2010-2022 BUSINESS DEVELOPMENT BANK OF CANADA

LEGISLATIVE REVIEW REPORT

Innovation, Science and Economic Development Canada
Innovation, Sciences et Développement économique Canada

Canada

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TABLE OF CONTENTS

MESSAGE FROM THE MINISTER OF SMALL BUSINESS

It is my pleasure to present the Business Development Bank of Canada (BDC) Legislative Review Report to Parliament. Reflecting input received from Canadians across the country, including from industry, the not-for-profit sector, businesses, and other stakeholders, this report evaluates the provisions and operations of the Business Development Bank of Canada Act between 2010 and 2022. This report also examines how the mandate of the BDC has changed and could continue to evolve over the next decade to support small and medium-sized enterprises (SMEs) across Canada.

As Canada's only bank with a particular focus on SMEs, the BDC has played a critical role supporting entrepreneurs since 2010. Over that period, the BDC's services have enabled Canadian businesses to demonstrate resilience in navigating the rapidly changing business landscape, including global trade shifts, the emergence of new technologies, and other unforeseen pressures such as the COVID-19 pandemic.

Today, Canada's prosperity is driven by the competitiveness of our SMEs and their ability to seize opportunities in the global economy. Going forward, entrepreneurs across the SME ecosystem, including equity-deserving groups and those in undeserved sectors, stages of development, and communities, will require continued and sustained support. Through the BDC, which operates as a complementary actor in the market, the Government of Canada is committed to providing entrepreneurs the services they need to unleash their full potential and maximize their contributions to inclusive economic growth.

The Honourable Rechie Valdez
Minister of Small Business

EXECUTIVE SUMMARY

The Business Development Bank of Canada (BDC) is a financial Crown corporation wholly-owned by the Government of Canada that provides support to small and medium-sized enterprises (SMEs) and entrepreneurs. The Business Development Bank of Canada Act (BDC Act), which governs the BDC, requires that a Review of the legislation be conducted on a regular basis.

LEGISLATIVE REVIEW OVERVIEW

Covering the period from 2010 to 2022, Innovation, Science and Economic Development Canada (ISED) led a Review to evaluate the provisions and operations of the BDC Act, as well as examine how the mandate of the BDC has changed and could evolve to support the needs of SMEs across Canada over the coming decade.

The Review was launched in November 2022 and input was sought from a wide range of stakeholders. Between December 2022 and March 2023, ISED convened 20 roundtable discussions (virtual and in-person across Canada) with a diverse range of participants across all regions, engaging over 210 stakeholders. In addition, Government of Canada organizations and provincial and territorial officials were consulted through targeted discussions.

Further, 45 written submissions were provided by stakeholders, including not-for-profit organizations, industry groups, entrepreneurs, and others. In most cases, stakeholders affirmed the importance of the BDC's provision of financing, capital, and advisory services for Canadian SMEs. However, stakeholders also identified gaps in the BDC's offerings and provided a number of suggestions to inform the BDC's priorities and offerings for the next decade.

HIGHLIGHTS OF THE BUSINESS DEVELOPMENT BANK OF CANADA'S PERFORMANCE

The BDC played an important role supporting Canadian entrepreneurship over the Review Period. As the economy grew and the BDC expanded services for equity-deserving entrepreneurs while supporting Government of Canada policy objectives (including COVID-19 relief measures), its total assets expanded significantly from $17.7 billion in 2010 to $41.6 billion in 2022.

Over this period, the BDC supported SMEs at all stages of development, operating in all industries across Canada by:

- increasing the number of direct and indirect clients served from 29,000 to 95,000;
- extending over $75 billion in loans and investments to entrepreneurs;
- delivering close to 25,000 advisory mandates (which represent distinct advisory products or services provided to entrepreneurs at a specific point in time);
- supporting the growth of the venture capital ecosystem, including by supporting Government of Canada programming;
- working with over 150 partners (as of 2022) to extend its reach to SMEs;
- broadening its support to SMEs in underserved markets, including equity-deserving groups through targeted initiatives;
- enhancing client service through the launch of its online financing platform; and,
- delivering on key Government of Canada initiatives such as the provision of pandemic-relief to SMEs to address the COVID-19 pandemic, including the extension of approximately $7.8 billion through the Highly Affected Sectors Credit Availability Program (HASCAP), the Business Credit Availability Program (BCAP), and other measures.

Evidence-based research and analysis conducted by ISED and other external researchers to support the Legislative Review demonstrates that the BDC has contributed to SME growth, addressed challenges facing entrepreneurs, achieved positive financial results, and provided support during periods of economic uncertainty. Further, stakeholders and clients affirmed the value proposition of the BDC's business lines and delivery approach, and provided largely positive feedback regarding its financing, capital, and advisory services.

However, the Review also identified gaps and barriers in the BDC's services and processes. In particular, the BDC's expansion has not always addressed core market gaps and the reach of some of its offerings has not been optimal, sometimes falling short of intended targets. Awareness, accessibility and visibility of offerings for equity-deserving entrepreneurs also remain limited, which is compounded by cumbersome processes for some SMEs. In particular, more support is required for specific groups, such as Indigenous entrepreneurs, newcomers, and new businesses. Many communities, especially those in specific regions and rural areas, also remain underserved by the BDC's offerings. Finally, research, analysis, and stakeholder feedback highlighted data reporting and information sharing gaps, as well as a need for enhanced cooperation and alignment with partners.

MOVING FORWARD

The Legislative Review affirmed the BDC's role as a provider of financing, capital, and advisory services to Canadian SMEs, despite some gaps. Based on these findings, four recommendations have been identified to ensure the continued relevance and effectiveness of the BDC's offerings over the coming decade and beyond:

1. Strengthen accessibility and visibility: The BDC should increase the impact of its support for equity-deserving groups and underserved market segments such as newcomers, Indigenous entrepreneurs, and rural communities. The BDC should also enhance its offerings by expanding and clarifying eligibility requirements, and streamlining loan applications and other processes.

2. Improve reach across Canada: Recognizing that its activities are largely concentrated in the Quebec and Ontario regions, the BDC should strengthen its presence and engagement across Canada, particularly in the Prairie and Atlantic regions, through expanded partnerships and awareness-building initiatives to better support SMEs, including those in rural communities.

3. Reinforce collaboration and complementarity: The BDC should further improve its partnerships with stakeholders, including regional players. Further, enhanced cooperation with partners across the SME ecosystem is needed to ensure complementarity with private sector financial institutions, address market gaps for underserved market segments, and bolster alignment across Government of Canada initiatives.

4. Increase data cooperation and refine risk appetite: To continue to improve collaboration, transparency and accountability, the BDC should enhance its reporting and data-sharing practices with stakeholders and its shareholder. This should include the improvement of existing data collection and disclosure practices, in addition to the establishment of information-sharing arrangements with ecosystem partners. Further, the BDC should review its risk appetite, to better support equity-deserving groups, undeserved regions and sectors, and newer businesses.

SECTION A: THE BDC INTRODUCTION AND BACKGROUND

This section introduces the purpose and scope of the Business Development Bank of Canada (BDC) Legislative Review (Review), providing an overview of the BDC's legislative framework and mandate, including a summary of previous Legislative Reviews and the core pillars that guide the BDC's role, such as complementarity. It also examines the BDC's current operating environment and key developments since 2010.

LEGISLATIVE REVIEW BACKGROUND

Section 36 of the BDC Act requires the Minister responsible for the BDC to conduct a Legislative Review in consultation with the Minister of Finance on a periodic basis, and to table a report on the Review in Parliament.

The first BDC Legislative Review, covering the period from 1995 to 2000, confirmed a continued need for the BDC to provide financing and consulting services to Canadian SMEs, and did not recommend any legislative changes. The second Legislative Review, covering the period from 2001 to 2010, emphasized the BDC's important role in the Canadian business ecosystem, including through the 2008-09 financial crisis. Given the evolving needs of SMEs in an increasingly global economy, the Review suggested renewed policy priorities to ensure the BDC could better support entrepreneurs, as well as legislative amendments to update provisions related to the BDC's advisory services, expand the BDC's financial tools, and enhance the BDC's ability to support companies with an international presence.

The Designated Minister under the BDC Act, currently the Minister of Small Business, launched the Legislative Review covering the period from 2010 to 2022 (Review Period), on November 29, 2022. The purpose of the Review, which was led by Innovation, Science and Economic Development Canada (ISED) on behalf of the Designated Minister, was to evaluate the provisions and operations of the BDC Act, as well as examine how the mandate of the BDC has changed and could evolve to support the needs of SMEs across Canada over the coming decade.

LEGISLATIVE REVIEW CONSULTATIONS AND ANALYSIS

ISED conducted consultations with a wide range of stakeholders across Canada to inform the Legislative Review. The three-pronged consultation approach included roundtable discussions, written submissions, and targeted engagement to seek input from all Canadians, including experts and stakeholders in business, government, industry and the not-for-profit sector (see Figure 1).

The consultation period began on November 29, 2022 and concluded on March 31, 2023. In total, ISED hosted twenty virtual and in-person roundtables to gather input from stakeholders regarding the current business environment and the BDC's performance against its mandate between 2010 and 2022. Thirteen public virtual roundtables focused on key thematic areas, including financial and advisory services, venture capital (VC), angel investing, growth capital, Indigenous, women, Black and racialized and youth entrepreneurship, and Northern and rural communities, while seven in-person roundtables in Ottawa, Montreal, Toronto, Calgary, Vancouver (2 sessions), and Halifax focused on regional entrepreneurial issues.

Figure 1: Stakeholders consulted

The Review also established a dedicated webpage on ISED's website. The page included a consultation paper and public email inbox to solicit input from Canadians regarding the business environment, the BDC's performance against its mandate, and its public policy role and governance over the Review Period.

In total, 45 written responses were received from stakeholders, including from interested Canadians, SMEs, entrepreneurs, financial institutions, advisory service providers, not-for-profit organizations, and other individuals and organizations.

Feedback provided by stakeholders covered a variety of issues, ranging from experiences with the BDC's offerings and emerging trends, challenges in the business marketplace, as well as gaps in the BDC's offerings and suggestions for the future.

Additionally, targeted meetings with other subject-matter experts examined technical and policy issues related to the Review, and supplemented input from the roundtable discussions. Through these discussions, ISED officials sought feedback from federal organizations, provincial and territorial officials, and other stakeholders regarding key areas of inquiry such as oversight of the BDC, consideration of the BDC's public policy role, and program alignment and complementarity.

Beyond consultations, ISED and other external researchers conducted strategic research and analysis regarding the BDC's offerings, including key barriers and issues, to complement the input received from stakeholders, with a view to propose recommendations to guide the BDC's priorities and address key gaps going forward.

Figure 2: Review components

THE BUSINESS DEVELOPMENT BANK OF CANADA (BDC)

History of the BDC

The institution that ultimately developed into the BDC was created in 1944 as the Industrial Development Bank (IDB), an arm of the Bank of Canada, to support small manufacturers that contributed to the Second World War efforts. The Bank's portfolio in 1945, which was made up of loans, stood at $3 million. Over the years, the IDB's mandate and activities expanded. By 1975, its portfolio had grown to $1.3 billion.[1]

In 1975, the IDB's link with the Bank of Canada was severed and a separate Crown corporation, the Federal Business Development Bank of Canada (FBDB), was established as a one-stop shop for Canadian entrepreneurs. The primary focus of the FBDB was to address the financial and management service needs of Canadian small businesses as a lender of last resort. A management division was also created and FBDB became a VC investor. By 1995, the FBDB's portfolio, made up of loans and VC investments, stood at $3.3 billion.[2]

In 1995, the BDC was established with a refocused mandate through the BDC Act, which included a shift to self-sustainability and requirement to deliver commercial loans. At this time, the BDC was assigned its complementary role, providing loans, investments, and guarantees to supplement services available from commercial financial institutions.

Aligning with its new mandate, the BDC launched initiatives such as its Growth and Transition Capital business line. Incremental operational changes and legislative amendments have further refined the BDC's offerings following its establishment in 1995. Since 2010, the BDC has continued to adjust its programming to meet the needs of Canadian SMEs, including by expanding its financing, capital and advisory services, further focusing on the needs of equity-deserving groups such as women and Indigenous entrepreneurs, and expanding digital services.

Figure 3: BDC History

Mandate

The BDC is an arm's length Crown corporation wholly-owned by the Government of Canada that provides financing, capital, and advisory services to entrepreneurs across Canada. Headquartered in Montreal, the BDC has 2,600 employees working at over 110 BDC business centres located across Canada. As of 2022, the BDC had approximately $47.8 billion committed to more than 95,000 SMEs.[3]

The BDC's mandate is enshrined in the BDC Act, which came into force in 1995. Similar to other Crown corporations, the BDC is also governed by the Financial Administration Act, which establishes additional rules relating to accountability to Parliament and financial management, as well as federal legislation such as the Privacy Act, the Access to Information Act, the Official Languages Act, and other acts.

The BDC is mandated to support Canadian entrepreneurship with a particular focus on the needs of SMEs. The BDC is required to operate as a complementary player in the market, offering financing, capital, and advisory services for Canadian entrepreneurs that fill out or complete offerings available from private sector providers. To align with its mandate, the BDC also plays a countercyclical role, increasing its activity during periods of economic uncertainty when the private sector tends to restrict its financing and investment activities. Operationally, while the BDC supports public policy, it has a commercial requirement to be financially self-sustaining and does not receive appropriations from the Government of Canada.

BDC OPERATING CONTEXT: CANADIAN ECONOMIC ENVIRONMENT 2010 TO 2022

Between 2010 and 2022, entrepreneurs across Canada faced a number of emerging opportunities and challenges. In 2010, at the beginning of the Review Period, the economy was still recovering following the adverse impacts of the 2008-09 financial crisis. Between 2011 and 2014, business conditions were favourable as the Canadian economy grew at a moderate pace despite external weaknesses, supported by strong domestic job gains and accommodative monetary policy.[4]

In 2015-2016, GDP growth slowed as the Canadian economy experienced significant adjustments due to a sharp decline in crude oil prices. While the resource sector reduced investments and faced job losses in response to weaker commodity prices, the economy was sustained by the resilience of the non-resource sector, as well as strong employment.[5] The Bank of Canada also cut its policy interest rate twice by a cumulative 0.50% in 2015.[6]

Growth resumed in 2016, supported by the continued resilience of the non-resource sector, a strengthening US economy, and low interest rates.[7] Despite trade uncertainties, business conditions remained favourable and broad-based economic growth continued in Canada through 2017 and 2018, supported by increases in foreign and domestic demand, as well as stronger global growth.[8] The Bank of Canada tightened its policy interest rate by a cumulative 1% over this period.[9] Growth continued at a slower pace in 2019, as global trade disputes and lower oil prices reduced business investments and exports despite a resilient job market.[10]

In 2020, Canada was significantly impacted by the economic effects of the COVID-19 pandemic. At the outset of the pandemic, the Bank of Canada rapidly cut its policy interest rate by a cumulative 1.5% (to 0.25%) and began acquiring Government of Canada securities to address strains in the debt market.[11] GDP declined by more than 10% in the first half of 2020. While approximately half of the GDP decline was recovered in the third quarter as business conditions improved, subsequent growth slowed and some industries, such as high-contact sectors, remained vulnerable as a result of renewed COVID-19 restrictions and the winding down of emergency support programs that launched early in the pandemic.[12]

In 2021 and 2022, the Canadian economy recovered quickly with the easing of public health restrictions, although disruptions to global supply chains, higher energy and food prices, and other factors contributed to increased inflation. In response to high and broad-based inflation, the Bank of Canada raised its policy interest rate seven times for a total increase of 4% and conducted quantitative tightening in 2022. By year-end, growth in the Canadian economy had moderated and inflation had fallen to 6.3%, down from its 8.1% peak in June 2022.[13]

BDC OPERATING CONTEXT: ACCESS TO FINANCING, CAPITAL AND ADVISORY SERVICES

Access to financing

A wide range of financial suppliers in Canada, including chartered banks, credit unions and caisse populaires, financial and financial technology firms, offer financing options for SMEs. As of 2022, domestic chartered banks represent the main source of debt financing in Canada, with these lenders representing the majority (59.9%) of the total outstanding loans to SMEs.[14]

The Canadian financing ecosystem has changed significantly since 2010. At the beginning of the Review Period, the ecosystem was continuing to recover from the 2008-09 financial crisis, which resulted in a sharp contraction in liquidity as sources of credit withdrew from the market.[15]

Since that period, the supply of financing for businesses in Canada has expanded considerably. Between 2011 and 2022, total outstanding credit for SMEs, which includes all term loans, mortgages, credit cards and lines of credit provided to businesses, increased steadily from $201 billion to $343.5 billion. The number of accounts for SMEs across all business financing suppliers has also grown, from approximately 2.1 million in 2011 to nearly 3 million in 2022.[16] These changes were supported by a growing presence of financial technology and other innovative lending firms.

Demand from entrepreneurs for credit was also relatively strong over the Review Period. A 2023 report from the Canadian Federation of Independent Business (CFIB is a non-profit organization that represents a diverse range of over 97,000 businesses of all sizes, located in all major sectors of the economy across Canada) noted that between 2012 and 2022 a growing share of small business owners reported a need for financing.[17] According to ISED's Credit Conditions Survey and Statistics Canada's Survey on Financing and Growth of Small and Medium Enterprises and ISED's Small Business Credit Condition Trends (2009-2022), between 2010 and 2022, an average of 24% of small businesses sought access to external debt financing, ranging from a high of 31% in 2019 to a low of 16% in 2020. Approval rates for debt financing were elevated over the same period, averaging 87% and ranging from a high of 94% in 2021 to a low of 81% in 2014.[18]

Access to capital

At the beginning of the Review Period, Canada's VC and private equity ecosystem was still recovering from the negative impacts of the 2008-09 recession, which resulted in a sharp reduction in VC activities as investors exited the market.[19] Under these adverse conditions, VC fund managers struggled to raise capital for new funds and investments in promising technology companies were limited.

Subsequently the Canadian VC market achieved strong growth over the Review Period. Notably, VC investments in Canada grew from $819 million in 2010 to a record-setting $15.1 billion in 2021 with over 839 deals concluded that year, before moderating in 2022 due to challenging macroeconomic conditions.[20] A significant increase in megadeals has fueled this growth. There were 72 megadeals ($50M+) in 2021, which was the highest number on record.[21] Analysis published by the BDC in 2022 demonstrates that ten-year returns to VC investors reached 14% in 2021, an all-time high.[22] As a result, Canada is ranked in the top five for VC investment according to the Organisation for Economic Co-operation and Development (OECD).[23]

Overall, private equity markets also improved since 2010, although total investment figures declined in 2022 as investors refocused on smaller deals due to significantly higher interest rates and other macroeconomic pressures. In 2010, private equity investments in Canada measured $10.9 billion across approximately 150 deals, which was down approximately 67% from pre-financial crisis highs set in 2007.[24] In contrast, Canadian private equity reached a record high number of deals (890) in 2022, although the total value of investments at $10.1 billion was lower than the five year average of $21 billion.[25]

The growth of the Canadian VC ecosystem has been supported by strategic investments by the BDC, as well as the Government of Canada's investments in the sector, including through its Venture Capital Action Plan (VCAP) and the Venture Capital Catalyst Initiative (VCCI). Both VCAP and VCCI accelerated the growth of Canadian VC, augmenting access to capital while incentivizing private investments in the sector. Notably, stakeholders consulted for the Legislative Review highlighted the BDC's role in the VC market over this period, working with emerging fund managers, providing training and sharing best practices with first-time managers, and delivering emergency relief during the COVD-19 pandemic.[26]

Access to advisory services

Data demonstrates that the Canadian advisory services market has experienced strong growth since 2010, with Canada's management, scientific and technical consulting services sector revenues increasing approximately 78% percent from 2012 to 2021.[27] In 2021, business clients represented the largest share, representing 65% of the client base for the industry group.[28]

A wide range of public and private sector consulting services are available to meet the advisory needs of Canadian SMEs. Entrepreneurs can access advice, counselling and training services from consulting businesses that offer services across many disciplines, including financial management, operational improvement, business strategy, risk management, human resources strategy, technology adoption, and others.

Moreover, the Government of Canada supports advisory services for SMEs through targeted initiatives such as the Industrial Research Assistance Plan, the Canadian Trade Commissioner Service, and ISED's Innovation Advisors. Advisory services offered through the aforementioned programs are specialized in nature and geared towards specific businesses.

