysis of the BDC against its mandate: Questions for consideration

- How has the BDC performed in delivering its mandate and achieving its objectives since 2010?
- 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?
- How can the BDC position itself to support the long-term sustainability of the risk, venture and growth capital ecosystem in Canada?
- 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?
- What types of activities should the BDC undertake to provide countercyclical support during economic downturns?

The BDC's public policy role and governance

1. Underserved markets

Over the Review Period, the BDC took steps to prioritize diversity and inclusion; working to ensure its services are accessible to all entrepreneurs, regardless of gender, race, ethnicity, religion, age or disability; and apply a gender equity lens in conducting its activities. Furthermore, recognizing the unique needs of many underserved entrepreneurs, the BDC has taken steps to offer these entrepreneurs tailored support.

To address underserved needs of women entrepreneurs, the BDC has long provided advisory services, financial literacy workshops, access to unique financing opportunities, and targeted online training for female business owners. The BDC is also increasing sponsorships and collaboration with ecosystem stakeholders, such as the Centre for Women in Business, and Alterna Savings and Credit Union.

Further, in fiscal 2021, the BDC surpassed an ambitious three-year target ahead of time by providing nearly $1.8 billion to over 5,000 majority women-owned businesses as part of a wide-ranging strategy to help more women start and grow businesses. These investments will continue to be further supplemented by the $500 million Thrive Venture Fund and Lab for Women, which will build on the success of BDC Capital's Women in Technology (WIT) Venture Fund by supporting Canadian women-led businesses, as well as other successor funds planned by the BDC.

The BDC also has a long-established partnership with Futurpreneur Canada to support youth entrepreneurs. Moreover, the BDC maintained a long-standing partnership with the majority of Community Futures Development Corporations through the Review Period in order to better reach smaller businesses in non-urban areas. Through this partnership, rural firms, which are often vital to the social fabric of small-town communities, were able to access financing and advisory services on par with those enjoyed by more centrally located SMEs.

The BDC also works with the Canadian Northern Economic Development Agency (CanNor) to extend its reach to northern-based businesses and increase accessibility to its services.

The BDC took steps to better serve Indigenous entrepreneurs over the Review Period by increasing its Indigenous Entrepreneur Loan limit to $350,000 from $125,000, while also partnering with the National Aboriginal Capital Corporations Association as an anchor investor in the Indigenous Growth Fund (IGF), a $150-million fund that provides loans to Indigenous businesses through the network of Aboriginal Financial Institutions.

New immigrants are supported through the Newcomer Entrepreneur Loan, which provides $25,000 to $50,000 for eligible applicants. The BDC is also supporting more Black entrepreneurs through initiatives such as the Black Entrepreneurship Loan Fund that provides loans of up to $250,000 to Black business owners and entrepreneurs across Canada and the Black Innovation Fund, a venture capital fund for Black-led businesses.

2. Governance and oversight

The BDC Act sets out the BDC's purpose, powers and mandate, while the *Financial Administration Act* sets out the control regime for Crown Corporations like the BDC, including strategic planning and financial accountability. The BDC's by-laws prescribe the rules that govern the functioning of the BDC, with direction taken from the Treasury Board of Canada Secretariat on public sector governance practices. The BDC also regularly benchmarks itself against corporate governance and risk management best practices in the financial services sector, updating its corporate governance framework as appropriate.

The BDC designs and undertakes specific activities, programs, and spending to support Canadian entrepreneurship within the broad scope of a shareholder-approved five-year corporate plan and budgets approved by the Designated Minister and the Treasury Board of Canada.

The corporate plan details the BDC's strategic objectives for the following five-year planning period, as well as its operating and capital budgets, and the borrowing plan.

Though the Designated Minister is responsible for communicating the expectations for the BDC's performance, the Government of Canada cannot direct or intervene in the organization's day-to-day operations. The BDC does not receive appropriations from Parliament, rather it finances its activities through the Crown Borrowing Program, the purchase of shares by the Government of Canada, and through its retained earnings.

To deliver on its mandate, the BDC balances its policy objective of supporting SMEs and the Canadian entrepreneurship ecosystem with its commercial objective of being financially sustainable. As its sole shareholder, the Government of Canada receives dividend payments from the BDC.

An independent Board of Directors, appointed by the Governor in Council, sets the BDC's strategic direction and holds the BDC's senior management accountable for achieving the BDC's statutory mandate while respecting its complementary role.