FUTURE OUTLOOK

Going forward, shifting macroeconomic conditions are anticipated to impact business decisions related to debt. As noted by the Bank of Canada, tighter money policies and elevated interest rates may continue to cause uncertainty in the financial services sector and affect the debt servicing costs of businesses, which could constrain investments and growth.[29] Recognizing that sustained productivity gains emerging from the COVID-19 pandemic will require new business investments, ensuring that firms have continued access to affordable credit to finance their growth will continue to be a priority. [30]

Although access to financing is expected to be facilitated by continued shifts in the financial services sector, such as the increasing prevalence of financial technology firms and new trends such as open banking, some SME segments, such as mid-size SMEs seeking financing options in the $2 to $5 million range, are expected to continue facing comparatively higher barriers accessing financing.[31] Stakeholders also highlighted persistent access to capital challenges facing new businesses and equity-deserving entrepreneurs. In addition, rising number of ownership transitions are expected to increase future demand for growth equity and buyout investments, especially among small businesses.[32]

Further, despite a decade of growth and increased resilience in the VC and private equity markets, companies could face new challenges securing capital in the future, particularly given emerging trends.[33] For instance, the propensity of Canadian growth firms exiting through sales to foreign entities rather than through initial public offerings (IPOs) has been identified as a challenge, with research indicating that the frequency of IPO exits relative to acquisitions is lower in Canada than in other leading OECD countries, resulting in fewer anchor firms to support industry ecosystems.[34]

As Canada's VC industry continues to mature, there also remain some challenges in specific sectors and regions. While VC deals occur primarily in the information, communications and technology (ICT) sector, only 11% of deals in Canada were in life sciences and clean technology sectors, respectively, in 2022.[35] The life sciences and clean technology sectors often include technologies that require highly specialized expertise that VCs may not possess, as well as longer regulatory approval processes. Further, approximately 72% of deals in 2022 were completed in Ontario and Quebec, while only 4% were based in Atlantic Canada and 10% in the Prairies. As such, there remains a need for support in key market segments and regions.[36]

In terms of advisory services, management and other skills will be critical for entrepreneurs as businesses adapt to changes in the market and take advantage of new opportunities, such as those related to clean growth and technological shifts. In particular, the continued provision of consulting services will be important to support SME growth and complement financing and capital offerings in the market.

Overall, although Canadian businesses are well-positioned to succeed in the future, robust marketplace frameworks and targeted supports will enable entrepreneurs to continue to seize opportunities and overcome barriers.

SECTION B: BDC OFFERINGS

This section examines the BDC's business lines, including its financing, capital, advisory services, and other key offerings. It considers the expansion of the BDC's activities since 2010 and assesses its service offerings across different regions, while evaluating the need for potential adjustments. This section also includes a focus on the BDC's supports for equity-deserving groups, as well as underserved markets.

BDC SUPPORTS FOR CANADIAN ENTREPRENEURS

BDC support for SMEs

The BDC supports SMEs at all stages of development, operating in all industries across Canada, while complementing services provided by the private sector. The BDC's core offerings include financing, capital, and advisory services. Since 2010, the BDC's support for Canadian entrepreneurs has evolved to better meet the needs of SMEs and address Government of Canada priorities.

As of 2022, the BDC supported 95,000 direct and indirect clients across Canada, serviced by its network of over 110 business centres.

Figure 4: The BDC's business lines (as of 2022)

Financing

Extends financial support through a variety of products, including term lending, working capital and asset-backed

$47.8 billion committed to SMEs

Capital

Offers a range of venture capital (VC), growth financing and transitional capital products

~$4.1 billion assets under management

Advisory Services

Provides companies with the advice they need to scale up, become more productive, innovate and globalize

~1,400 advisory mandates per year

BDC Financing and Growth & Transition Capital (GTC)

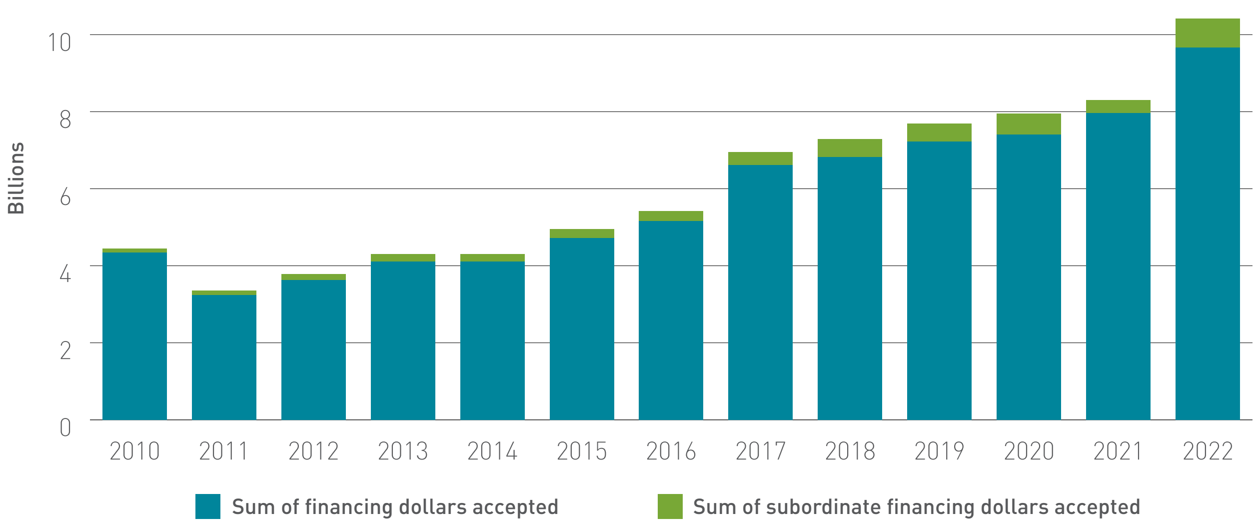
As a complementary lender, the BDC works with private sector financial services providers to fill market gaps and increase the availability of capital for Canadian entrepreneurs. Consequently, the BDC prices to risk by assigning higher interest rates as transaction risks increase while offering flexible repayment terms to accommodate clients' needs. Representing the largest share of its portfolio, BDC Financing offers a suite of initiatives to businesses, including working capital loans, commercial real estate financing, equipment and technology financing, and small business loans accessible through the BDC's online financing platform.

Consistent with broader market trends since 2010, the BDC's financing and subordinate financing portfolios have grown significantly. Overall, the BDC's annual debt financing acceptances increased from $4.3 billion in 2010 to $9.7 billion in 2022, with approximately 17,500 acceptances in 2022, up from roughly 8,000 in 2010. Over the same period, the BDC's annual subordinate financing acceptances grew from $97.7 million in 2010 to $744.3 million in 2022.[37]

In comparison, the annual value of new credit disbursements from private sector providers to SMEs increased by 77%, from $45.9 billion in 2011 to $81.2 billion in 2022.[38] Although the growth of the BDC's annual financing acceptances outpaced disbursements from the private sector, reflecting the BDC's expanding role in the SME financing market, this growth is also partly attributable to the BDC's increasingly significant role as a delivery agent of public policy. Notably, following the conclusion of the previous Legislative Review, the BDC augmented its lending activities to support traditionally underserved groups of entrepreneurs (including women, Indigenous Peoples, and Black Canadians), emerging sectors such as ICT and clean technology, and key industries such as manufacturing and tourism.

In particular, total dollars accepted for new loans more than doubled from 2015 to 2022 (Figure 5). Further, while loan disbursements increased annually at a gradual pace, there were greater increases in 2017 and 2022. The 2017 increase aligns with the introduction of the BDC's online financing platform, which aims to facilitate access to financing for Canadian entrepreneurs, while the 2022 growth aligns with BDC's increased lending to address COVID-19 as part of its countercyclical role and the gradual return to pre-pandemic lending activities.

Figure 5: BDC loan disbursements (2010-2022)[39]



Over the Review Period, the BDC has disbursed more loans across all loan size categories (Figure 6a), with the number of loan acceptances for small loans (under $100,000) increasing from approximately 1,600 in 2010 (20% of the total number of disbursements) to 5,200 (30% of total disbursements) in 2022, reaching a high of nearly 7,200 in 2021. Targeted initiatives and efforts implemented by the BDC to better serve small businesses, such as the online financing platform, as well as the delivery of key Government of Canada priorities, have contributed to the growth of small loans since 2010.

However, while the share of dollars disbursed through small loans remained relatively consistent from year-to-year over the Review Period, the share of dollars disbursed via large loans (over $6 million) increased significantly, from 33% of the total value of the BDC's loans in 2010 to 45% in 2019 prior to the pandemic, and up to 51% in 2022 (Figure 6b). As such, while large loans still comprise a small portion of the total number of loans disbursed (5% in 2022), the value of financing provided via these loans represented more than half the total dollars disbursed by the BDC in 2022.

Figure 6 a) BDC Financing by loan size, by number of acceptances (2010-2022)[40]

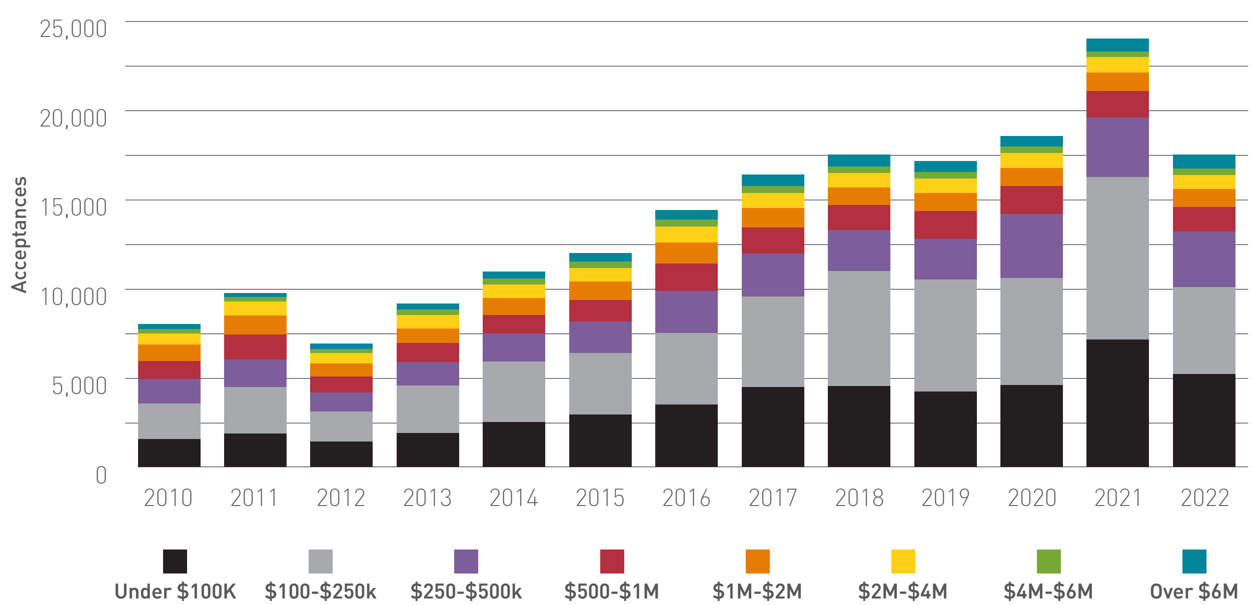
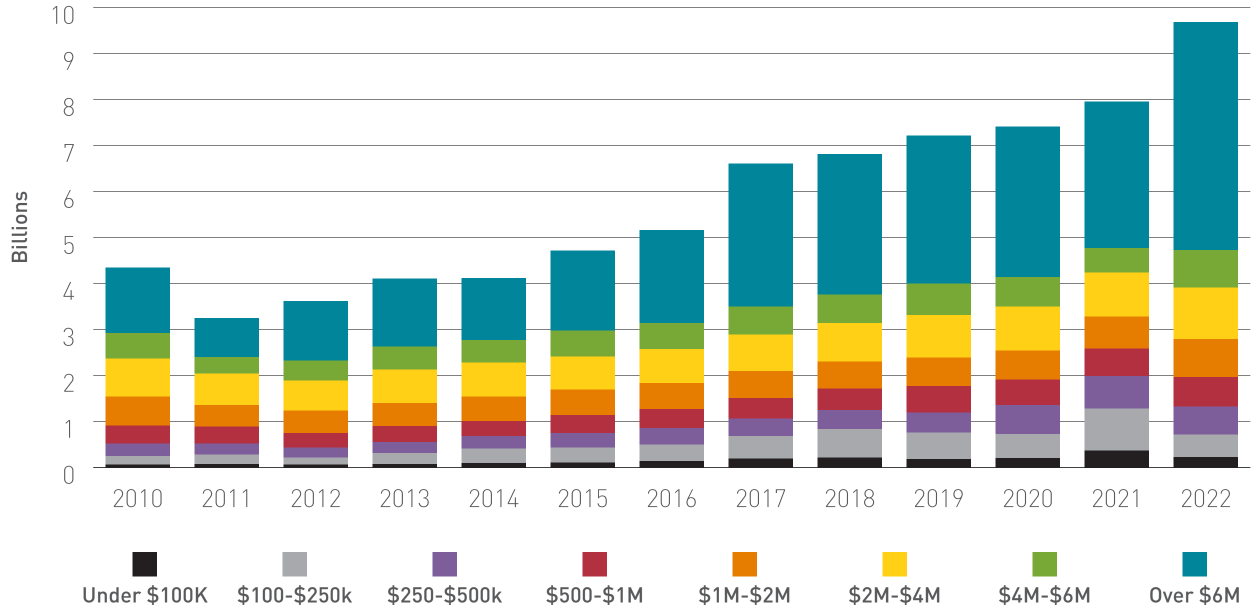


Figure 6 b) BDC Financing by loan size, by sum of dollars in billion dollars (2010-2022)[41]



In 2017, the BDC introduced its online financing platform, enabling entrepreneurs to access loans of up to $100,000 without requiring a visit to a BDC business centre. The platform was designed to facilitate the application process and accelerate the disbursement of funds for approved clients. In 2018, a total of $185 million was committed to approximately 2,900 clients through the platform. This number increased to $443 million committed to approximately 6,800 clients in 2022 as the platform played a key role in the delivery of the BDC's COVID-19 pandemic-relief and recovery measures. The introduction of the BDC's online financing platform aimed to simplify and accelerate the loan application process for SMEs.

BDC Venture Capital

Since 2010, the BDC has played a key role in the VC ecosystem, investing directly into companies and indirectly through VC funds and funds-of-funds (private sector-led investment funds that invest in other types of funds). Overall, venture capital investments in Canada grew from $819 million in 2010 to $15.6 billion over 839 deals in 2021, before moderating in 2022.[42] Notably, deal sizes and deal volumes have been rising across all stages of the investment cycle, from seed funding through to late-stage growth equity.

As the largest VC investor in Canada, the BDC is a leader in Canada's VC market, including as a provider of patient capital for markets that face persistent barriers or challenges in the market. The BDC is also an important investor in emerging market trends, including support for clean technology firms, the deep technology sector, and diverse fund managers and entrepreneurs. At the beginning of the Review Period, with the Canadian VC ecosystem facing adverse conditions, the BDC established a new VC strategy to stimulate growth of the VC asset class while increasing the availability of capital for promising technology firms. This strategy was supplemented by the Government of Canada's VC policy, with the BDC implementing VCAP and VCCI on behalf of the Government of Canada.

The BDC's new VC strategy was headlined by the creation of three new direct VC funds: the BDC Healthcare Fund; the BDC IT Fund, and the BDC Industrial, Clean and Energy Technology Venture Fund (ICE), with a cumulative $192.7 million, $254.3 million, and $201.2 million authorized respectively over the Review Period, supporting a total of 11 Canadian companies under the Healthcare Fund, 46 companies through two IT funds, and 34 companies through two ICE funds.[43]

With changing economic conditions and an improving Canadian VC market, the BDC further facilitated the co-creation of two new private VC funds in 2018, supporting the managers of its Healthcare and IT Funds via the establishment of Amplitude Ventures and Framework Ventures. Since 2011, the BDC has made investments in over 389 companies through its direct VC funds (See Annex A).

Further, the BDC launched its Strategic Initiatives and Investments group during the Review Period, and mandated it to stimulate the venture capital and innovation ecosystems. Specifically, the BDC's objectives were to highlight the success of underlying technology business in Canada; enable and attract future investment and value-added support for these businesses; and, demonstrate the viability of the Canadian venture capital industry and attract further capital into this asset class.[44]

As the VC industry gained momentum in Canada, the BDC's adjusted its VC strategy to reinforce the Government of Canada's priorities, including a greater emphasis on supporting diversity and emerging sectors. In addition to increasing investments in the ICE Fund, the BDC launched the Women in Technology Venture Fund in 2017, which represented the largest VC fund at the time focusing on women entrepreneurs in Canada.

As of 2022, the Women in Technology Venture Fund had authorized $109.7 million to 37 companies. Further, the BDC launched its Growth Venture Co-Investment Fund, the Industrial Innovation Venture Fund, and the Deep Tech Venture Fund between, which have authorized $243.8 million, $62.2 million and $10.3 million respectively as of 2022.

Complementing its direct investment into companies, the BDC has actively invested in a number of external VC funds to build Canadian venture capital investment capacity through financial and non-financial supports. These investments are designed to strengthen the country's innovation ecosystem for long-term growth. With a total of $1.29 billion authorized from 2011 to 2022, the Fund Investments team has supported Canadian VC managers operating across all regions and technology sectors, in addition to providing guidance on fund formation, governance, and reporting best practices.[45] Examples of the BDC's support for VC managers includes the GP Academy, which was launched in 2017 to help SMEs establish new business relationships and receive advanced training in operational and management issues. The BDC also launched a Diversity, Equity and Inclusion (DEI) reporting template in 2022 to help GPs and businesses track data and progress made on DEI indicators.

The performance of the BDC's VC practice has supported industry growth and yielded positive returns. After generating $48.3 million in proceeds from its VC investments in 2010, the BDC has generated over $100 million in proceeds annually since 2016, and reported $543.8 million in proceeds in 2022. Additionally, BDC Venture Capital's total value to paid-in capital (TVPI)[46] increased robustly, nearly doubling from 0.87x in 2010 to 1.60x in 2022. Though some of these recent gains are attributable to the market fluctuations in the technology sector over the COVID-19 pandemic and may not be sustained given economic challenges going forward, overall the BDC generated positive returns for its VC investments over the Review Period.

BDC Advisory Services

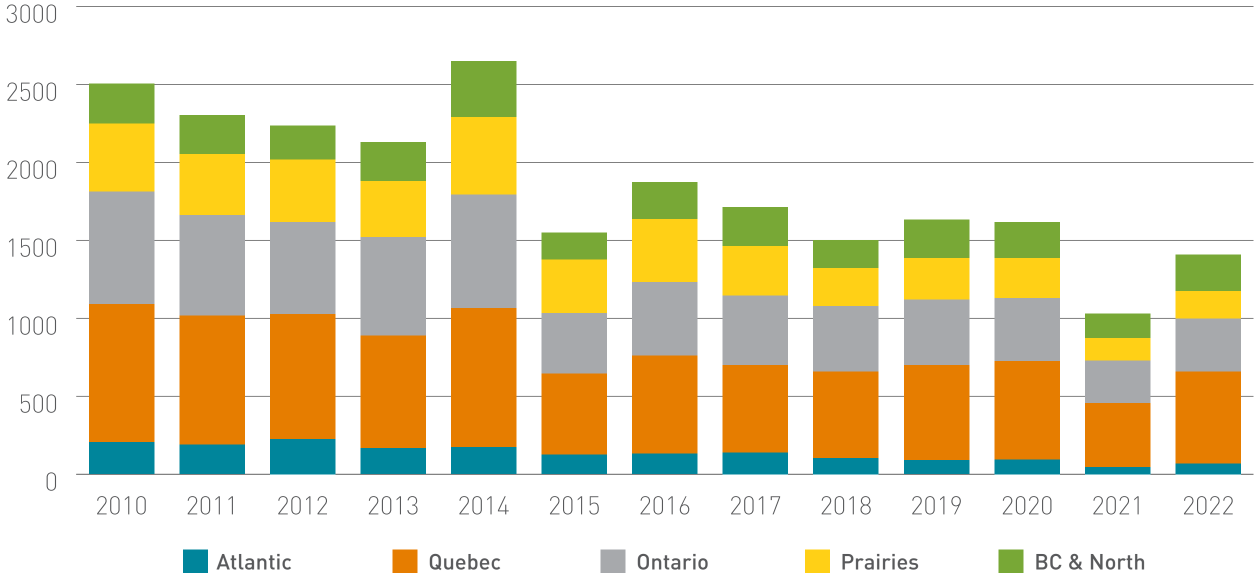
Although the majority of the BDC's clients seek financial support, the BDC also offers advisory services to address a wide range of SME needs, such as increasing sales, improving operational efficiency, adopting new technologies, and pursuing market expansion domestically and abroad. Research has found that the BDC's advisory services are an important growth enabler for clients.[47] In total, the BDC invests an average of $45 million annually to provide advice tailored to the size, sophistication, and ambitions of individual companies, using a national network of internal and external experts and online capabilities to assist companies.[48]

While advisory services are delivered at a cost to entrepreneurs, the BDC assumes a portion of the charge to reduce the financial burden on SMEs, resulting in the Advisory Services business line operating at a loss annually. In 2022, Advisory Services reported a net loss of $39 million.[49]

Since 2010, the BDC has continued to enhance its focus on supporting businesses, refining its approach to better cater to the unique needs of both smaller and larger SMEs while adjusting its delivery approach. For instance, at the beginning of the Review Period, the BDC launched its Value for Client Strategy, which included a focus on optimizing its delivery network and enhancing the quality of its advisory services.[50]

The BDC also worked to ensure its advisory services were complementary following the 2010 Legislative Review, which resulted in an amendment in 2014 to the BDC Act to enshrine the principle of complementarity for this business line. Consequently, the BDC focused on adapting its advisory services to better address the needs of small businesses. The BDC also works with a network of private sector consultants to deliver its advisory services. Nevertheless, stakeholder perceptions were mixed regarding the extent to which these services were fully complementary, with some private sector advisory service providers reporting competition with the BDC.

Figure 7: Number of advisory mandates by region (2010-2022)[51]



The scale and regional distribution of the BDC's Advisory Services varied between 2010 and 2022, ranging between 1,500 and 2,500 mandates annually (see Figure 7; mandates represent distinct advisory products or services provided to entrepreneurs at a specific point in time). This year-to-year variation is partly attributable to changing demand for professional advisory services, as well as the implementation of different initiatives by the BDC. Further, the significant decrease in 2021 was linked to the COVID-19 pandemic, as the BDC shifted its focus to assisting Canadian businesses through financing.

BDC's Advisory Services also contributes to the implementation of the Canada Digital Adoption Program (CDAP) as one of the eligible digital advisors under the program. In 2022, BDC's Advisory Services delivered approximately 1,400 advisory mandates, including 21 mandates under the Canada Digital Adoption Program, which was launched on March 1, 2022.[52] Going forward, it is anticipated that the BDC's support for CDAP will contribute to a growth in the number of advisory service mandates delivered for clients.

Further, the BDC offers dedicated programs for larger companies, such as the Growth Driver Program and the Business Performance Builder Program. The Growth Driver Program offers strategic advice, tailored coaching and leadership development skills over a two-year period while working with CEOs and executive leadership to develop and implement a strategic growth plan to support high-growth firms. Since its introduction in 2016, more than 200 high-growth businesses have been supported through the program, which was previously known as the High-Impact Firm initiative, helping businesses overcome common challenges and barriers to scalability.[53]

The Business Performance Builder Program provides foundational management capabilities training to help larger businesses facing operational challenges get ready for growth. A team of experts work with entrepreneurs over a 12-month period to support the development and implementation of a detailed plan to address performance issues.

As of March 31, 2022, 25 mandates have been delivered since the inception of the Business Performance Builder Program in 2020. Limited uptake can be partly attributed to many businesses seeking solutions to address specific, urgent issues in their business, rather than pursuing a longer term, growth-oriented vision.

Since 2010, the BDC has also expanded its focus on online education and resources, publishing over 1,400 resources and training materials on its website.[54] These resources, which are available for free to SMEs across Canada, include templates, webinars, eBooks, independent research on business challenges, articles, videos and interactive business training. In addition, the BDC has developed a series of free e-learning programs to help entrepreneurs increase their knowledge and skills. Between 2018 and 2022, the BDC's series of e-learning courses had approximately 23,000 users enrolled.[55] Moreover, as of 2021, the BDC counted 350,000 unique subscribers and recorded close to 10 million annual visits to its website.[56]

Other offerings

In addition to its core activities, the BDC has undertaken a number of initiatives and programs, including to support the Government of Canada's policy priorities. These include programs delivered on behalf of the Government of Canada, as well as activities within its existing offerings.

Venture Capital Action Plan and Venture Capital Catalyst Initiative

The BDC is the delivery agent of the Venture Capital Action Plan (VCAP) and the Venture Capital Catalyst Initiative (VCCI) on behalf of the Government of Canada, acting as a Limited Partner for all investments and undertaking administrative duties, including monitoring and reporting. By investing in funds-of-funds and directly in smaller VC fund managers, VCAP and VCCI were designed to increase the amount of private sector capital in the Canadian VC market and support the growth of the Canadian VC market. As of 2022, more than $760 million had been authorized through these initiatives.

Announced in Budget 2013, the VCAP was created to encourage investment by private firms in early-stage companies, helping small and medium-sized Canadian businesses grow and prosper. The VCAP's market-oriented approach to support the sustainability of Canada's VC industry aimed to make Canada more competitive globally and increase the availability of financing for innovative firms. Through the VCAP, a total of $390 million was invested in four fund-of-fund and four VC fund managers. As of December 31, 2021, 33 Canadian VC funds and 381 Canadian companies were supported under the program.[57]

Building on the momentum of the VCAP, the VCCI was introduced in Budget 2017 to help increase the availability of capital for Canada's high-potential innovative firms. Expanded in the 2018 Fall Economic Statement, the Government of Canada invested $371 million in four fund-of-fund and eight VC fund managers through the VCCI. A total of 42 Canadian VC funds and 302 Canadian companies have been supported as of December 31, 2021.[58] In Budget 2021, the Government of Canada's renewed the VCCI with a $450 million allocation to support funds-of-funds, life sciences, and inclusive growth.

Ultimately, through these programs as well as its internal VC strategy, the BDC has supported the development of Canada's VC industry by increasing the availability of funding for Canadian firms. In terms of results, early indicators regarding program success for the VCAP are positive, with over $500 million already distributed back to investors. Further, as of December 31, 2020, the funds-of-funds selected under the VCAP had generated a 24.3% pooled gross internal rate of return. However, given that the fund managers selected under the VCCI remain mostly in the investment phase of the fund, it is too early to assess the VCCI's performance.

Clean growth and technology

The BDC has provided targeted assistance to help SMEs transition to a sustainable, low-carbon economy, which has represented an increasingly important area of focus for the Government of Canada over the Review Period. In 2013, the BDC launched the ICE Technology Venture Fund, its first internal fund focusing on clean energy. The BDC is also delivering the Government of Canada's Cleantech Scale-up Initiative (CSI), introduced in Budget 2017, which aims to build globally competitive Canadian clean technology producers and establish a long-term, commercially sustainable clean technology ecosystem in Canada. The CSI committed $600 million to address a lack of risk capital for the commercialization and scale up of Canada's cleantech and climate tech industry, which was supplemented by a commitment of an additional $100 million from the BDC's other business lines. Although the funding envelope was originally planned to be fully deployed by 2022, follow-on investments to support entrepreneurs are expected to continue for two additional years. As of 2022, the BDC had authorized $510 million, including $450 million directly to 48 companies and $60 million to three VC funds. In November 2022, the BDC also announced an additional $400 million for a new Climate Tech Fund II, to support world-class Canadian cleantech champions.

Canada Digital Adoption Program

Introduced in Budget 2021, the Canada Digital Adoption Program (CDAP) will provide $4 billion to companies, including those in rural and remote regions, to support their digital transformation and digitization, including up to $2.6 billion in new loans through the BDC. Eligible businesses can apply through the BDC's online financing platform for a zero-interest loan of up to $100,000, with a 72-month term and with a 12-month moratorium on principal payments.

The BDC's countercyclical role

To fulfill its complementary mandate, the BDC acts as a countercyclical lender in the market, increasing its activity during periods of economic uncertainty. This includes the provision of financing envelopes for specific sectors to mitigate financing and capital gaps, which are generally funded by the BDC, with no new capital provided by the Government of Canada. For example, between 2014 and 2016, the BDC provided targeted support to assist the oil and gas sector in response to the significant decline in oil prices. Further, the BDC increased financing in 2017 and 2018 to address trade-related challenges faced by SMEs in the softwood lumber, steel, aluminum and manufacturing sectors. The BDC also provided relief measures to support entrepreneurs in response to the COVID-19 pandemic in 2020. In contrast to the sector-specific supports, key COVID-19 relief measures such as Highly Affected Sectors Credit Availability Program (HASCAP) and the Business Credit Availability Program (BCAP) were funded via capital injection from the Government of Canada and managed separately from its core portfolio activities.

Stakeholders generally provided positive feedback regarding the BDC's countercyclical role, and stressed the importance of this function going forward, particularly given the potential for economic uncertainty. Research has also supported the effectiveness of the BDC's countercyclical offerings. A report published by Statistics Canada indicated that BDC clients in industries most affected by significant reductions in oil prices in 2014 that received both financing and advisory services from the BDC generated higher revenue growth than non-clients.[59]

COVID-19 initiatives

As part of the Government's response to the COVID-19 pandemic, the BDC delivered a number of initiatives to support businesses, including HASCAP, BCAP, and internal measures initiated by the BDC that aligned with its core business activities (See Figure 8). These activities supported Canadian businesses through the uncertainty and challenges of the pandemic. To deliver these programs, the BDC significantly broadened its risk appetite to serve a greater number of entrepreneurs, thus increasing its risk profile.

Introduced in March, 2020, BCAP extended targeted financial products to Canadian businesses, including loans and guarantees, in partnership with private sector financial institutions. Under BCAP, the BDC and EDC delivered the Co-Lend Program for SMEs and the Mid-Market Financing Program, extending loans up to $60 million to help cover operational cash flow requirements and business continuity needs. A total of $1.3 billion was lent by the BDC to over 730 companies through BCAP.[60]

Further, HASCAP was introduced in the 2020 Fall Economic Statement to increase financing for businesses adversely affected by the pandemic, including those in the tourism, hospitality, travel, arts and culture sectors. Through HASCAP, businesses could access loans of up to $1 million at low interest rates over extended terms of up to ten years. The loans were accessible through private sector financial institutions and were guaranteed by the Government of Canada via the BDC. Over 17,000 loans were authorized under HASCAP, for a total commitment of over $3.7 billion.[61]

Through the pandemic and economic crisis, the BDC also adjusted its offerings in accordance to its countercyclical role, providing flexible financing and capital, and adapted its advisory services to support Canadian entrepreneurs. Specifically, in addition to the supports delivered through HASCAP and BCAP, the BDC introduced a series of internal initiatives that aligned with its existing core business lines, including new working capital loans, greater volume through its online financing platform, and the BDC Capital Bridge Financing Program ($179 million total) to extend equity financing for Canadian companies receiving VC investments. The online financing platform was a component of these relief measures, with $1 billion authorized to nearly 13,000 businesses in 2021. Combined, the BDC's internal pandemic lending measures, including its Credit Availability Program but excluding BCAP and HASCAP, totaled $2.8 billion in supports, with over 20,000 loans disbursed to businesses.[62]

Figure 8: The BDC's COVID-19 relief measures[63]

HASCAP	BCAP	Pandemic-related lending
~17,000 loans ~$3.7B authorized	~730 companies ~$1.3B authorized	~20,000 loans ~$2.8B authorized

Sources: BDC Data and https://www.bdc.ca/en/about/corporate-governance/financial-results/hascap-guarantee- statistics-region-sector

During consultations, stakeholders shared largely positive comments regarding the speed, scale, and cross-sectoral scope of HASCAP, which helped Canadian SMEs overcome challenges during the COVID-19 pandemic. In contrast, some financial institution stakeholders noted that the loan-by-loan approval process was burdensome, highlighting a preference for guaranteeing loans on a portfolio basis.

BDC OFFERINGS FOR EQUITY-DESERVING GROUPS AND UNDERSERVED MARKETS

As a complementary lender, the BDC plays a key role supporting businesses across all stages of development, as well as equity-deserving entrepreneurs, and businesses in underserved regions, Northern and rural communities. Over the Review Period, the BDC expanded efforts to provide support for underserved markets and increase the accessibility of its offerings for equity-deserving entrepreneurs in alignment with the 2010 Legislative Review, which recommended that the BDC enhance support for underserved markets, including specific types of entrepreneurs (e.g., youth, Indigenous, and other equity-deserving entrepreneurs), sectors in transition and seasonal businesses, and innovative firms.

Supporting equity-deserving entrepreneurs

Despite the BDC's focus on equity-deserving groups, these entrepreneurs continue to face persistent barriers accessing financing, capital, advisory and other services in the market. During consultations, stakeholders from these groups recognized the BDC's progress in supporting equity, diversity and inclusion in Canada's entrepreneurial ecosystem over the Review Period, but underscored the need for enhanced financing, capital, advisory, and other wrap-around supports. Notably, many equity-deserving groups face barriers, both real and perceived, accessing the BDC's offerings. For example, the BDC's offerings for businesses that have been in operation for less than 24 months (new businesses) are limited.

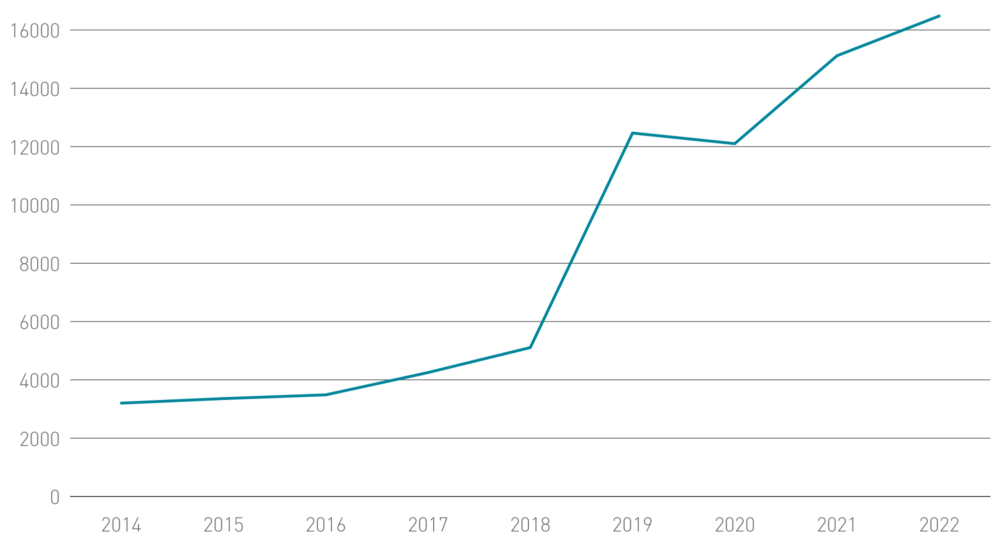
Women entrepreneurs

Although women represent half of the population and workforce, as of 2022, only 17.5% of Canadian SMEs are majority-owned by women, operating predominantly in the service industries (e.g., health care, scientific and technical services and retail trade, etc.)[64] According to a 2023 study conducted by the Women Entrepreneurship Knowledge Hub, women entrepreneurs face continued barriers that limit their access to financing, investment capital and other key resources to grow their businesses. This issue is further compounded for women with intersectional identities, such as Indigenous women and racialized Muslim women.[65]

Since 2010, the BDC has increasingly focused on supporting women entrepreneurs, including through the COVID-19 pandemic, which disproportionately impacted sectors where women are over-represented.[66] Between 2019 and 2022 alone, the BDC authorized nearly $2.4 billion to majority women-owned and led companies.[67]

In particular, the BDC has established targeted funding envelopes to support women-led technology companies, such as through the Women in Technology (WIT) Venture Fund and the subsequent Thrive Venture Fund and Lab for Women. Further, the BDC has collaborated with a wide range of partners to enhance support for women entrepreneurs, for instance by increasing its lending targets for women-owned businesses in support of advancing the Women Entrepreneurship Strategy (WES). Notably, the BDC's targets for women financing were established earlier than similar objectives announced by many other financial institutions.

Figure 9: BDC Women-owned SME clients (2014-2022)[68]



Since 2014, the number of women entrepreneurs supported by the BDC has increased significantly (Figure 9). This number grew from 3,200 in 2014 to nearly 16,500 in 2022, representing a 416% increase.

Between 2015 and 2022, the proportion of the BDC's direct clients that were women entrepreneurs also increased, from approximately 13% to 26%.[69]

Over this period, the BDC's authorizations increased from approximately $218 million provided to over 3,200 women entrepreneurs in 2014, to over $4.6 billion in loans to nearly 16,500 women entrepreneurs by 2022.

Indigenous entrepreneurs

Indigenous peoples represent 5% of the Canadian population, and in 2020 there were approximately 60,000 Indigenous-owned business in Canada, accounting for close to 1.1% of total SMEs.[70] Going forward, Indigenous entrepreneurs will continue to play an increasingly important role in the SME ecosystem, as the Canadian Indigenous population is growing at a pace far surpassing that of the non-Indigenous population.[71]

Indigenous entrepreneurs across Canada face significant challenges accessing financing, capital and other services to sustain their businesses and employ people within their own communities.[72] In particular, there are gaps in support, such as a lack of targeted financing options, as well as limited tools and educational and developmental resources, particularly for new Indigenous-owned businesses. These gaps were highlighted during consultations with Indigenous and other stakeholders.

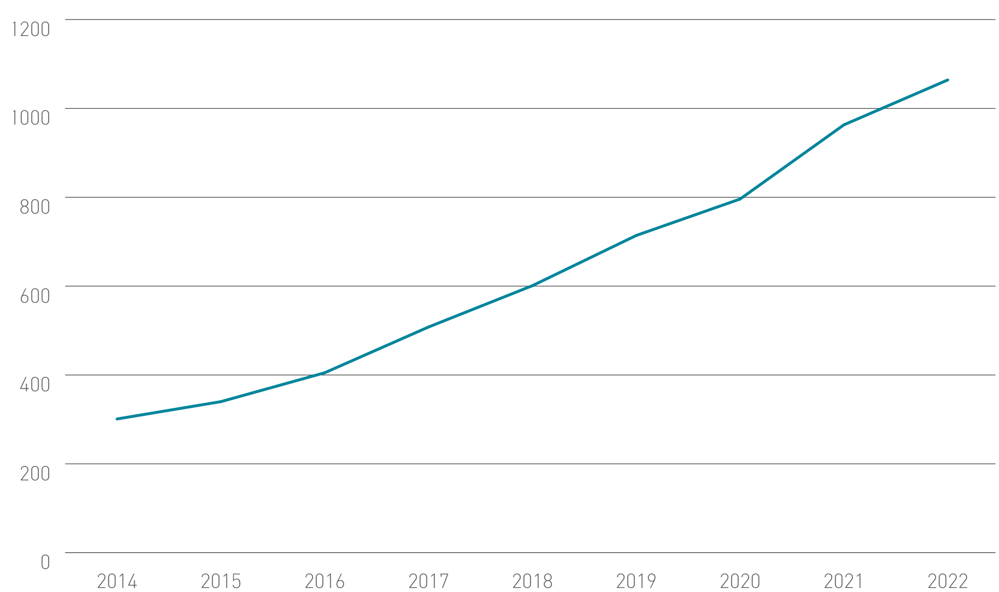
Over the Review Period, the BDC has taken steps to better serve Indigenous entrepreneurs by launching new initiatives and expanding existing programs. For instance, while eligible Indigenous entrepreneurs can access any of the BDC's suite of services, the Indigenous Entrepreneur Loan was introduced as a targeted initiative to support Indigenous-owned businesses. In 2017, the BDC increased the Indigenous Entrepreneur Loan limit to $350,000 from $125,000, and up to $250,000 for start-ups.

The BDC also partners with the National Aboriginal Capital Corporations Association as an anchor investor in the Indigenous Growth Fund (IGF). Launched in April 2021 to support Indigenous entrepreneurship, the IGF raised $150 million, including $50 million from the BDC, $50 million from the Government of Canada, $35 million from Export Development Canada (EDC) and $15 million from Farm Credit Canada (FCC). The IGF is an open-ended debt fund that provides lines of credit to Indigenous Financial Institutions (IFIs) across Canada, which, in turn, provide loans to Indigenous entrepreneurs operating across all industries, including emergent exporters, food and agriculture related businesses. In 2022, a technology company, Block, became the IGF's first private investor with a $3 million investment to support new and existing Indigenous entrepreneurs grow their businesses. As of June 30, 2023, a total of $44 million has been committed to 5 IFIs.[73]

From 2014 to 2022, the number of Indigenous entrepreneurs served by the BDC grew from 301 to 1,064, representing a 253% increase (Figure 10). During this period, financing provided to Indigenous entrepreneurs increased from $32.4 million in 2014 to $124.5 million with 2,255 acceptances in 2022.[74]

Further, between 2015 and 2022, the proportion of the BDC's direct clients that were Indigenous entrepreneurs increased slightly, from approximately 1% to 2%.

Figure 10: BDC Indigenous-owned SME clients (2014-2022)[75]



Black, Youth, and Newcomer Entrepreneurs

Black entrepreneurs

In 2018, there were approximately 66,880 Black-owned business in Canada accounting for 2.1% of total SMEs.[76] While Black-owned businesses are located across many industries, there is a higher concentration in the transportation and warehousing and professional, scientific and technical services sectors.[77] Black entrepreneurs continue to face challenges in the market, including barriers accessing financing, capital, and other supports, such as wrap-around services, which are needed to grow and scale early-stage businesses.[78]

The BDC has delivered a range of initiatives to support black entrepreneurs. For instance, in support of efforts to combat anti-Black systemic racism, the BDC signed the CEO Pledge launched by BlackNorth, a commitment to implement seven specific actions to address anti-Black racism.[79] Further, in 2021, the BDC launched the Black Entrepreneurship Loan Fund, delivered in partnership with the Federation of African Canadian Economics, to provide loans of up to $250,000 to Black business owners. As of 2022, this program had provided support to 94 clients. The BDC also co-launched the Black Innovation Fund, a venture capital fund for Black-led tech businesses, with Black Innovation Capital in 2021.

Further, the BDC partnered with Futurpreneur Canada and RBC in 2021 to deliver the Black Entrepreneur Start-up Program, which provides up to $60,000 in start-up loans (up to $40,000 of which is delivered by Futurpreneur Canada, and funded by RBC; while up to $20,000 loaned by BDC), as well as mentorship and networking opportunities for Black entrepreneurs. As of 2022, $1.3 million had been committed through 79 loan authorizations to Black entrepreneurs age 18-39. Ultimately, these programs, which were well-received by stakeholders, aimed to address a gap in the marketplace for Black entrepreneurs that require targeted financial support.