The mandate of the BDC's Board of Directors, the Board's Code of Conduct, and Board committees' charters define the Board's corporate governance framework, oversight responsibilities, stewardship role and decision-making authority. The Board's committees do in-depth work in their areas of responsibility and provide regular reports to the Board on the Board's activities and performance, as highlighted below:

Audit and Conduct Committee	Advises on the financial management of the BDC, including corporate compliance, capital management, internal audits, financial audits and periodic special examinations.
Board Investment Committee	Approves venture capital and equity investments and other activities exceeding the delegation of authority of senior management, as well reviewing and assessing all risks associated with the Clean Technology Initiative.
Board Risk Committee	Ensures the BDC's risks (including financial, credit, market, strategic, investment and operational risks) are identified and appropriately managed.
Governance/Nominating Committee	Advises the Board on fulfilling its corporate governance oversight responsibilities, including reviewing corporate policies on the composition of the Board and its committees, and making recommendations on the appointment or reappointment of the Chairperson, the directors, and the President and CEO.
Human Resources Committee	Oversees corporate policies and strategies relating to human resources, including policies governing human resources risk, recruitment, retention, training, compensation, pension plans, performance management and ethics.

The BDC also has an Ombudsman, who reports directly to organization's President and Chief Executive Officer. The Ombudsman ensures that the BDC fairly addresses client concerns, providing impartial service regarding issues that could not be resolved through other resolution processes. The BDC Ombudsman also oversees the application of BDC's Charter of Client Rights and coordinates the independent mediation process.

In collaboration with Deloitte, the Auditor General of Canada conducted a special examination of the BDC in 2018 in accordance with section 139 of the *Financial Administration Act*. The examination focused on several areas, systems and practices pertaining to corporate management practices as well as operations management. The examination concluded that the BDC's corporate governance, strategic planning, and performance measurement and reporting practices were appropriate.

3. Alignment with Government of Canada priorities

The BDC is a critical Government of Canada tool for translating its economic priorities into solutions for entrepreneurs. Although the Government of Canada does not direct or intervene in the BDC's day-to-day operations, it provides broad direction through the annual corporate plan process. Section 21 of the BDC Act allows the BDC to carry out duties assigned to it by the Designated Minister as long as those duties fall within the purpose of the BDC as stipulated by Section 4 of the BDC Act.

Over the course of the Review Period, Section 21 of the BDC Act was invoked with increasing frequency than previous Review periods—with Section 21 invoked to develop initiatives such as the Venture Capital Action Plan and Venture Capital Catalyst Initiative (VCAP and VCCI), support for digital adoption through the Canada Digital Adoption Program, support for Indigenous entrepreneurship through the Indigenous Growth Fund, and extraordinary countercyclical support to support SMEs through COVID-19.

Supporting clean technology and green priorities

Achieving Government of Canada emission targets requires contributions from businesses across Canada, and the BDC is committed to helping SMEs transition to a sustainable, low-carbon economy. Introduced in Budget 2017 as part of the Government of Canada's clean technology priorities, the BDC Cleantech Practice represented an initial investment of $600 million in financing and equity investments, with $510 million committed as of March 31, 2022. In November 2022, the BDC announced an additional $400 million for a new Climate Tech Fund II.

To date, for every $1 BDC has invested as part of its Cleantech Practice, a further $5.20 of private sector support has been either invested at the same time or following its commitment. These initiatives, which the BDC is delivering on behalf of the Government of Canada, are in addition to the BDC's internal financing and investment activities supporting clean technology producers.

Emerging from the COVID-19 crisis, the BDC has signalled its intention to continue supporting clean technology priorities, including commitments to inject new capital into its Industrial, Clean and Energy Technology Venture Fund and Cleantech Practice.

Venture Capital Incentive Programs

The BDC fills a central policy role designing and administering federal efforts to improve Canada's VC market. On behalf of the Government of Canada, the BDC manages $390 million allocated to the Venture Capital Action Plan (VCAP) to make investments through Canadian VC funds in promising start-ups. Since its launch in 2013, VCAP has raised over $1.4 billion, with more than $1 billion coming from pension funds, high-net-worth individuals, corporations, financial institutions and the governments of Ontario and Quebec. The BDC also manages the Government of Canada's Venture Capital Catalyst Initiative (VCCI), launched in 2018, that has increased the availability of late-stage VC and support for underserved groups, such as women and diverse entrepreneurs and fund management teams, as well as emerging regions and sectors.

The VCCI also focuses on established clean technology investors, providing selected fund managers with additional capital to augment their capacity to support clean technology producers.

The VCCI has injected more than $1.8 billion of private-sector and other capital into Canada's VC market to encourage the growth of Canadian companies and support thousands of jobs. Announced in Budget 2021, the VCCI was renewed with a $450-million allocation to support funds-of-funds, life sciences and inclusive growth.