Youth entrepreneurs

In 2017, approximately 15.8% of all Canada's SMEs were owned by entrepreneurs aged less than 40 years old.[80] Youth entrepreneurs continue to face barriers securing financing and investments, often due a lack of collateral, limited tangible assets, and undeveloped credit histories. To support youth entrepreneurs, the BDC's longstanding partnership with Futurpreneur Canada offers joint financing for youth entrepreneurs through the Start-up Program, which was enhanced in 2019. The initiative offers up to $60,000 in loans for three to five-year terms ($20,000 from Futurpreneur, with the option to request an additional $40,000 from the BDC). In total, $117.5 million was authorized to support over 4,400 entrepreneurs via Futurpreneur over the Review Period.[81]

Futurpreneur and other stakeholders provided positive feedback regarding the BDC's support for youth entrepreneurs, noting that access to start-up capital for young entrepreneurs' improved through this partnership. Many stakeholders also highlighted the BDC's collaboration with Futurpreneur as an example of a model partnership, demonstrating its value in supporting entrepreneurs and the SME ecosystem.

Newcomer entrepreneurs

In 2021, newcomers[82] comprised 23% of the Canadian population.[83] Given current demographic trends, immigration is the main driver of Canada's population growth. If these trends persist (based on Statistics Canada's recent population projections) immigrants could represent up to 34% of the population of Canada by 2041.[84]

Although business ownership and self-employment rates are generally higher among immigrants than the Canadian-born population, newcomers face challenges accessing financing and advisory services, limited knowledge regarding local business environments, and other cultural and language barriers.[85] According to analysis on businesses majority-owned by racialized persons and immigrants to Canada, published by Statistics Canada in 2022, businesses majority-owned by immigrants to Canada were less likely to indicate having an optimistic future outlook over the next 12 months than all private sector businesses, and more likely to face obstacles such as attracting new or returning customers.[86]

To address the needs of newcomers, the BDC introduced the Newcomer Entrepreneur Loan in 2012, which provides $25,000 to $50,000 for eligible applicants. Between 2012 and 2022, over $1.7 million was committed to 49 newcomers.[87] However, while some terms were viewed as restrictive and total uptake remained low over the Review Period, stakeholders expressed a desire to have greater access to similar products for other equity-deserving groups.

Regional and Rural SMEs

Rural and regional SMEs are important drivers of local economic growth, and research demonstrates the importance of these businesses in supporting rural economic development.[88] Although the financing activities of rural SMEs are similar to those of urban SMEs, with most seeking external financing and seeing their requests for financing approved, urban SMEs tend to borrow from banks, while rural SMEs are more likely to borrow from other types of lenders, such as credit unions or caisses populaires.[89]

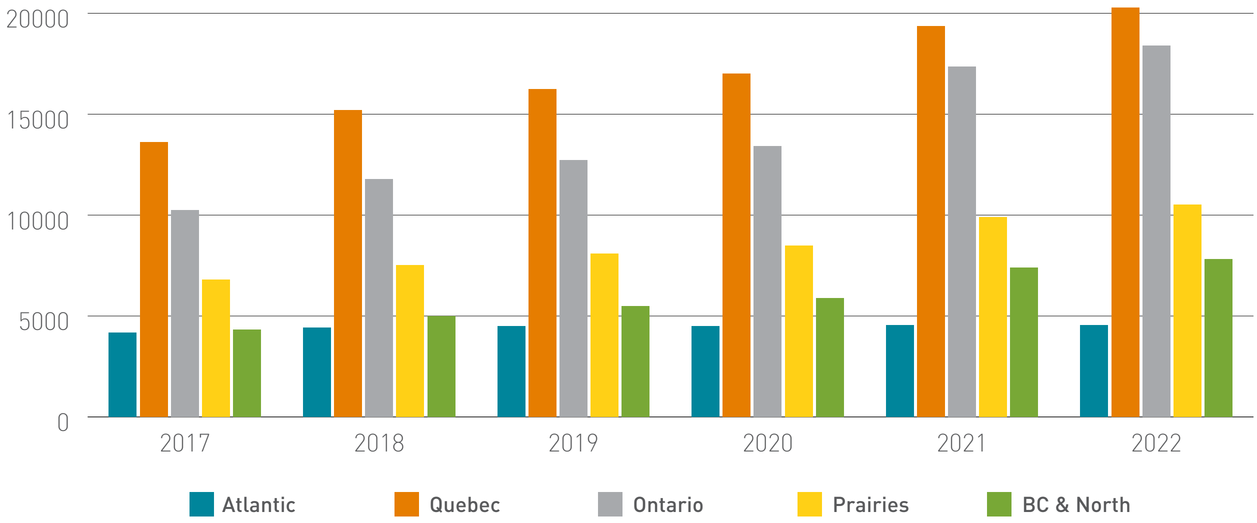
According to results from a 2022 CFIB survey that were shared with ISED to inform the Legislative Review, recent demand for credit was robust across all regions of Canada, including in Quebec, the Atlantic, Prairie, B.C. and North, and Ontario regions.[90] This data indicates thus indicates that a considerable share of businesses across Canada require financing products for their operations. Approval rates for debt financing vary across the country. According to Statistics Canada's Survey on Financing and Growth of Small and Medium Enterprises data for the years 2011, 2014, 2017 and 2020, the BC and North region had the lowest average debt financing approval rate at 86.4% over this period, while Quebec had the highest approval rate at 91.3%.

In light of its national mandate, the BDC has a presence across all regions of Canada to service SME clients. The BDC divides Canada into five regions for reporting purposes: Atlantic (comprising New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island), Quebec, Ontario, Prairies (comprising Alberta, Manitoba, and Saskatchewan), and BC and North (comprising British Columbia, the Northwest Territories, Nunavut, and the Yukon).

Relatedly, the 2010 Legislative Review recommended that the BDC establish partnerships with local economic development organizations and other groups to increase the accessibility and visibility of its offerings for SMES in all regions, including in rural communities.[91]

SMEs across Canada's regions

Figure 11: Regional distribution of BDC Clients (2017-2022)[92]



Regionally, the scale and scope of the BDC's activities have been variable since 2010, with the Atlantic and Prairie regions receiving a lower share of support relative to their contributions to gross domestic product (GDP) and SME population. Over the Review Period, while the relative share of GDP was relatively stable across all regions of Canada, the BDC's distribution of financing dollars was largely concentrated in the Quebec and Ontario regions (see Table 1).

Specifically, the Quebec region received the highest share of the BDC's financing support, notably exceeding the region's share of GDP and reaching a market penetration rate[93] of almost 10% in 2022. The BDC's significant support in Quebec can be partly attributed to collaboration with Investissement Québec and the province's robust investments in the manufacturing sector, which represents a key industry for the provincial economy. Nevertheless, Quebec SMEs are disproportionately represented in the BDC's financing portfolio.

In contrast, the Atlantic, Prairie, and Ontario regions were underserved compared to their GDP contributions. Average market penetration rates of SMEs seeking financing, which can vary considerably within the BDC-defined regions across different communities and provinces, reached 8.1%, 5.6% and 5.2% in these regions, respectively in 2022.[94] Further, while most regions experienced a considerable increase in the total value of financing and subordinate financing disbursed by the BDC between 2010 and 2022, both the total value of BDC loans and subordinate financing disbursed for Atlantic Canada declined between 2010 and 2022 (see Figures 12 a) and b)).

Table 1: Regional distribution of BDC financing activity and clients compared to economic activity (2010-2022)

Region	GDP distribution		BDC financing distribution		SME population distribution*		BDC client distribution	
Year	2010	2022	2010	2022	2017	2022	2017**	2022
BC and North	13%	14%	13%	18%	16%	16%	11%	13%
Prairies	24%	24%	17%	21%	20%	19%	17%	17%
Ontario	38%	38%	32%	26%	36%	37%	26%	30%
Quebec	20%	19%	28%	31%	20%	21%	35%	33%
Atlantic	6%	5%	9%	4%	7%	6%	11%	7%
Total	100%	100%	100%	100%	100%	100%	100%	100%

**As of 2014, there were changes made to the methodology used by Statistics Canada.*
*** Data was unavailable for years prior to 2017. For comparative purposes 2017 has been used as the baseline.*
Sources: BDC Data and Statistics Canada

These trends also apply to the total SME population which remained relatively stable across all regions between 2017 and 2022, while the BDC's share of clients was much higher in the Quebec region relative to its share of the SME population. Similarly, from 2017 to 2022, the share of BDC clients in the Atlantic region declined by 4%, while the region's share of the Canadian SME population only fell from 7% to 6%.

Stakeholders consulted through in-person regional roundtables across the country expressed similar sentiments regarding the concentration of the BDC's offerings. In particular, stakeholders in Atlantic Canada, the Prairies, and Northern Canada highlighted limited engagement with the BDC and a lack of visible and accessible offerings in their communities, particularly in rural areas.

In summary, based on data regarding the demand for credit across Canada, the BDC's financing activities and client base by region, market penetration information, and stakeholder interventions, the BDC's activities disproportionately support SMEs in Quebec. As such, there is a renewed need for the BDC to enhance its presence and improve engagement in order to better support SMEs across Canada, particularly in the Atlantic and Prairie regions.

Figure 12 a): Financing by Region (2010-2022)[95]

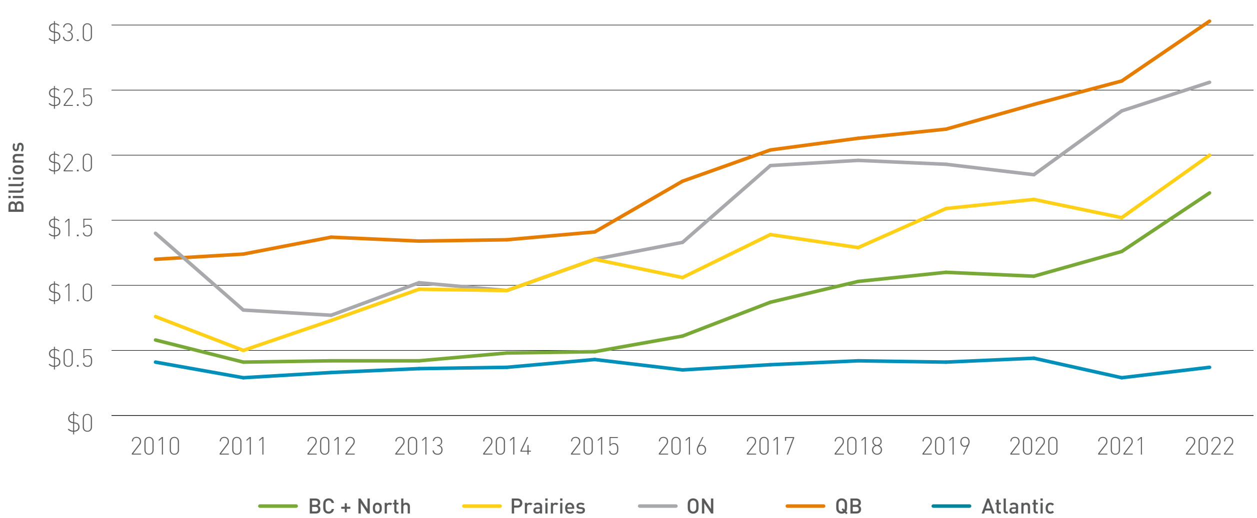


Figure 12 b): Subordinate financing by Region (2010-2022)[96]

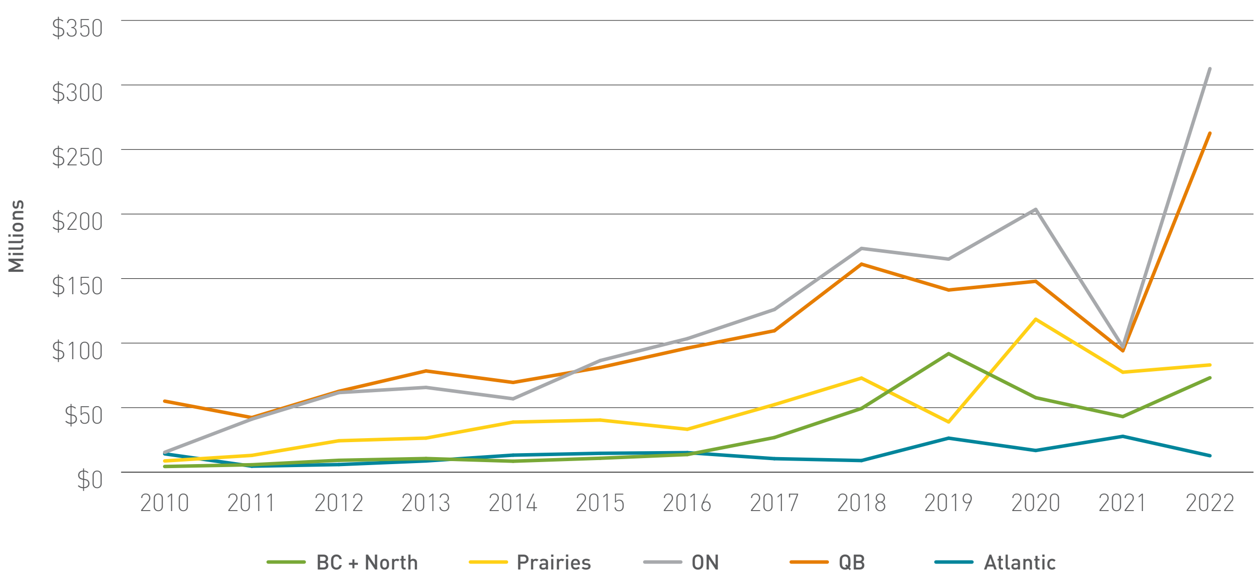


Table 2: BDC Loan Disbursements by Province and Territory (2010-2022)

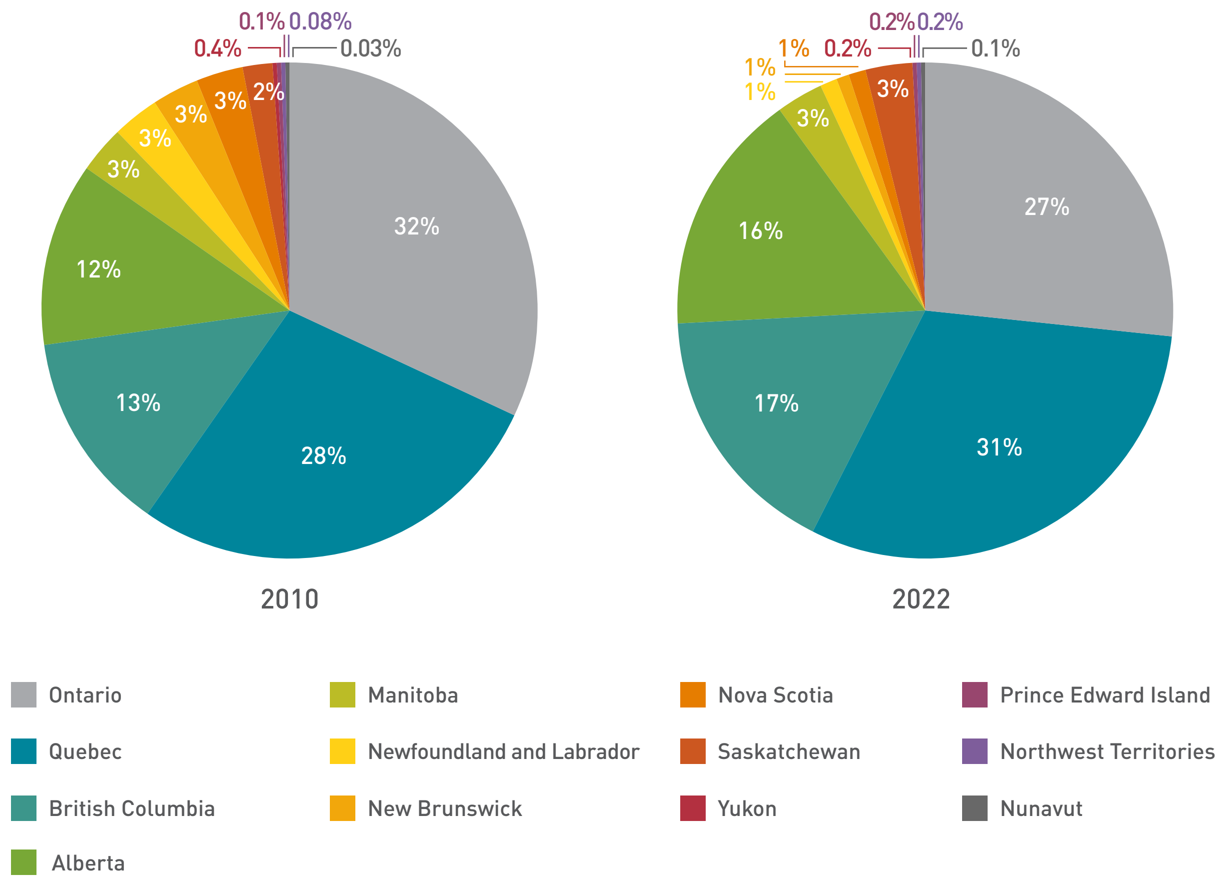
Province	Fiscal Year		Review Period grand total
	2010	2022	2010 to 2022
Alberta	$521.8 million	$1.5 billion	$11.7 billion
British Columbia	$555.9 million	$1.7 billion	$10 billion
Manitoba	$133.8 million	$258.6 million	$2 billion
New Brunswick	$122.7 million	$117 million	$1.2 billion
Newfoundland and Labrador	$151.9 million	$128.7 million	$2 billion
Northwest Territories	$3.6 million	$21 million	$116.7 million
Nova Scotia	$123.5 million	$108.2 million	$1.5 billion
Nunavut	$1.5 million	$1.5 million	$30 million
Ontario	$1.4 billion	$2.6 billion	$20 billion
Prince Edward Island	$8.5 million	$20.2 million	$158 million
Quebec	$1.2 billion	$3 billion	$24.1 billion
Saskatchewan	$104.4 million	$256.8 million	$1.9 billion
Yukon	$17.8 million	$21.3 million	$237.7 million
Grand Total	$4.3 billion	$9.7 billion	$75 billion

Source: BDC Data

The total annual value of financing disbursed by the BDC across Canada grew by 123% between 2010 and 2022, from approximately $4.3 billion to $9.7 billion (Table 2). Over this period, Quebec and Ontario consistently received the largest share of the BDC's financing support, which generally aligns with their positions in the Canadian economy. Although annual loan disbursements fluctuated on a year-to-year basis, the value of financing disbursed by the BDC in most provinces and territories increased between 2010 and 2022.

However, the annual value of financing disbursed in New Brunswick, Newfoundland & Labrador, Nova Scotia, and Nunavut decreased between 2010 and 2022. The magnitude of the decline was most pronounced in Newfoundland & Labrador and Nova Scotia. These variations in the total value and share of financing support disbursed to SMEs across provinces and territories demonstrate gaps in the BDC's investments across the country.

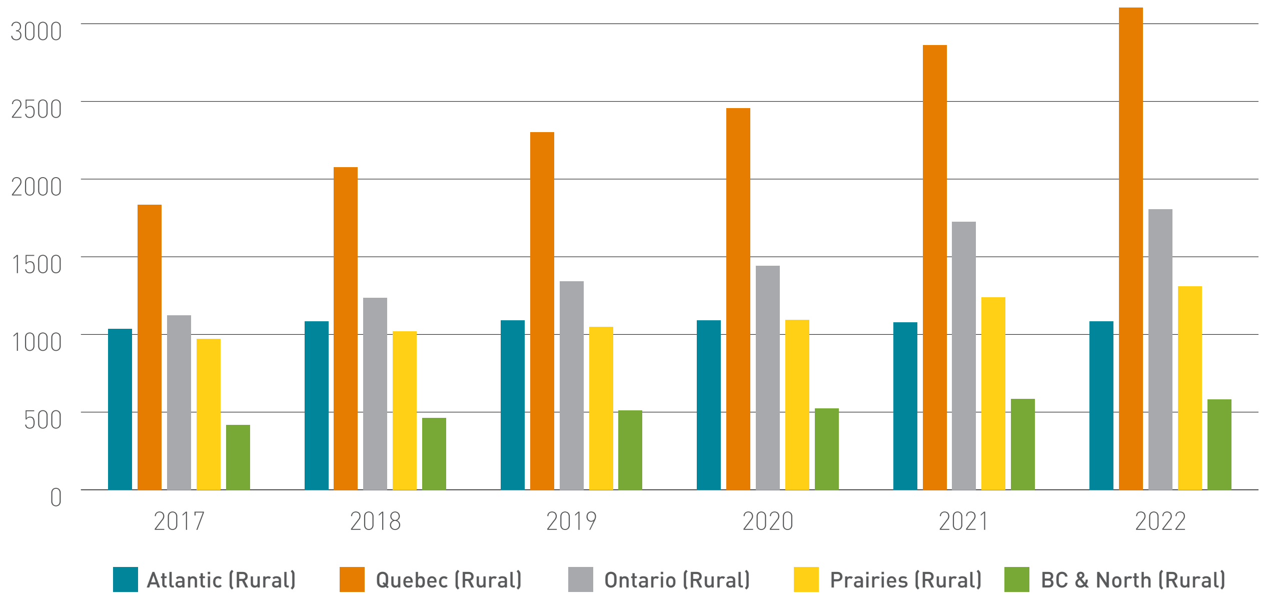
Figures 13 and 14: BDC loan disbursements by Province (2010 vs 2022)



SMEs in rural communities

Between 2011 and 2020, the proportion of SMEs operating in rural areas decreased from 21% to 18%.[97] In 2021, 16% Canadians (6.2 million) lived in rural areas, with rural employment totalling 13% (2.4 million).[98] During consultations, stakeholders from rural communities emphasized that SMEs require specialized, place-based financing, as well as investment capital and advisory services at an affordable cost that takes into account their unique regional circumstances.

Figure 15: BDC Clients in rural areas by region (2017-2022)[99]



Since 2010, the BDC has provided over $7.6 billion in total financing to over 39,500 clients located in rural communities across Canada. As of 2022, approximately 13% of the BDC's direct clients, or approximately 7,900 clients, are located in rural regions across Canada. This proportion has declined slightly since 2017, when approximately 14% of the BDC's clients were located in rural areas. As shown in Figure 15, the BDC's rural client base is strongest in Quebec, reaching a high of approximately 3,100 SME clients in 2022.

To enhance access to capital for SMEs, the BDC partners with other federal, provincial and territorial government organizations, such as Regional Development Agencies (RDAs), and FCC. In addition, the BDC collaborates with not-for-profit organizations such as Community Futures Development Corporations (CFDCs), although CFDC stakeholders expressed an appetite for renewed and stronger partnerships with the BDC, particularly given that formal collaborations have waned in recent years. Other stakeholders from across Canada also expressed a need for enhanced support from the BDC in rural communities.

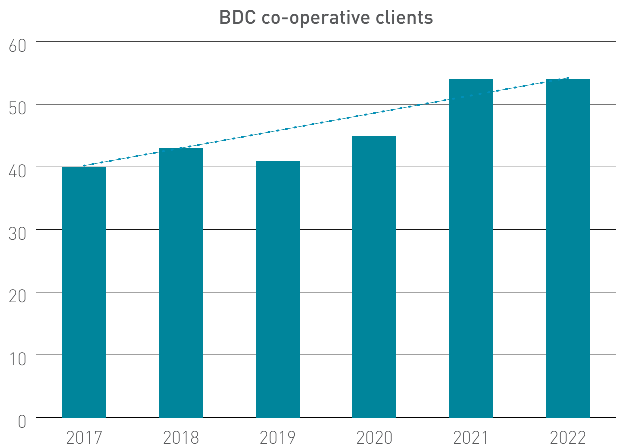
Supporting underserved business models

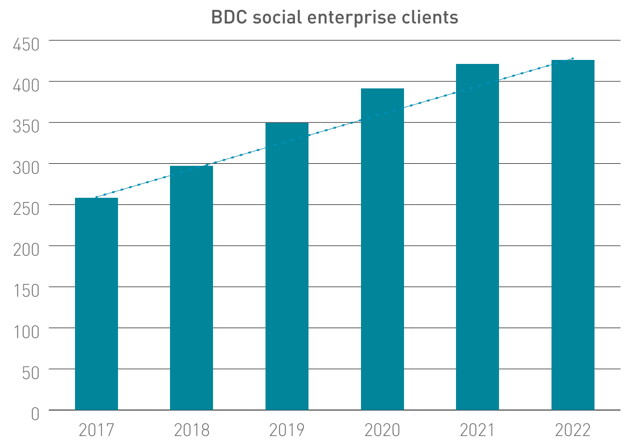
Non-traditional business models, including businesses with a social purpose, play an important role in Canada's economy. According to Statistics Canada, in 2020, there were a total of approximately 5,500 active non-financial co-operatives in Canada, with nearly half of co-operatives operating in Quebec (45%).[100]

Research highlights important differences between not-for-profit and co-operative businesses and their for-profit counterparts. For instance, co-operatives are generally more locally oriented than other SMEs, as they intended to expand locally, while non-cooperative SMEs intended to expand more outside their province or even outside the country.[101] However, this subset of businesses continues to face challenges accessing financing and capital investments, as well as broader barriers related to the awareness of their business models and impacts in the business ecosystem. In summary, non-traditional business types operate within unique contexts that require a clear understanding of their business models by lenders, as well as eligibility criteria that explicitly express support for and target this subset of businesses.

The BDC provides support to certain underserved business models, although investments in these areas remain limited. Specifically, social enterprises and co-operatives comprise a small segment of the BDC's client base and loan portfolio. As such, while the BDC can support not-for-profits, co-operatives, and social enterprises, they remain underrepresented within the BDC's broader portfolio. As of 2022, the BDC had a total of 54 co-operative and 426 social enterprise financing clients, accounting for an increase of 35% and 65% respectively since 2017 (Figures 16 and 17).[102] Between 2017 and 2022, the share of financing clients served by the BDC that were co-operatives and social enterprises remained relatively consistent at approximately 0.1% and 1%, respectively.

Figure 16 and 17: BDC Co-operative and social enterprise financing clients (2017-2022)[103]





CONCLUSIONS

Since 2010, the BDC's business lines have evolved to introduce new products, technologies, and processes designed to better serve clients, including small businesses and equity-deserving entrepreneurs. These new initiatives generally aligned with Government of Canada priorities and the recommendations of the previous Legislative Review, such as through enhanced support for traditionally underserved entrepreneurs. Studies have demonstrated the effectiveness of key BDC offerings, finding that BDC clients generally outperformed non-clients in terms of revenue growth, employment growth, and survival rates.[104]

Additionally, the BDC has played an important role in the growth of the Canadian VC ecosystem, notably through its internal VC strategy and via the implementation of the Government of Canada's VC programs. The BDC also fulfilled a complementary role through the delivery of targeted supports, including financing for specific sectors during periods of economic uncertainty as well as across the economy when the Canadian SMEs were adversely affected by the COVID-19 pandemic.

Nevertheless, the reach of some the BDC's offerings remains limited. For instance, uptake of the Newcomer Entrepreneur Loan has been low, while the BDC's share of direct clients who are Indigenous and located in rural communities has not grown meaningfully in recent years.

Recognizing the need to balance the BDC's reach with its complementary mandate, including in communities that may be well-served by other financing options, equity-deserving entrepreneurs and businesses in underserved regions continue to face persistent challenges and require more tailored support.

Notably, more support is required for newcomer and Indigenous entrepreneurs, particularly given sustained growth of the Indigenous population, as well as the anticipated increase in immigration and higher rates of business ownership among newcomers relative to non-immigrants. New businesses also require greater support earlier in their entrepreneurship journey to grow their businesses, including through small loans.[105] In addition, gaps in the BDC's offerings also extend to entrepreneurs in rural communities and underserved regions, which have comparable financing needs to urban and other areas.

Further, the BDC's supports for social enterprises and co-operatives are not well-communicated in the marketplace, and its share of clients across these business types was consistently low. While the BDC does support social enterprises and co-operatives, the BDC's eligibility criteria were not sufficiently clear for these SMEs, signaling that additional focus is needed to support these types of businesses.

There is therefore a need for the BDC to improve its efforts to better serve Canadian entrepreneurs and address market gaps, including to further advance progress toward the 2010 BDC Legislative Review recommendations.

SECTION C: BDC PARTNERSHIPS

This section analyzes the BDC's partnerships over the Review Period, with a particular focus on private sector and association, small business, entrepreneurship ecosystem, community, government, and international collaborations.

BDC SUPPORT FOR CLIENTS THROUGH PARTNERSHIPS

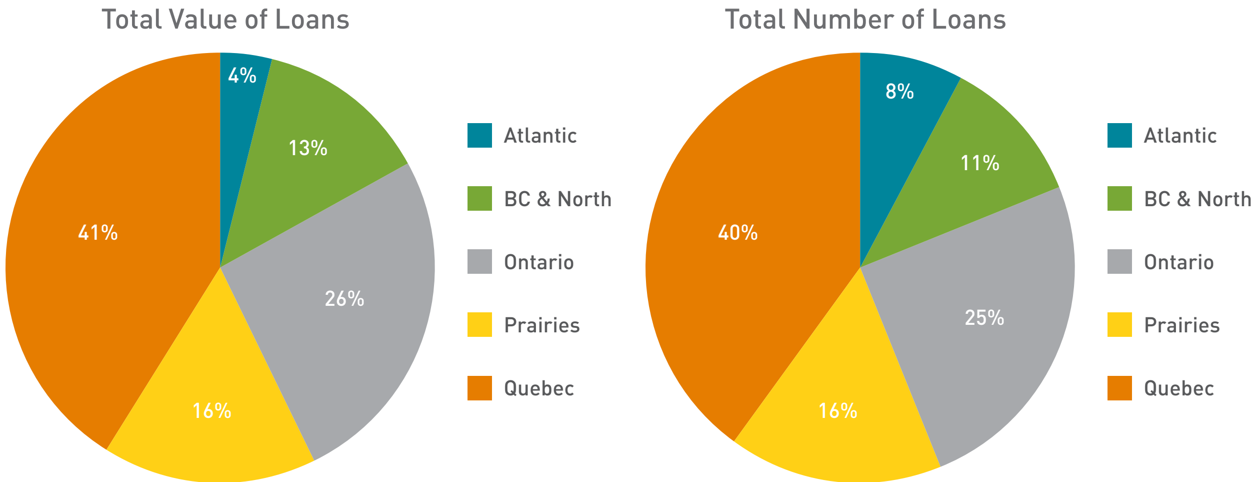
Since the culmination of the 2010 Legislative Review, which recommended that the BDC increase accessibility and visibility through partnerships, the BDC focused on extending its reach and better serving entrepreneurs, including equity-deserving groups. In total, the BDC reported collaboration with over 150 partners in 2022. [106] This included partnerships with private sector organizations and associations, small business, entrepreneurship ecosystem, and community groups, governments, and international organizations. A list of the BDC's key partnerships is published annually in its Corporate Plan Summary.

Between 2014 and 2022, the BDC provided a total of $18.1 billion in loans via partnerships, across approximately 29,000 loan authorizations (excluding HASCAP and BCAP). Over this period, annual financing distributed by the BDC through partnerships increased from approximately $1.2 billion to nearly $3 billion. The number of loan authorizations generated annually through partnerships also grew from approximately 2,450 in 2014 to 3,200 in 2022, reaching a high of almost 3,600 in 2017.[107]

The number of indirect clients, which represents participation in partnerships to provide financial support to entrepreneurs, also increased from approximately 7,100 in 2015 to nearly 12,000 in 2019 as the BDC expanded its partnerships, particularly with equity-deserving groups, to extend its reach and improve accessibility. As the BDC worked in collaboration with partners such as private sector financial providers to extend COVID-19 relief measures through BCAP and HASCAP, the number of indirect clients increased further to approximately 13,000 in 2021 and 32,000 in 2022.[108] The increase in indirect clients prior to the COVID-19 pandemic is indicative of the BDC's efforts to extend its reach to by working with partners, while the rapid increase in 2022 is largely attributable to the BDC's delivery of COVID-19 relief measures, which were implemented in collaboration with private sector financial providers.

However, the BDC's approach to collaboration is not consistent nor standardized across the country. For instance, the value of partnerships financing was not distributed across regions on a basis equal to their contributions to the economy. Notably, excluding national partnerships, the value of financing delivered through partnerships in Quebec and Ontario represented 67% of the total financing distributed via partnerships between 2014 and 2022, with Quebec representing approximately 41% of this amount (Figure 18 and 19). In contrast, the Prairies region represented 16%, B.C and the North represented 13%, and the Atlantic region represented 4% of the BDC's total financing distributed through partnerships, respectively.

Figures 18 and 19: BDC Financing through Partnerships, excluding loans via BDC Head Office (2014-2022)*



Note: Total for figures: Approximately $11.5 billion over 23,500 authorizations
**This total excludes national partnerships financing, which accounted for approximately $6.6 billion and 5,400 authorizations between 2014 and 2022.*

PRIVATE SECTOR AND ASSOCIATION PARTNERSHIPS

Since 2010, the BDC has maintained working relationships with private sector businesses and organizations, including private sector financial institutions. The BDC has participated in various formal groups and fora, such as the Lending Practitioners Forum, which promoted cooperation between the Canadian Bankers Association, chartered banks, and Export Development Canada (EDC), on a regular basis. The BDC also collaborated with private sector organizations to strengthen the business ecosystem over the Review Period, such as via its dedicated Strategic Initiatives and Investments team, which worked alongside BDC's VC direct and indirect investment teams to support entrepreneur development.[109] Operationally, the BDC partners with commercial lenders as well as equity and venture capital firms to enhance financing options for Canadian SMEs and facilitate investments for businesses. In addition to these formal partnerships, the BDC engages financial institutions, businesses, and other groups through frequent bilateral and multilateral discussions.

The BDC also partners with private sector organizations on specific initiatives to improve access to capital for entrepreneurs. For instance, in 2021 the BDC and Alterna Savings and Credit Union entered into an agreement to extend joint loans to Black, women, and social enterprises, with BDC earmarking $2 million for this initiative.[110] In addition, the BDC established a partnership with the Royal Bank of Canada and Futurpreneur to deliver through the Black Entrepreneur Startup Program, which provides young Black entrepreneurs with start-up loan financing, mentorship, and access to other resources and networking opportunities.[111]

Given its countercyclical role, the BDC's partnerships expanded during economic disruptions, such as the 2008-09 financial crisis and the COVID-19 pandemic. In response to the pandemic, the BDC partnered with 52 financial institutions across the country to deliver relief measures.[112] Support was delivered to SMEs through BCAP and HASCAP, which provided loan guarantees to support private sector lending to businesses that had been heavily impacted by COVID-19. These programs were delivered by the BDC on behalf of the Government of Canada, with the adjudication of individual transactions completed by participating financial institutions.

In general, financial institutions and other private sector organizations consulted for the Legislative Review reported healthy relationships with the BDC. Most stakeholders provided positive feedback regarding HASCAP, with the Canada Bankers Association and Canada Credit Union Association highlighting the strong cooperation between the BDC and financial institutions to deliver programs that supported entrepreneurs through the pandemic.[113] Stakeholders also emphasized that the BDC's role in the broader financial lending environment was widely viewed as a source of credibility and stability. However, others noted gaps in the BDC's approach to collaboration. For instance, some growth and venture capital stakeholders indicated that BDC's due diligence processes can be lengthy and cumbersome, including relative to private sector financial institutions, and noted that delays in decision-making can constrain efficiency and limit deals.[114] Further, it is notable that the breadth and depth of the BDC's collaboration with private financial institutions varies by province.[115]

SMALL BUSINESS, ENTREPRENEURSHIP ECOSYSTEM AND COMMUNITY PARTNERSHIPS

The BDC collaborates with various groups, including industry associations and business accelerators and incubators to strengthen the Canadian innovation ecosystem. In 2022, this included formal collaboration with the Canadian Venture Capital and Private Equity Association, the National Angel Capital Organization, the Chartered Professional Accountants of Canada, Communitech, C100, MaRS, Prospect.fyi, and other organizations. The BDC also participated in partnerships with other industry and not-for-profit organizations over the Review Period, such as multi-year initiatives with the Conference Board of Canada and the Canadian Manufacturers and Exporters.

Partnerships to support equity-deserving groups

The BDC partners with a range of organizations to support mentorship, education and training, workshops, and other offerings for equity-deserving and underserved entrepreneurs. In 2022, this included partnerships with the Black Canadian Women in Action, BlackNorth Initiative, Canadian Black Chamber of Commerce, Canadian Council for Aboriginal Business, Centre for Women in Business, Cisco, Women of Influence, Evol, Groupe 3737, Pitch Better, Réseau des Femmes d'affaires du Québec, Start-Up Canada, Black Business Initiative, Audace au Féminin, Africa Centre, the Black Business Association of British Columbia, and the Canadian Black Chamber of Commerce.

The BDC also provides financial support to equity-deserving entrepreneurs through partners. This includes partnerships with Alterna Savings and Credit Union to extend loans to Black, women, and social enterprises, with the Federation of African Canadian Economics and the NACCA to provide loans to Black Canadian and Indigenous entrepreneurs, and with Futurpreneur to provide support to youth entrepreneurs.

Stakeholders provided positive feedback regarding the impacts of the BDC's partnerships to enhance support for equity-deserving groups, emphasizing that the BDC can further expand its reach through collaboration with organizations that have existing relationships with these communities. For instance, NACCA, Groupe 3737, and Futurpreneur expressed support for the BDC's collaboration and focus on inclusivity, equality, and reconciliation.[116]

However, stakeholders also identified challenges regarding collaboration with the BDC, reporting that partnerships had diminished in recent years and that the delivery of partnerships varied considerably across different regions of Canada. Gaps in transparency, lack of consistent data reporting and sharing between the BDC and its partners, as well as the absence of mechanisms to provide meaningful engagement and input were raised as key issues. Stakeholders noted that the BDC's approach to collaboration was not standardized across regions of Canada, and varied based on the strength of pre-existing relationships between BDC staff and regional players. The desire for stronger non-financial collaboration and better referral processes between the BDC and other organizations was a recurring theme in stakeholder feedback.

In sum, while not-for-profit and community stakeholders provided largely positive feedback regarding existing partnerships with the BDC, there continue to be gaps, as well as a strong appetite for enhanced collaboration.

Partnerships to support rural communities

The BDC collaborated with Community Futures Development Corporations (CFDCs) over the Review Period to improve the BDC's reach in rural communities. In 2010, the BDC reported formal partnerships with 217 CFDC offices across the country, which grew to approximately 262 during the Review Period. [117] Moreover, in 2017, the BDC reported authorizing nearly $330 million in loans over the previous five-year period in collaboration with CFDCs.[118]

However, by 2022, the BDC had refocused its efforts from formal partnerships to working more informally with and providing support through in-kind measures, such as information sessions and sponsorships. CFDC stakeholders expressed dissatisfaction with this shift, indicating that BDC support had been more consistent and standardized in the past when formal partnership arrangements were in place.

GOVERNMENT PARTNERSHIPS

The BDC has worked with federal agencies and departments, as well as provincial and territorial governments over the Review Period. In 2010, the BDC reported formal partnerships with Farm Credit Canada (FCC), EDC, the National Research Council (NRC), and the Department of Foreign Affairs and International Trade (now Global Affairs Canada).

Many of these partnerships have expanded since 2010. For instance, in 2011, a Memorandum of Understanding (MOU) between the BDC and EDC formalized cooperation between the two institutions. As of 2022, collaboration with EDC includes a technology financing joint lending initiative, a joint international purchase order product, and a two-way referral system that ensures Canadian companies get access to the services of the organization whose competencies best meet their needs.

As of 2022, the BDC also has an MOU with Global Affairs Canada's Trade Commissioner Service (TCS) to improve joint services to clients exploring export opportunities. A process has been established to ensure that TCS clients are made aware of BDC services and contacted about their loan or advisory services needs. The BDC is also a supporting partner in the Trade Accelerator Program (TAP), an initiative led by EDC and the World Trade Centre of Toronto that also receives funding from ISED, designed to help SMEs export and gain access to new markets.

Other current collaborative efforts include an MOU with the Canadian Intellectual Property Office to promote the importance of IP, an MOU with the Department of National Defence to strengthen referrals, a formal agreement with the NRC-Industrial Research Assistance Program IRAP) to align service offerings for Canadian SMEs and foster cross-referrals, and support for the ISED-led Accelerated Growth Service (AGS), which helps entrepreneurs and businesses access the support they need to grow and scale and includes a range of government partners and agencies

Similarly, the BDC works with provincial and territorial governments and the Government of Canada's RDAs to contribute to regional economic development and support entrepreneurs across Canada. For instance, in 2012 the BDC reported a successful partnership with Québec's Ministère du Développement économique, de l'Innovation et de l'Exportation to support high-potential technology companies. In 2020, the BDC reported letter of intents signed with the Governments of Alberta, New Brunswick and Prince Edward Island to support the SME ecosystem in those provinces. As of 2022, the BDC also has an MOU with the Atlantic Canada Opportunities Agency to strengthen information and data sharing, as well as collaboration.

During consultations, stakeholders expressed support for the BDC's range of offerings, but noted that the federal suite of business supports can be fragmented and complex to navigate, which can result in stakeholder confusion and undersubscription of programs. New programs and organizations such as the Canada Growth Fund and the Canadian Innovation Corporation were identified as examples of initiatives that appeared to overlap with the BDC's existing mandate and programs. Stakeholders emphasized the importance of strong cooperation and alignment with federal partners to support complementarity, address market gaps, and minimize duplication.

Government departments and agencies consulted for the Legislative Review noted the importance of continuing to ensure alignment and collaboration between the BDC's programs and other Government of Canada initiatives. Given the BDC's role in the market and large repository of SME data (e.g., regarding ownership and employees, revenues and growth, sectors and target markets, etc.), there is also an opportunity for greater collaboration with federal partners with respect to data sharing.

INTERNATIONAL PARTNERSHIPS

The BDC has fostered relationships with international development organizations to support Canadian businesses. The BDC's partnerships with international groups and associations provides insight into foreign markets to facilitate assistance for Canadian SMES seeking to expand their business and pursue new market opportunities. Over the Review Period, the BDC reported membership in the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), which serves as the focal point of development banks and other financial institutions engaged in the financing of development in the Asia-Pacific region, as well as the Latin American Association of Development Financing Institutions (ALIDE), which represents Latin American and Caribbean development banking.

Further, in 2012, the BDC became a founding member of the Montreal Group, a global forum of state-supported financial development institutions that encourages an exchange of ideas and best practices to support micro, small and medium-sized enterprises (MSME). The Montreal Group's membership is active and includes development banks from countries across the world, including France, the United Kingdom, Nigeria, Mexico, India, and others. The forum provides a collaborative environment where members can share knowledge and information regarding MSME-related topics. The BDC also worked informally with other international groups, such as the Forum for International Trade Training (FITT), to help entrepreneurs gain the knowledge and skills needed to expand to international markets.