COVID-19 Economic Response Plan

In addition to cushioning the impact of the pandemic on existing clients (e.g., principal payment postponements) and modifying its eligibility criteria to address the needs of a greater number of entrepreneurs, the BDC also took on a critical role designing and delivering key components of the Government of Canada's COVID-19 Economic Response Plan. This included the BCAP in early 2020, and the more recent HASCAP, which provided otherwise viable businesses continually impacted by COVID-19 with access to government-guaranteed low-interest loans of $25,000 to $1 million to cover operational cash flow needs. In addition to these programs, the BDC also created new support to respond to the urgent needs of clients at the beginning of the pandemic, including increased authorizations through its online financing platform, new working capital loans, and a venture capital bridge program.

The Canada Digital Adoption Program (CDAP)

Announced by the Government of Canada in Budget 2021 to support the digital transformation efforts of SMEs and fuel the economic recovery, the BDC will provide loans of up to $2.6 billion over four years to help SMEs finance the implementation of their digital adoption plans. Uptake is demand-driven and based on referrals from ISED for companies that have developed a digital adoption plan through the Canada Digital Adoption Program (CDAP) or a list of equivalent pre-approved provincial or regional programs. The Boost Your Business Technology grant, an element of CDAP, will help businesses with the development and implementation of digital adoption strategies. Eligible businesses which are successful in securing the Boost Your Technology grant from ISED, then have the unique opportunity to apply for an interest-free BDC loan of up to $100,000 to facilitate the acquisition of new technology under their digital adoption plan.

Complementing other Crown Corporations and agencies

Export Development Canada (EDC)

EDC, another financial Crown Corporation, is mandated to support and develop Canada's export trade and the capacity of Canadian firms to engage in international business opportunities. To fulfill its mandate, EDC provides trade finance and risk mitigation services to Canadian companies involved in export trade. The BDC provides support for SMEs that export through the provision of working capital and consulting services. Both the BDC and EDC have distinct roles in supporting Canadian businesses working abroad and cooperate on joint programs to make more capital available to growing tech companies. Both organizations work closely together and cross-referrals between the BDC and EDC grew by an average annual rate of 30 percent between fiscal 2017 and fiscal 2021, reaching 1,100 referrals annually.

Canada Small Business Financing Program (CSBFP)

The CSBFP is a longstanding national loan guarantee program that partners with financial institutions to increase the availability of financing for small businesses to help them start-up, grow and modernize. Under the program, small businesses can access up to $1,000,000 for term loans and $150,000 for lines of credit ($1.15M maximum per borrower).

ISED is responsible for the design and administration of the CSBFP. It reviews and evaluates the legislative and regulatory frameworks and recommends improvements on a periodic basis. It also registers loans, collects fees, reviews lender claims and pays eligible portions of losses (85 percent) on defaulted loans. Financial institutions are responsible for the administration of the loans. They make all of the credit decisions, approve and disburse the loans, register the loans/fees with the CSBFP. While the most recent CSBFP Comprehensive Review found that the program continues to be successful and effective, it also stated that it needed to continue to evolve in order to better address the changing financing needs of small businesses in a digital economy.

In response to the recommendations from the Comprehensive Review and Budget 2021, ISED is working with stakeholders to operationalize the changes to the legislative framework (June 2021) and the regulatory framework (July 2022) which include: removing restrictions excluding not-for-profit and charitable enterprises as eligible borrowers; expanding eligible loan classes to include start-up costs and intangible assets; increasing maximum loan amounts for non-real property loans to $500,000 and extending the maximum government coverage period for these loans to 15 years; adding a line of credit product (up to $150,000) with a 5-year government coverage period to help with liquidity and cover short-term working capital needs; and reducing administrative burden for both lenders and borrowers.

These changes are expected to better help more Canadian small businesses access the affordable financing they need to start-up and scale-up by facilitating additional private sector lending to Canadian small businesses via the CSBFP.

Farm Credit Canada (FCC)

As Canada's only financial institution focused solely on the needs and opportunities of the agricultural industry, FCC plays a vital role by providing specialized products and services that help Canadian food producers, agribusiness and agri-food operators grow their businesses, take advantage of new market opportunities, and innovate to become more efficient and sustainable. In particular, FCC provides products, services, and expertise tailored to the needs of Canadian producers, agribusiness, and agri-food operators—ensuring they enjoy access to capital and a wide range of financial and business products and services. These offerings include long-term mortgages, short-term credit, leasing and VC for farming operations and other businesses in the agriculture and agri-food sector.

The BDC's public policy role and governance: Questions for consideration

- How can the BDC best promote equity, diversity and inclusion in the Canadian SME ecosystem?
- 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?
- How can the BDC support SMEs to adapt to climate change or reduce their climate-related impacts?
- 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?

Conclusion

We would like to thank all stakeholders for their contributions. The feedback and comments provided will help support the evidence-based analysis and review of the legislation.

Following the consultations, ISED will review the feedback received and table a report in Parliament. If there are considerations that have not yet been addressed or if there are elements that could be explored further, you are invited to submit input through the online consultation survey, which is open to all Canadians.