CONCLUSIONS

Recognizing the BDC's existing relationships with domestic and international partners, there continues to be strong appetite on the part of regional ecosystem players for enhanced partnerships with the BDC. Further, the BDC's approach to collaboration is not consistent across the country.

In particular, stakeholders emphasized that the BDC should further collaborate with and leverage the knowledge of existing players, especially those with regional intelligence and networks, as well as those servicing equity-deserving entrepreneurs. Moreover, although the BDC has worked to expand partnerships, stakeholders emphasized that the BDC could further improve the manner and extent to which it meaningfully engages with partners, including by approaching partnerships with the objective of advancing mutual benefit and building trust.

Recognizing that enhanced financing through partnerships could impact government oversight and incentives for the private sector, there is merit in pursuing stronger partnerships focused on non-financial collaboration. These actions would ultimately increase the reach and impact of the BDC's offerings, including through the delivery of supports via trusted organizations with regional expertise and networks.

In addition, given the Government of Canada's wide range of programs to support entrepreneurs, the BDC Legislative Review highlighted the need for better cooperation between the BDC and other federal departments and agencies. Existing efforts to improve collaboration across the Government of Canada include a wide range of initiatives, such as the AGS, Innovation Canada's Business Benefits Finder, and the Global Hypergrowth Project, which are led by ISED. However, the BDC's approach to data sharing with federal partners is not consistent, which constrains collaboration.

SECTION D: BDC GOVERNANCE AND PUBLIC POLICY

This section reviews the BDC's corporate governance practices and oversight, including its governance structure, oversight mechanisms, governance instruments, and reporting regime. This section also analyzes the BDC's public policy role and support for Government of Canada priorities, such as clean growth and diversity, equity, and inclusion.

GOVERNANCE AND OVERSIGHT

Corporate Governance

Overview

The BDC reports to Parliament through its Designated Minister. To fulfill its mandate to support Canadian entrepreneurship, the BDC undertakes specific activities, programs, and spending within the scope of a shareholder-approved corporate plan, operating budget, and borrowing plan, which are brought forward by the Designated Minister for Treasury Board approval on an annual basis. The BDC corporate plan summary and annual report, which highlight the BDC's activities and achievements and include consolidated financial statements, are tabled in Parliament annually.

The BDC does not receive appropriations from Parliament. Instead, the BDC finances its activities through its retained earnings, the Crown Borrowing Program, and through the purchase of shares by the Government of Canada. The Government of Canada is the sole shareholder of the BDC, and receives dividend payments from the BDC. While the BDC's day-to-day operations are autonomous from the Government of Canada, the Designated Minister has the authority to communicate the Government's expectations for the BDC's policy direction, including the implementation of specific programs to support Canadian entrepreneurship.

Stakeholder feedback indicated general satisfaction with the BDC's governance practices. With respect to governance and equity, the BDC's Board of Directors broadly reflects the diversity of Canada, including women and other equity-deserving groups. In 2021, the Board achieved a 50% representation of women. Regions of Canada are also relatively well-represented on the BDC's Board. The BDC's reporting practices, such as its operations and financial status, are consistent with industry best practices. In addition, the BDC's Consolidated Financial Statements and transactions are reviewed on an annual basis by an independent, third-party auditor, as well as the Auditor General of Canada.

Board of Directors and Committees

The BDC is governed by an independent Board of Directors that is appointed by the Governor in Council, while the BDC's management team executes its business strategy and oversees day-to-day operations.

The BDC's Board's mandate, Board Code of Conduct, and Board committees' charters define its Board's corporate governance framework, oversight responsibilities, stewardship role, and decision-making authority. Various committees, which received additional delegated powers following the 2010 Legislative Review, support the Board by undertaking work in defined areas of responsibility and providing regular reports to the Board on activities and performance.

Between 2010 and 2022, the BDC's Board approved and oversaw the implementation of several initiatives to better fulfill the BDC's mandate. Key changes focused on improving risk management and governance, expanding its oversight regarding its venture capital portfolio, strengthening emphasis on environmental performance, and increasing focus on serving underrepresented entrepreneurs.

The Board's committees have also evolved to meet operational requirements and advance key priorities such as venture capital, clean technology, and improving services for underrepresented entrepreneurs. As new initiatives were implemented over the Review Period, the Board expanded various committees' responsibilities, renaming and restructuring committees as necessary. Key senior leadership positions were also established to develop and oversee critical strategies, including those related to information technology, risk management and risk oversight, and data governance.

The BDC's committees currently include:

Audit and conduct committee	Advises on the financial management, standards of integrity and conduct, internal control systems, financial control and audit processes, including corporate compliance, capital management, internal audits, the annual financial audit and periodic special examinations.
Board investment committee	Approves venture capital and equity investments and other activities exceeding the delegation of authority of senior management, and reviews and assesses all risks associated with the Clean Technology Initiative.
Board risk committee	Ensures that the BDC's key risks (e.g., financial, credit, market, strategic, investment, operational) are identified and appropriately managed, and approves loans, guarantees, growth and business transition capital and private equity transactions, and the purchase of securities exceeding the delegation of senior management.
Governance/ nominating committee	Advises the Board of Directors in fulfilling its corporate governance oversight responsibilities, including reviewing the BDC's corporate governance policies on matters relating to 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 Chief Executive Officer.
Human resources committee	Oversees and advises the Board of Directors on corporate policies and strategies related to human resources including policies governing human resources risk, recruitment, retention, training, compensation, pension plans, performance management, ethics, as well as other matters including the investment of funds and compensation for the BDC's employees, and succession planning for the leadership of the BDC.

Source: BDC website, https://www.bdc.ca/en/about/corporate-governance/governance-committees

Ombudsman

The BDC also has an Ombudsman, who ensures that the BDC addresses employee, client, and supplier concerns and issues that could not be resolved through other resolution processes. Reporting to the BDC's President and CEO, the Ombudsman oversees the application of the BDC's Charter of Client Rights and coordinates an independent mediation process. The Ombudsman's services are impartial and independent of the Government and the BDC's regular decision-making process.

Reporting, performance measurement and oversight

The BDC reports on its activities and shares information regarding its consolidated financial statements, and management discussions and analysis annually through the corporate plan summary and annual report, which are tabled in Parliament. In addition, the BDC publishes quarterly financial reports on its website. Beyond this public reporting, the BDC also shares information on its website relating to its activities, entrepreneurship and the Canadian businesses market through news releases, publications and presentations, as well as studies, analysis, and other ecosystem data related to entrepreneurship. Stakeholders noted during public consultations that while this information is useful, the BDC could be more proactive in sharing aggregate industry and other data, especially when partnership agreements are in place.

The BDC utilizes a broad set of performance indicators to track progress against objectives, and to measure alignment with shareholder priorities and the BDC's strategic objectives. As of 2022, the BDC's current performance indicators are outcome-focused with longer-term target setting. The latest performance indicators are categorized as either short-term (1 year), medium-term (3 years) or long-term (5 years).

Since 2010, the BDC's performance measurement framework has evolved significantly. Over this period, the BDC revised its performance measurement framework and definitions of indicators to improve alignment between corporate plan strategies and corporate performance management, resulting in a set of performance indicators that are measurable over time. These changes were consistent with the 2010 BDC Legislative Review, which recommended that the BDC expand its performance measures to better measure the impact of BDC support and demonstrate impacts across key objectives. In particular, the BDC consistently met or surpassed targets related to client satisfaction, support for Indigenous entrepreneurs, work through partnerships to extend reach, support to strengthen the VC ecosystem, and the provision of financing to small businesses.

While the BDC's performance metrics include some indicators related to support for equity-deserving and other groups, many stakeholders noted concerns that the BDC's performance metrics remain overly focused on indicators such as portfolio growth, and therefore do not measure the full scope of the BDC's policy priorities, such as consideration of social and climate impacts. Moreover, where these metrics exist, communication and awareness of the indicators and results are limited, which was viewed by some as a barrier to transparency.

Gaps have also been identified with respect to the BDC's transparency, data reporting, and information sharing regime with ecosystem partners, academia, Canadians, and the shareholder (Government of Canada). For instance, with respect to public information-sharing, stakeholders noted it was challenging to access aggregated benchmark and other data from the BDC (e.g., information regarding investments in key ecosystems). Other gaps highlighted by stakeholders include data relating to the business ecosystem, regional and rural groups, and disaggregated information regarding equity-deserving groups. Stakeholders contrasted the BDC's approach with EDC, which is mandated to prepare, compile, publish and distribute information.

In addition, while the BDC operates independently from the Government of Canada and its Board of Directors is responsible for providing direction and guidance with respect to the business and activities of BDC, further examination regarding the operational management and structure of the BDC is warranted, including to ensure appropriate oversight for the shareholder. There are gaps in the BDC's data sharing practices and communication with the shareholder which limit access to information that could inform the development of broader public policy to support Canadian entrepreneurs. Further, the shareholder does not have access to information on BDC's operations (such as Board briefing material), which limits the shareholder's ability exercise effective oversight of the BDC. Structured and regular reporting to the shareholder on BDC operations could be achieved in a manner that would respect commercial sensitivities and the operational autonomy of the BDC, while bolstering transparency and shareholder oversight.

Other governance changes over the Review Period

In response to the 2010 BDC Legislative Review, which proposed a number of recommendations related to governance, the BDC undertook a number of changes to modernize its governance mechanisms, increasing the amount of time an Acting President can serve in the position and establishing a mechanism for the selection of a temporary Acting Chair of the Board of Directors. The changes also included the establishment and delegation of authority to Board-level committees to enhance accountability, transparency, and efficiency.

Further, the Office of the Auditor General of Canada (OAG) conducted a special examination of the BDC in 2018. The examination focused on several areas, systems and practices pertaining to corporate management practices as well as operations management. The review concluded that the BDC's corporate governance, strategic planning, and performance measurement and reporting practices were appropriate and determined that the BDC had systems and practices in place to deliver financing, investment, and advisory services to SMEs. The report also proposed four recommendations to further improve governance practices. These included reviewing the compensation range for the President & CEO and disclosing the compensation framework for senior executive positions to align with existing industry and government practices. Additionally, the auditors recommended that the BDC proceed with validating its financial and risk mitigation models in accordance with its Model Risk Corporate Directive and implement a formal IT risk management plan. Consistent with the OAG's evaluation, the BDC implemented these recommendations in subsequent years. Through consultations for the Review, the OAG did not report any major concerns regarding the BDC's governance.

Governance and Key Instruments

Open and Accountable Government, which outlines core principles regarding the roles and responsibilities of Ministers in Canada's system of responsible parliamentary government, includes an overview of the roles, responsibilities and best practices for Crown corporations (Annexes H2 and H3). Under governance provisions in Part X of the Financial Administration Act (FAA) and/or their constituting statutes, Crown corporations operate with considerable operational autonomy. This provides organizations such as the BDC with the requisite managerial and administrative flexibility to perform functions that require engagement with customers, suppliers and/or competitors in commercial or quasi-commercial contexts, while also allowing appropriate control and oversight on the part of Ministers.

However, under the statutory framework that applies to Crown corporations, Ministers retain important levers of control and oversight to ensure that the overall direction and performance of Crown corporation align with the Government of Canada's policies.

In particular, Section 149(1) of the FAA stipulates that a parent Crown corporation shall provide the Treasury Board or the appropriate Minister with accounts, budgets, returns, statements, documents, records, books, reports or other information that the Board or appropriate Minister may require. Relatedly, Section 150 (1) of the FAA requires that each Crown corporation submit an annual report on the operations of the corporation in that year to the appropriate Minister and the President of the Treasury Board. Further, Section 89(1) permits the Governor in Council to, on the recommendation of the appropriate Minister, to issue a directive to any parent Crown corporation.

The primary instrument for the Government of Canada to influence the BDC's strategic objectives has been the annual corporate planning process. Through the corporate plan, the BDC provides details of its strategy for the upcoming five-year period, as required under Section 122 of the FAA. Once endorsed by the BDC's Board of the Directors, the corporate plan requires approval by the Treasury Board after review and recommendation from the Designated Minister and the Minister of Finance.

The Government can also provide direction to the BDC through Section 21 of the BDC Act, which authorizes the Designated Minister to assign duties or functions in relation to the administration of any program to support Canadian entrepreneurship, to the extent that the BDC is able to recover the costs of carrying out the duties or functions. Section 21 of the BDC Act was invoked frequently during the current Legislative Review Period as the Government of Canada implemented measures to promote economic development.

In particular, Section 21 was invoked between 2010 and 2022 to request that BDC support the deployment of Government of Canada initiatives, including commitments announced via federal Budgets. Government initiatives supported via Section 21 letters include increasing support for the Canadian venture capital ecosystem through VCAP and VCCI, the CSI, support for digital adoption through the Canada Digital Adoption Program, support for Indigenous entrepreneurship through the Indigenous Growth Fund, support for the Black Entrepreneurship Loan Fund, and countercyclical programs to support SMEs through COVID-19, including HASCAP and BCAP.

In addition, the Designated Minister can provide broader guidance on expectations for the BDC through Statement of Priorities and Accountabilities (SPA) letters and priority letters. Consistent with accountabilities identified in Section 88 of the FAA, responsible Ministers for Crown corporations regularly issue SPA letters to their respective Crown corporations to provide guidance and direction. Priority letters are issued by the Designated Minister on as-needed basis, and can inform the annual corporate planning process by communicating the Government's overarching public policy priorities and broad strategic goals. Any programs recommended via priority letters must respect the BDC's mandate and legislative requirements as established in the BDC Act.

The Government of Canada's use of priority and SPA letters over the Legislative Review Period to issue direction to the BDC was limited, constraining opportunities for stronger policy alignment and awareness regarding the achievement of results.

PUBLIC POLICY ROLE AND SUPPORT FOR GOVERNMENT PRIORITIES

As an arm's length Crown corporation, the BDC plays an important role supporting Government priorities and fulfilling its public policy mandate to support Canadian entrepreneurship.

Support for public policy priorities

Innovation and digitization

Between 2010 and 2022, the BDC contributed to the Government of Canada's innovation and digital economic growth agenda. Over this period, innovation was a key priority for the Government, with initiatives such as the Digital Economy Strategy (2011) and Innovation and Skills Plan (2017) aimed at strengthening Canada's innovation and technology economy. The BDC supported this priority by providing customized financing and advisory services for innovative businesses, including dedicated loans to enable the adoption of information, communication and technology (ICT), as well as targeted venture capital for technology firms.[119]

The BDC is also active in advancing an intellectual-property (IP) driven economy. Following Budget 2018's announcement of a National Intellectual Property Strategy, the BDC launched a $160 million IP development financing envelope in 2020 to support IP-rich companies in Canada. In addition, the BDC initiated a $250-million envelope in 2020 to finance intangible assets, targeting medium-sized and larger businesses, to help companies adapt to the post-pandemic business environment by increasing their productivity, improving their sales and marketing, and adopting new technologies.

The BDC has also supported other innovation priorities, such as the Government of Canada's VCAP and VCCI strategies, which aim to encourage investment by private firms in early-stage companies, as well as CDAP, which helps SMEs adopt digital technologies. There are ongoing opportunities for the BDC to support Government priorities in this space, including in underserved sectors such as climate technologies and life sciences, as well as to support new and emerging fund managers.

Diversity, equity, inclusion and reconciliation

In alignment with the Government of Canada, the BDC has contributed to supporting diversity, equity and inclusion (DEI), including through the delivery of dedicated initiatives targeted towards Indigenous, newcomers, women, Black Canadian, young, and other equity-deserving entrepreneurs. For instance, in 2021 the BDC surpassed a 2018 target to lend $1.4 billion to women-led businesses over three years.[120] In addition to a wide range of non-financial supports, the BDC collaborates with partners, including Futurpreneur, NACCA, FACE, and others to provide financial support for equity-deserving entrepreneurs.

The BDC has demonstrated commitment to DEI beyond its offerings. For instance, the BDC was named a Best Diversity Employer in recent years by Canada's Top 100 Employers. The BDC has also surveyed and published results of portfolio VC companies on diversity and inclusiveness, and participated in efforts to advance DEI with other institutions, such as through the Diversity in Action Initiative of the Institutional Limited Partners Association.[121]

COVID-19 response

The BDC played a key role supporting the Government of Canada's response to the COVID-19 pandemic. In addition to the provision of emergency financing, capital and advisory services, the BDC has adapted to the needs of Canadian entrepreneurs with investments in technology and digitization to improve responsiveness and online service access.

Clean technology and greening government

In addition to support for clean technology and growth, the BDC has worked to reduce the environmental impact of its operations by integrating greener practices, which aligns with the Government of Canada's Greening Government Strategy and target to reach net-zero emissions across by 2050. This includes improving mobile applications that allow client facing employees to create and authorize loans and proposals electronically; developing in house waste reduction and recycling programs that extend beyond municipal requirements; and, conducting a greater number of transactions electronically to reduce paper consumption.[122] Combined, these efforts contribute to the BDC's commitment to reducing its operational carbon footprint to net zero by 2025.

Alignment with other Government initiatives

The BDC is a key player in the Government of Canada's constellation of diverse SME supports, which includes several federal departments and agencies. These offerings differ based on a variety of criteria, such as the eligibility of the recipients, the type of activity supported, and the form of support provided. The BDC also works collaboratively with Government of Canada partners to complement service offerings such as the Canada Small Business Financing Program (CSBFP), RDA initiatives, the National Research Council of Canada's Industrial Research Assistance Program (IRAP), and other initiatives. As such, given concerted effort and collaboration during the policy development process to ensure that each initiative addresses unique market gaps and/or policy objectives, there is general alignment between the BDC and other federal organizations in the delivery of programs to SMEs.

For instance, the BDC provides financing, capital, and advisory services to all SMEs with a focus on complementing services provided by private sector lenders, whereas other Government initiatives are targeted towards providing unique supports across the firm life-cycle. Generally, the range of activities supported by other Government initiatives is also more customized than the BDC's offerings, which are designed to provide flexibility for clients. For example, the NRC's IRAP program and Sustainable Development Technology Canada investments are focused on applied research and commercialization; the Strategic Innovation Fund and RDA programs are geared towards scale-up, growth and expansion, R&D collaboration, and investment attraction; and Global Affairs Canada's Trade Commissioner Service is focused on SMEs seeking to export. Further, while a number of Government of Canada initiatives provide advisory services for SMEs, these services are specialized and focused on specific businesses types and activities, whereas the BDC's advisory services are more general and offered to all SMEs.

In addition, the BDC's offerings are largely delivered directly to clients, whereas many Government initiatives are delivered indirectly, including through trusted intermediaries. Other programs also utilize different policy instruments, such as grants and contributions, tax measures, and loan guarantees to support SMEs. For example, the CSBFP makes it easier for small businesses to receive loans from financial institutions by sharing the risk with lenders through loan guarantees, while the Scientific Research and Experimental Development (SR&ED) tax incentive program uses indirect measures such as tax credits to encourage business R&D.

In sum, ensuring complementarity across the Government of Canada's SME supports will continue to be important, particularly as stakeholders raised the importance of the BDC engaging horizontally across the ecosystem to help businesses navigate programs and services delivered by federal organizations. Relatedly, research demonstrates that SMEs' ability to leverage multiple Government of Canada programs and supports contributes to better business outcomes.[123] Continued rigour to ensure alignment and minimize duplication will therefore be required as Government of Canada initiatives (including programs raised during the consultations, such as the Canada Growth Fund and Canada Innovation Corporation) are designed, launched, and implemented.

CONCLUSIONS

The BDC has improved its governance mechanisms over the Review Period. In particular, the BDC has undertaken concrete changes to improve its governance framework, refining its governance practices on a regular basis, including following the 2010 Legislative Review and 2018 OAG special examination, as well as strengthening its performance measurement framework to address recommendations from the previous Legislative Review. The BDC also regularly benchmarks itself against corporate governance and risk management best practices in the financial services sector.

Further, the BDC has contributed to a wide range of Government of Canada priorities. The BDC has complied with direction from the Government of Canada to fulfill its public policy role in support of Canadian entrepreneurship while balancing its role as a complementary provider of financing, capital, and advisory services. While Section 21 of the BDC Act was invoked multiple times over the Review Period to support entrepreneurs and implement Government of Canada priorities, the use of SPA letters to establish priorities and accountability mechanisms for the BDC has been limited.

There is a need for the BDC to improve awareness, transparency, and data-sharing, including with the public and the shareholder. Better public transparency would align with stakeholder comments that enhanced performance metrics and reporting would be beneficial for the innovation ecosystem and enable a more robust understanding of the extent to which the BDC's activities are complementary.

The BDC's data sharing practices with federal partners are also inconsistent, which limits alignment between organizations and restricts the availability of robust data to inform policy development. There is therefore a need for better access to information and two-way communication between the BDC and shareholder to assess the BDC's operations, as well as confirm alignment with Government policy and other initiatives. Exploring secure mechanisms that protect client confidentiality and trust to enhance information and data sharing between the BDC and federal partners would ultimately enhance policy development and evidence-based decision-making. Enhanced communication and reporting to the shareholder on operations would also improve oversight, bolster transparency, and advance principles of open and accountable government.

With respect to public policy on venture capital, the BDC should continue to focus on complementing private investors, addressing funding gaps in areas such as climate technologies and life sciences, and supporting emerging managers from equity-deserving groups, while renewing its emphasis on underserved regions.

SECTION E: BDC RESULTS AND CAPITAL

This section evaluates the BDC's business and financial results over the Review Period, as well as the BDC's capital management processes and framework.

BUSINESS RESULTS

BDC clients

Over the Review Period, the number of clients (direct and indirect) supported by the BDC tripled, growing from 29,000 in 2010 to 95,000 in 2022. Between 2011 and 2022, the share of SMEs in Canada served by the BDC also increased, from approximately 3% to 7%.[124] Excluding the COVID-19 pandemic, the BDC's number of clients increased from 29,000 in 2010 to 60,000 in 2019, while the share of Canadian SMEs served by the BDC increased from 3% to 5% between 2011 and 2019.[125]

This growth is attributable to a range of factors, including the broader increase in new business creation in Canada, as well as the BDC's focus on supporting SMEs indirectly through partnerships, the implementation of new offerings (including for equity-deserving groups), and the delivery of COVID-19 relief measures.

The BDC's offerings are available to businesses at all stages of development. In 2017, a total of 38,700 of the BDC's direct clients (~66% of direct clients) were small businesses with 1-10 employees, whereas by 2022 this figure had grown to 44,000 (~73%).[126] This emphasis on supporting smaller businesses is consistent with BDC's mandate and efforts to improve accessibility for entrepreneurs over the Review Period.

While new, early-stage businesses require increased financing and capital investments to sustain their growth and expansion and face more challenges than their larger and more established peers accessing financing, the BDC's offerings available to these firms remain limited, as support for these businesses is typically beyond the BDC's risk appetite. [127] Specifically, as of 2022, the BDC served over 1,700 SMEs with less than 2 years of operation (3% of its direct client base), over 10,000 SMEs with 2-5 years of operation (18% of its direct client base), over 15,000 SMEs with 5-10 years of operation (26% of its direct client base), and over 33,000 SMEs with more than 10 years of operation (54% of its direct client base).[128] Notably, the share of BDC clients with less than 2 years of operation declined from approximately 5% of its direct client base to 3% in 2022.

Client satisfaction

Since 2010, the BDC has enhanced service delivery across multiple channels and improved client experience. Client satisfaction reported by the BDC was elevated over the Review Period, increasing from 91% in 2010 to 93% in 2022.[129] Further, approximately 66% of all respondents reported a very high level of satisfaction with the BDC in 2022.

Data from a 2022 CFIB survey of members shared with ISED provides further insights on clients' perception of the BDC. The CFIB survey included two questions pertaining to the BDC; the first captured positive or negative experiences with the BDC while the second focused on respondents' rationale for selecting the BDC as an additional source of funding. Overall, the majority of the respondents reported a positive experience with the BDC, with approximately 66% reporting a generally positive experience, 17% reporting a negative experience, 14% reporting a mixed experience, and 1% reporting a neutral experience. 3% of the responses could not be categorized. Respondents identified a number of diverse reasons for choosing the BDC as a source of additional funding including: accessibility of the BDC; easy application processes; the BDC's reputation; and, prior relationships with the BDC.

Many of the BDC's offerings were well-received by stakeholders and clients, who provided positive feedback regarding the BDC's business lines and delivery approach, including the BDC's financing, capital, and advisory services. In contrast, some stakeholders noted gaps and barriers in the BDC's services. For example, despite the BDC's efforts to improve service delivery and digital technologies, some reported that the BDC's processes are slow, complex, and inflexible, making it challenging for smaller and underserved businesses to access support. Moreover, the BDC's terms and conditions are often onerous, and various fees (e.g., for applications) compound the challenges for small businesses and deter potential applicants.

Ultimately, client experiences are not uniform, and may vary based on a range of factors. Although most BDC clients reported positive experiences, areas for improvement remain.

BDC portfolio

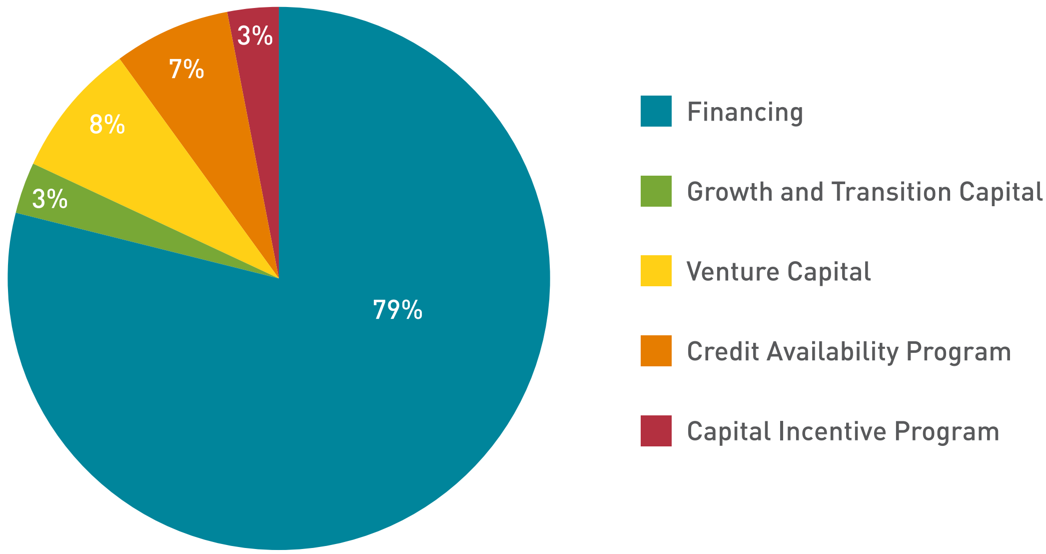
In addition to the increased number of clients supported, the BDC's portfolio has expanded significantly, with assets growing from $17.7 billion in 2010 to $41.6 billion in 2022 (see Figures 20). This was driven by an increase in assets across all the BDC's business lines, including Financing, Growth and Transition Capital, VC, the Capital Incentive Programs (which encompasses the BDC's Cleantech Scale-up Initiative, the IGF, VCAP, and VCCI), and the Capital Availability Programs (which include pandemic-relief measures and the Canada Digital Adoption Program).

Since 2018, portfolio growth has been primarily driven by significant increases in the BDC's financing activities and VC investments, as well as the implementation of Government-directed initiatives under the Capital Incentive Programs and the Capital Availability Programs. Excluding the COVID-19 pandemic, the BDC's assets grew from $17.7 billion in 2010 to $30.7 billion in 2019, an increase of 74% over this period.

Notably, the BDC's financing assets increased from approximately $15.8 billion in 2010 to almost $31.5 billion in 2022. Over the same period, Growth and Transition Capital assets increased from $193 million to over $1 billion, while VC assets grew from $362 million to $3.2 billion. The capital incentive program (including VCAP, VCCI, CSI and IGF) assets increased from zero in 2010 to almost $1.4 billion in 2022, up from $539 million and $963 million in 2020 and 2021 respectively. Finally, the BDC's Credit Availability Program, which was introduced in 2021 to provide support to entrepreneurs during the pandemic, also contributed to the significant growth of the BDC's assets, totalling nearly $3 billion in 2022.

The significant expansion of the BDC's assets (135% increase) was similar to the growth of FCC over the Review Period, and outpaced the growth of EDC. Between 2010 and 2022, EDC's total assets increased by 113% from $31.8 billion to $67.8 billion while FCC's total assets grew by 134%, from $20.2 billion to $47.2 billion.[130]

Figure 20: BDC assets by business line (2022)



Total assets $41.6 billion
Source: BDC Data

However, the expansion of the BDC's core financing assets and clients surpassed broader growth in the SME lending market over the Review Period. Overall, the BDC's core financing assets grew by approximately 88% between 2011 and 2022 (from $16.8 billion to $31.5 billion), compared to 71% growth in total private sector credit outstanding to SMEs (from $201 billion to $343.5 billion), as reported by Statistics Canada.[131] In addition, while the number of SMEs' accounts with private sector institutions grew by approximately 41% over this period (from 2.12 million to 2.99 million), the total number of BDC financing clients increased at a more rapid pace, up 120% from approximately 28,000 in 2011 to 61,550 in 2022. [132]

Approximately 18% of the growth in the BDC's assets between 2010 and 2022 can be attributed to the Capital Availability Programs and Capital Incentives Programs, which support key Government of Canada policy objectives. Much of this growth was concentrated in 2021 and 2022, as the BDC launched its Credit Availability Programs in response to the COVID-19 pandemic and expanded its Capital Incentive Programs to support Government priorities. In addition, to some extent, the growth in the BDC's Financing, Growth and Transition Capital, and VC business lines is also attributable to the BDC's public policy role and enhanced focus on supporting equity-deserving groups.

The BDC's financing market penetration rate also increased, from an average of approximately 3% over the previous Legislative Review Period to 4.4% in 2019 prior to the pandemic, then further to 6.4% in 2022.[133] This figure was highest in Quebec (almost 10% in 2022), and lowest in Ontario and BC and the North.

In summary, the BDC's financing activities grew considerably over the Review Period, including relative to broader market trends. The BDC's growth is partly attributable to its delivery of Government of Canada priorities, including COVID-19 relief measures. However, notwithstanding the BDC's pandemic relief measures, which significantly expanded the BDC's client base, the number of BDC financing clients grew by approximately 68% between 2011 and 2019 (from 28,000 to 47,000), compared to an increase in private sector SME accounts of approximately 32% (from 2.12 million to 2.79 million). As such, evidence demonstrates that factors beyond the BDC's support for Government policies have contributed to its expansion over the Review Period.

FINANCIAL RESULTS

In general, the BDC's financial results are not comparable to private sector financial institutions or other international development banks given significant differences in mandates, operations, and product lines. Unlike private sector financial institutions, the BDC is not regulated by the Office of the Superintendent of Financial Institutions (OSFI) and consequently uses a different approach to measure capital. Further, while the BDC has one single shareholder (the Government of Canada) and fulfills a public policy role as a complementary lender in the market, private sector financial institutions report to many shareholders and seek to maximize profit to the extent possible. In contrast to private sector financial institutions, the BDC also has a large VC portfolio, which has a significant impact on the BDC's financial results and risk management practices.

Relatedly, the operations and mandates of key international banks differ significantly from the BDC. For instance, the British Business Bank, a government-owned economic development bank, is mandated to increase the supply of credit to SMEs, but does so through indirect financing exclusively. Other international development banks, such as Germany's KfW and Japan's Development Bank of Japan Inc., have been charged with much broader mandates than the BDC. This includes funding for municipalities and regional development banks, international development funding for emerging economies, and supporting social and urban development within their respective economies. As such, the extent to which the BDC's results can be benchmarked against these organizations is limited, and conclusions regarding these comparisons were excluded from the scope of the report.

Profitability

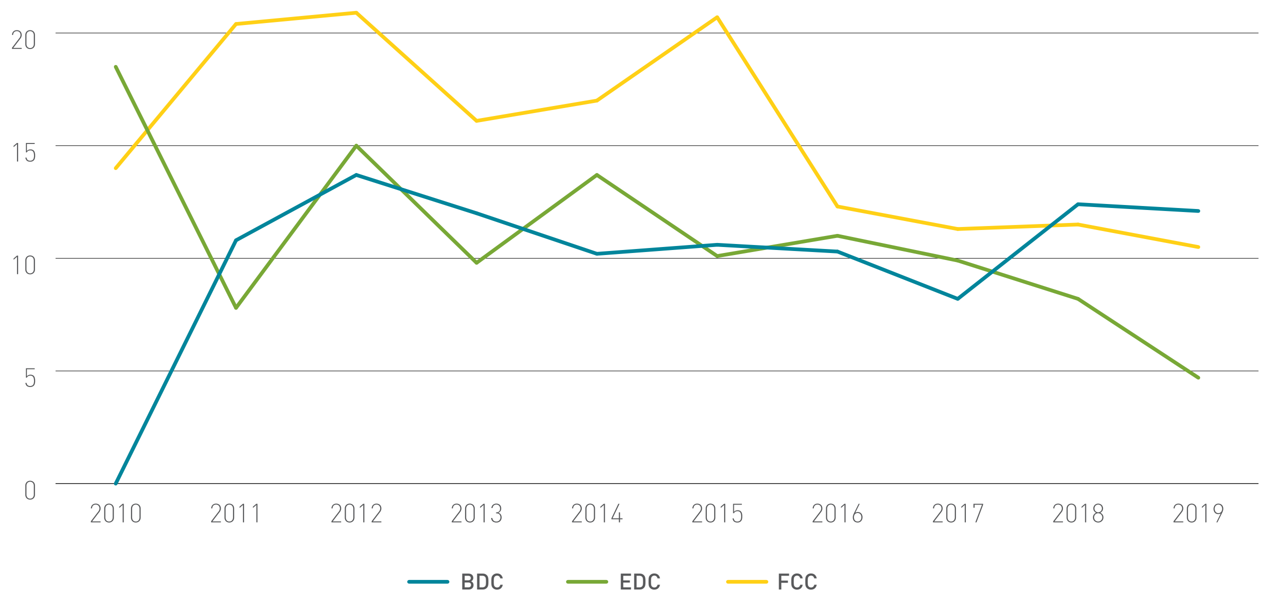
Overall, consistent with broader trends in the Canadian economy, the BDC routinely achieved strong financial results between 2010 and 2022, with the exception of 2020 due to the COVID-19 pandemic. In particular, adjusted return on equity (ROE), which measures efficiency in generating income relative to equity, can be used to assess the BDC's financial sustainability and capital management. Targeting a positive ROE, which is one method of gauging the BDC's profitability and its efficiency generating profits, is consistent with the BDC's self-sustainability mandate. Although pursuing a higher ROE should result in greater returns for the Government of Canada, a high ROE could also constrain the extent to which the BDC fulfills its role as a development bank to support Canadian entrepreneurship.

The BDC's ROE was consistently positive over the Review Period as the BDC delivered strong results. After recovering from 0% in 2010 following the financial crisis, ROE increased to 10.8% in 2011 and remained stable in the subsequent years, declining to negative 1.4% in 2020 due to the COVID-19 pandemic and rebounding in 2021 and 2022 with the economic recovery, including net realized gains and fair value appreciation on VC investments (Figure 21).

Notably, the BDC's positive profitability in 2021 and 2022 was largely attributable to unrealized gains and the reversal of provisions for credit losses, which had been elevated during the onset of COVID-19 pandemic in 2020. As such, although the BDC's net income was high from an accounting perspective, this did not result in a commensurate increase in cash received from clients.

Excluding results that were significantly impacted by the pandemic from 2020 to 2022, the BDC's ROE averaged approximately 10% between 2010 and 2019, which exceeded its previous Legislative Review average of 6.3%.[134] The BDC's average ROE was also comparable to the ROE of EDC over this period (11%), a financial Crown corporation that supports export-oriented Canadian businesses. Similar to the BDC, EDC is required to complement the products and services available from commercial financial institutions and commercial insurance providers. In contrast, the BDC's ROE was slightly lower than that of FCC over this period (15%). However unlike the BDC and EDC, FCC, a financial Crown corporation that supports Canadian agriculture and agri-food firms, does not have a complementary mandate.

Figure 21: ROE for financial Crown corporations (2010-2019)



Note that EDC and FCC report ROE, while the BDC reports adjusted ROE.
Sources: EDC Legislative Review Report (2018) and EDC Annual Reports 2020, 2021, 2022; FCC Annual Reports 2010-2022

As the Canadian economy grew and the BDC expanded its activities, other financial indicators were also strong. Between 2010 and 2022, the BDC's total revenues and net income totaled $17.7 billion and $8.9 billion respectively.[135] These figures represented increases over the 2010 Review Period. Over this period, net income averaged approximately $688 million per year, up from approximately $80.4 million per year over the 2010 Review Period.[136]

Specifically, in 2010, the BDC's total revenues and net income were still recovering following the 2008-2009 financial crisis, as loan and VC losses eroded earnings, but accelerated quickly in 2011 and 2012 as credit and other market conditions continued to improve. Between 2013 and 2017, total revenues and net incomes stabilized, before experiencing robust growth in 2018 and 2019 as the BDC expanded initiatives and increased its reach across Canada to support a growing economy. Over this period, the BDC's total equity also increased steadily as the BDC grew. This included significant increases in 2020 and 2021 as the Government of Canada injected capital to enable the BDC's pandemic-relief measures.

While total revenues remained high and total equity increased in 2020 and 2021 due to the injection of capital from the Government, enabling the BDC to implement pandemic-related measures, net income declined in 2020 to a loss as a result of the COVID-19 pandemic. This reflected the BDC's booking of significant provisions for loans and a higher net fair value depreciation on investments in GTC and VC. However, net income recovered in 2021 as the BDC's VC portfolio appreciated and credit loss provisions were reversed and by 2022, the BDC's net income reached $2.5 billion, as growth continued in the SME ecosystem. These figures are expected to moderate significantly in the coming years as the economy normalizes and BDC returns excess capital to the Government of Canada. For instance, in 2023, the BDC generated net income of approximately $303 million. The decrease of $2.2 billion compared to net income of $2.5 billion in 2022 was largely due to higher provisions for expected credit losses, lower net realized gains on investments, and higher net change in unrealized depreciation on the investments portfolio.[137]

Efficiency ratio

The BDC Financing's efficiency ratio for its financing line, which measures the BDC's efficiency incurring expenses to generate revenue, also improved. Between 2010 and 2022, the BDC Financing's efficiency ratio for financing declined from approximately 44% to 36%, reaching a low of 28% in 2021 given savings associated with the COVID-19 pandemic, such as reduced travel and operational expenses. As such, in 2022, the BDC incurred approximately 36 cents of expense to earn one dollar of revenue.

Although the significant improvement in 2021 was a result of exceptional circumstances related to the pandemic, overall the BDC's declining rate over the Legislative Review period reflects enhanced efficiency realized through the BDC's investments in improved processes and technologies, such as the online loan platform. Achieving additional rapid efficiencies, such as those realized during COVID-19, would not be operationally feasible in the long-run as reduced activities would adversely impact the BDC's services for SMEs.

Liabilities and Defaults

The BDC Act specifies that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC may not exceed 12 times its equity. In 2010, this ratio was 3.8:1, while in 2022 it was lower at 1.2:1, mostly due to the capital injection to support the Credit Availability Program and the full capitalization of VC. Between 2010 and 2022, the BDC's debt-to-equity ratio was much lower than the limit prescribed by the BDC Act, and also lower than the ratio of 5:1 averaged over the previous Legislative Review period.[138] This coincides with an increasingly profitable period for the BDC, as well as numerous capital injections for programs. This is also partly attributable to the BDC's expanded VC activities, as the BDC's VC portfolio is capitalized at a higher rate than other offerings. As such, relative to increasing portfolio and assets, the BDC assumed less debt over this period. While lower debt-to-equity ratios provide more coverage for the BDC's losses, it also represents a less efficient deployment of public funds. In this manner, capital that could be leveraged to support Canadian entrepreneurship is instead reserved for potential economic or other challenges.

The BDC's default rate also fell over the Review Period, from 4.4% in 2010 to a pre-pandemic low of 2% in 2013, before increasing to 3% in 2020 and declining again to 1.9% in 2022.[139] Over this period, the BDC's default rate averaged 2.5%. In contrast, private sector financial institutions' loan default rates were consistently lower than the BDC's default rates, averaging 0.9% between 2010 and 2022. During the Review Period, private sector default rates reached a high of 2.5% in 2010 and a low of 0.4% in 2021.[140]

CAPITAL

Capital Management

Although the BDC is not regulated by the OSFI, it has implemented a capital management framework that ensures capital management in alignment with regulatory guidelines, including OSFI and Basel rules, as well as comparable Canadian financial institutions. The BDC's capital management framework is based on its Internal Capital Adequacy Assessment Process (ICAAP), which is aligned with the OSFI's guidelines and the Capital and Dividend Policy Framework for Financial Crown Corporations.

The BDC has been refining its ICAAP since the previous Legislative Review. Following a 2015 review of the BDC by the OSFI, the BDC undertook analysis and completed its first ICAAP report in 2018, which identified opportunities for enhancement in the areas of governance, capital triggers, and validation of economic capital models. Following the OSFI report, the BDC also initiated a review of its Capital Management Framework, which culminated in the implementation of an updated framework and associated ICAAP in 2019. The BDC also revised its framework in fiscal 2020 to align with the dividend methodology included in the new Capital and Dividend Policy Framework for Financial Crown Corporations. Building on this momentum, further work may be pursued in the near term to ensure that the BDC's Capital Management Framework remains aligned with industry and other best practices, as well as the Capital and Dividend Policy Framework for Financial Crown Corporations.

A core concept within a capital management framework is economic capital, which is the amount of capital required to remain solvent given its risk profile. The BDC's need for economic capital was reassessed during recent reviews of its capital management framework. Establishing an internal capital ratio target of 134% following the 2015 review, this ratio was revised to 110% in 2020. This calculation is important as any capital held above these targets can be made available for dividends. Although the BDC was below this target ratio in fiscal 2017 and fiscal 2020, not declaring dividends for both years, the BDC has otherwise exceeded this target ratio and projects to continue this trend in the coming years.

Total Equity

As a financial Crown corporation fully owned by the Government of Canada, the BDC's equity is derived primarily from two sources: retained earnings and share capital injected by the shareholder. During the Review Period, the BDC's total equity grew significantly from $3.6 billion in 2010 to $20.5 billion in 2022.

The BDC's retained earnings have also expanded over the Review Period, from $869.8 million in 2010 to $8.5 billion in 2022. This growth was consistent from year-over-year, ranging between 16% and 32% annually, with the sole exception being a 5% decrease in 2020 as the BDC pivoted due to the COVID-19 pandemic. Although the continued growth of the BDC's activities augmented its retained earnings, in accordance with its dividend policy framework, it also resulted in greater dividend payments. From 2010 to 2022, the BDC paid a total of $1.3 billion in dividends.

Specifically, in 2010 and 2011, dividend payments remained relatively low following the economic recovery after the 2008-09 financial crisis. Dividend payments increased to $54.6 million and remained relatively stable between 2012 and 2017, before declining to zero in 2018 as the BDC introduced its new capital management and dividend policy framework. In 2019, the BDC's dividend payment was $70 million, increasing to $128 million in 2020, before falling to zero again as a result of the COVID-19 pandemic in 2021. In 2022, the BDC paid a dividend of $735 million, largely attributable to strong economic rebound, as well as lower loan loss provisions and high VC valuations.

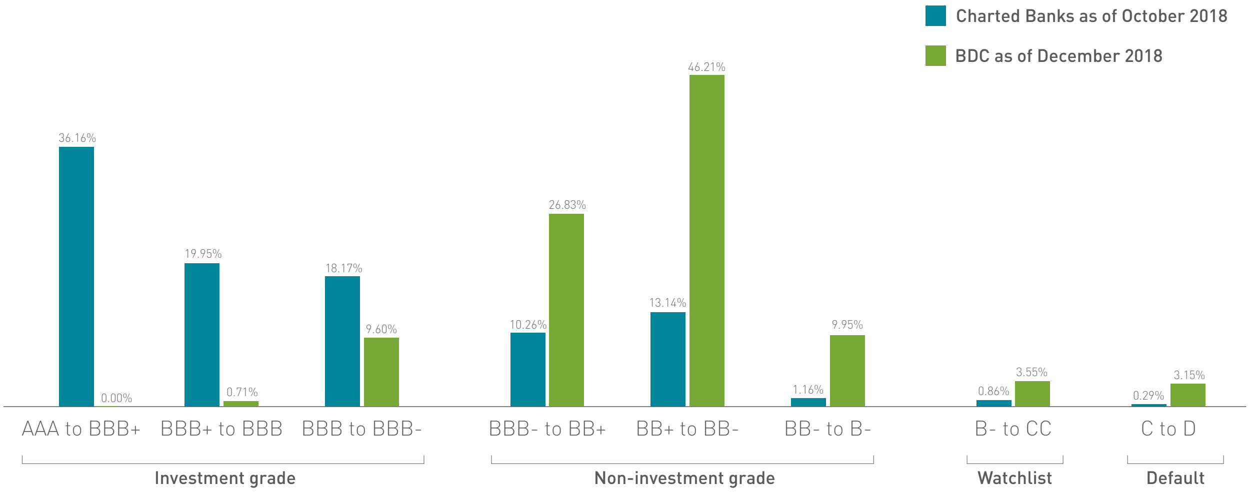
Further, from 2010 to 2018, the total amount of share capital was consistent, with the only transactions being a share repurchase in 2012 and a series of capital injections for the VCAP from 2014 to 2018. However, the BDC's total share capital has augmented significantly in recent years to reach approximately $12 billion in 2022, driven by the BDC's implementation of a number of programs on behalf of the government, including pandemic-relief measures, the VCCI, the CSI, the IGF, and CDAP.

Risk

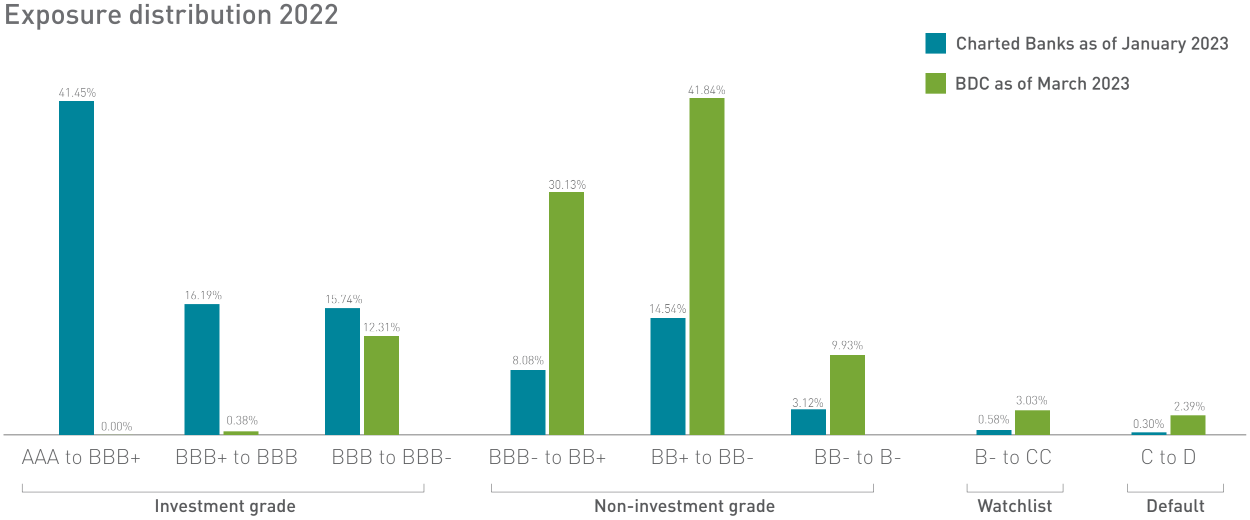
The requirement that the BDC act in a complementary manner, including through risk practices that complete private sector services, is a fundamental aspect of its mandate. Through consultations, stakeholders suggested that an evaluation of the BDC's risk framework and practices be undertaken to consider whether capital allocation processes were ensuring appropriate support for entrepreneurs. In particular, stakeholders indicated the BDC could consider expanding its risk appetite for transactions involving small businesses and equity-deserving entrepreneurs. Additional work may also be pursued in the near term to further examine this issue.

Figure 22 and 23: Exposure distribution by risk rating buckets

Exposure distribution 2018



Exposure distribution 2022



Note: Exposure distribution for 2018 includes Toronto Dominion Bank (TD), Canadian Imperial Bank of Commerce (CIBC), Bank of Nova Scotia (Scotia), and National Bank. Figure for 2022 includes TD, Scotia, CIBC, National, Royal Bank of Canada, and Bank of Montreal.
Source: BDC

In light of its complementary mandate, the BDC's debt exposure is generally concentrated in non-investment grade ratings. Although the share of the BDC's investment grade loans has increased slightly from 2018 to 2022 (from approximately 10% to 13%), the majority of its loans remain non-investment grade.

In contrast, private sector providers focus primarily on investment grade loans. In 2022, approximately 73% of the large Canadian financial institutions' risk exposure was investment grade. Riskier clients typically default more often, and those lacking guarantees can render higher losses, therefore requiring higher pricing.[141] In this manner, the BDC prices to risk by assigning higher interest rates as transaction risks increase. The BDC's higher rates in comparison to private sector providers are therefore generally consistent with its complementary mandate. Overall, the BDC's focus on sub-investment grade loans seeks to complete services available from the private sector, including by serving borrowers at the upper end of the risk curve who may otherwise be unable to access financing.

CONCLUSIONS

The BDC achieved positive business and financial results over the Review Period, improving client service for SMEs in alignment with the 2010 Legislative Review, and expanding its portfolio as it grew from 29,000 clients to 95,000. Key profit indicators such as total revenue and net income grew significantly, while the BDC's ROE was strong and comparable to other financial Crown corporations. Through investments in better processes and technologies, the BDC also improved its efficiency ratio and maintained high customer satisfaction.

Although partly driven by the BDC's support for Government of Canada priorities and favourable economic circumstances, the magnitude of the BDC's expansion highlights its growing role in the Canadian SME ecosystem. At the beginning of the Review Period, the BDC's market penetration rate of SMEs seeking financing was approximately 3%, while in 2019, it had grown to 4.4%. The BDC's client base and assets also expanded significantly over this period, including via new initiatives to support entrepreneurs from equity-deserving groups. Through the COVID-19 pandemic, the BDC supported thousands of additional entrepreneurs, providing capital and advice to complement other Government programs, which further accelerated its growth. By 2022, the BDC's market penetration rate had reached 6.4%, and its client base and assets had increased considerably.

However, the BDC's growth has extended beyond a focus on addressing core market gaps. Relatedly, indicators regarding the extent to which the BDC's offerings are fully complementary to the private sector are mixed. For instance, the share of BDC direct clients that are new businesses (under 2 years of operation) declined between 2017 and 2022, despite these businesses facing challenges accessing financing in the market. Moreover, although the BDC's debt exposure is generally concentrated in non-investment grade ratings, its market penetration rate doubled from approximately 3% over the previous Legislative Review period to 6.4% in 2022, as its assets and client base grew significantly. In Quebec, the BDC's market penetration rate reached nearly 10% in 2022.[142] The BDC's focus the provision of direct financing for businesses without a well-defined target market or explicit involvement of the private sector has also been identified by stakeholders as a challenge with respect to complementarity.

As such and to ensure alignment with its mandate, the BDC should strengthen its focus on complementarity and client service. The BDC's activities and ambition should closely align with the Government of Canada's broader monetary and fiscal policies and outlook. In periods of economic uncertainty, the BDC can increase support for Canadian entrepreneurs to complement constrained private sector offerings, but during periods of economic stability and growth, its activities and outlook should be calibrated appropriately to ensure alignment with the Government of Canada's objectives.

Stakeholder sentiments and some indicators also highlighted that the BDC is conservative in its lending and other practices. For example, many stakeholders emphasized that the BDC was not meeting their expectations for a higher risk appetite relative to the private sector, while the BDC's debt-to-equity ratio is significantly below the maximum limit prescribed by the BDC Act and declined from the previous Legislative Review Period.

Going forward, consideration regarding key metrics such as the BDC's market penetration rate, share of investment-grade loans, and support provided via partnerships will be critical to ensure robust complementarity with the private sector, as well as to monitor the extent to which the BDC's growth addresses key market gaps.

SECTION F: RECOMMENDATIONS

This section outlines recommendations for renewed areas of focus for the BDC.

The Legislative Review affirmed the BDC's role as a provider of financing, capital, and advisory services in the Canadian SME ecosystem. The following recommendations are intended to guide the BDC's priorities and improve the impact of its efforts going forward.

STRENGTHENING ACCESSIBILITY AND VISIBILITY

Equity-deserving groups, such as Indigenous entrepreneurs, Black and racialized Canadians, and newcomers continue to face significant barriers accessing financing, capital, and other services across the SME ecosystem. The needs of these entrepreneurs are not fully addressed by existing supports, including the BDC's offerings. Further, existing supports are always not well-communicated. New and small businesses also continue to face significant challenges accessing capital. Moreover, while the BDC has increasingly focused on improving client experience, such as through efforts to enhance digital services, many stakeholders emphasized that its processes remain complex and cumbersome, which has created challenges for entrepreneurs.

The BDC should play a more pronounced role to address systemic barriers facing equity-deserving groups and underserved market segments and improve overall market participation. This should include new market strategies, more targeted initiatives, and awareness-building activities. Further, the BDC should continue to shift its lending to support more new businesses to address key market gaps, including by focusing on SMEs that require low-value loans. Consideration should also be given to expanding and clarifying eligibility requirements to better meet the needs of new businesses, co-operatives, social enterprises, and other businesses.

In addition, opportunities exist for the BDC to build on previous efforts to improve client experience. The BDC should further strengthen accessibility by reducing the burden on entrepreneurs through enhanced flexibility for different types of businesses and streamlining of loan applications and other processes. This could also include exploring efficiencies related to open banking and other innovative practices.

IMPROVING REACH ACROSS CANADA

Despite the BDC's considerable growth and expanded offerings since 2010, its presence across the country remains inconsistent. In particular, the BDC's offerings remain especially concentrated in Quebec, while rural areas, as well as Atlantic Canada and the Prairie regions remain relatively underserved. Many stakeholders also expressed concerns regarding the extent to which the BDC's activities and decision-making are centralized, which constrains regional flexibility and limits the BDC's capacity to address unique local circumstances.

To better serve SMEs across Canada, the BDC should bolster its presence and increase access to its offerings in underserved regions and rural communities through expanded partnerships and initiatives to improve awareness. The BDC should also ensure that regional realities and local circumstances, including the distinct challenges and opportunities facing rural entrepreneurs, are integrated into decision-making.

Overall, the BDC should improve its provision of support across Canada by extending its reach and offerings within underserved regions and rural communities. To improve transparency for its shareholder and the public, the BDC should publish an annual report on its business lines in each region. This could include information such as the number of loans, the value of loans, and the BDC's market penetration rate in each region.

REINFORCING COLLABORATION AND COMPLEMENTARITY

While the BDC has extended its reach through partnerships, reporting cooperation with over 150 partners in 2022, its approach to collaboration is not consistent across the SME ecosystem or regionally. Through consultations, stakeholders across the SME ecosystem expressed a strong appetite for more meaningful partnerships with the BDC. Further, perceptions regarding the extent to which the BDC's offerings are fully complementary to the private sector and other Government of Canada initiatives were mixed. Stakeholders also underscored the need for a renewed emphasis on the BDC's role as complementary capacity-builder.

To continue to address market gaps and improve efficiency, the BDC should further strengthen collaboration with partners and better leverage the knowledge of existing players in the market, especially regional stakeholders. This could include non-financial partnerships, such as referral arrangements with governments, the private sector, and not-for-profit organizations, as well as more targeted cooperation with Government of Canada partners to ensure policy alignment. A stronger focus on collaboration with private sector and other players, through mechanisms such as referrals, regular information-sharing, and participation in joint fora will be critical in demonstrating that the BDC's activities remain complementary to those of other financial institutions. Further, to the extent the BDC continues to grow, its expansion should directly address core markets gaps, in alignment with the Government of Canada's broader fiscal and monetary policies.

INCREASING DATA COOPERATION AND REFINING RISK APPETITE

Although the BDC implemented changes to its data and information-sharing practices over the Review Period, further enhancements are possible. Specifically, the BDC's reporting and data-sharing practices, with respect to both the public and shareholder, are not fully accessible nor standardized. This can limit awareness (including regarding the extent to which the BDC's activities are complementary), as well as alignment with partners and Government of Canada priorities. These practices are also perceived by stakeholders to be a barrier to collaboration, transparency and accountability.

Further, while the BDC is mandated to complement private sector providers, including by serving higher risk clients, stakeholder sentiments and some indicators suggest the BDC is conservative in its lending practices. Some stakeholders emphasized that the BDC's risk threshold is too low and indicated that the BDC's behaviour with respect to the provision of loans is similar to other financial institutions, which limits opportunities for SMEs. This sentiment was particularly pronounced among equity-deserving groups, as well as across underserved regions and rural communities.

To provide guidance on the Government of Canada's priorities and expectations, the use of instruments such as an annual Statement of Priorities and Accountabilities (SPA) letter from the Designated Minister should be implemented on a regular, annual basis. The BDC should also report on progress in fulfilling activities from these letters through its regular annual report mechanism. This would improve transparency and two-way communication with the Government of Canada and facilitate the shareholder's ability to assess progress against priorities, as well as the extent to which the BDC's growth and activities are consistent with its mandate.

In addition, there are opportunities to use the BDC's information and data to better understand the impact of the BDC's services in supporting Canadian entrepreneurship and examine the effectiveness of programming across government, while respecting the privacy of its clients. For example, the BDC took a more cooperative approach to sharing data during COVID-19 by regularly sharing data regarding emergency COVID-19 support programs (specifically HASCAP and BCAP) with Statistics Canada for economic reporting. These practices should be integrated throughout its broader activities.

Relatedly, to improve public transparency and better demonstrate progress against objectives, the BDC should establish clear targets and improve existing data collection practices to track progress related to support for equity-deserving groups and underserved regions. The BDC should also improve reporting practices, including regarding the disclosure of information such as market penetration rate, and establish information-sharing arrangements with ecosystem partners to share data on the business ecosystem and disseminate sectoral intelligence in order to support the broader innovation ecosystem.

To ensure its offerings reach entrepreneurs with the greatest need, the BDC should also review its risk appetite, particularly for equity-deserving groups, undeserved regions and sectors, as well as newer businesses.

ANNEX A
REFERENCE TABLES

Table 3: BDC Capital Core Fund Investments (2011 to 2022)[143]

Core Fund	Deep Tech Venture fund	BDC Growth Equity Partners	BDC Growth Equity Partners II	BDC Growth Venture Co-investment Fund	BDC Growth Venture Co-investment Fund II	BDC Healthcare	BDC Seed Legacy
Count of companies supported	3	18	6	11	15	11	188
Direct Investments	$10.3 million	--	--	$243.8 million		$192.7 million	$61 million
Core Fund	**BDC Industrial, Clean and Energy Technology**	**BDC Industrial, Clean and Energy Technology II**	**BDC Industrial Innovation Venture Fund**	**BDC Intellectual Property-Backed**	**BDC Information Technology**	**BDC Information Technology II**	**BDC Women in Technology**
Count of companies supported	14	20	13	7	27	19	37
Direct investments	$201.1 million		$62.2 million	--	$254.2 million		$109.6 million

Source: BDC Data

Table 4: Business results (2010-2022)

Assets ($ millions)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total assets	17,679.9	18,399.6	17,219.9	18,183.9	19,570.0	21,129.0	22,905.9	25,316.8	27,809.2	30,656.5	33,153.4	37,148.1	41,567.0
Financing	15,802.8	16,800.0	15,502.5	16,309.1	17,577.5	18,821.8	20,227.5	22,270.6	24,210.7	26,628.6	28,063.5	28,627.6	31,499.1
Growth & Transition Capital	193.2	387.1	457.4	557.8	576.7	642.8	751.4	860.4	1,032.70	1,078.40	982	913.9	1,075.80
Venture Capital	362.3	413.8	359.0	456.7	495.1	709.6	928.0	1,015.7	1,263.1	1,570.1	1,428.1	2,368.1	3,226.6
Credit Availability Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3,197.6	2,950.6
Capital Incentive Program	0	0	0	0	5.2	47.6	137.7	301.5	410.4	519.4	539.1	963.2	1,382.50
Other assets	1,321.6	798.7	901	860.3	915.5	907.2	861.3	868.6	892.3	860	2,140.7	1,077.7	1,432.4
Other portfolio indicators													
Financing acceptances	4,346	3,244	3,623	4,112	4,114	4,725	5,155	6,620	6,827	7,226	7,405	7,962	9,670
Number of clients (thousands)	29,000	29,000	28,000	28,000	30,000	32,000	42,000	49,000	56,000	60,000	62,000	72,000	95,000
BDC market penetration (%)	-	-	-	-	-	-	-	-	4.3%	4.4%	5.1%	6.0%	6.4%

Source: BDC Data

Table 5: Key profit metrics

Result ($ million)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Revenue	665	911	1,035	988	1,050	1,091	1,152	1,249	1,440	1,712	2,113	1,868	2,407
Net Income	6	367	533	458	433	491	538	465	818	886	-218	1,650	2,515
Provisions for Credit Losses	261	104	-38	19	73	96	161	180	154	180	773	507	-85
Operating & Administrative Expenses	350	378	392	428	429	440	475	542	558	601	687	674	775
Total Equity	3,643	3,760	3,625	3,956	4,390	4,779	5,350	5,939	6,759	7,756	8,903	18,017	20,488
Return on equity (%)	0.0%	10.8%	13.7%	12.0%	10.2%	10.6%	10.3%	8.2%	12.4%	12.1%	-1.4%	22.9%	23.6%
Efficiency ratio (%)	43.7%	41.4%	40.3%	43.5%	40.0%	38.6%	38.3%	39.6%	35.3%	35.6%	39.2%	27.5%	35.8%

Source: BDC Data

Table 6: Liabilities and Defaults

Result	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
BDC Debt-to-Equity Ratio	3.8	3.7	3.8	3.6	3.4	3.4	3.2	3.2	3.1	2.9	2.7	1.0	1.2
Default rates	4.4%	2.8%	2.7%	2.0%	2.2%	2.2%	2.3%	2.6%	2.4%	2.4%	3.0%	2.2%	1.9%

Source: BDC Annual Reports 2010-2022 and BDC Data

ANNEX B
LIST OF STAKEHOLDERS CONSULTED

Over 210 stakeholders provided input during the public consultation phase. Stakeholders contributed to the Review through their participation in public roundtables and submission of written input. In addition, 11 federal organizations and 13 provincial and territorial ministries have been engaged through targeted discussions.

NON-GOVERNMENT STAKEHOLDERS

Canadian Business Associations

- Association Québécoise des technologies
- Business Council of Canada
- Calgary Chamber of Commerce
- Canadian Federation of Independent Business
- Canadian Chamber of Commerce
- Canadian Finance & Leasing Association
- Canadian Council of Innovators
- Canadian Women Chamber of Commerce
- Conference Board of Canada
- Conseil québécois de la coopération et de la mutualité
- Conseil du Patronat du Québec
- Co-operatives and Mutuals Canada
- Chartered Professional Accountants of Canada
- Family Enterprise Canada
- Hotel Association of Canada
- Manufacturiers et Exportateurs du Québec
- Restaurants Canada
- STIQ
- Surrey Board of Trade
- Tourism Industry Association of Canada

Financial service providers

- Desjardins
- RBC
- BMO
- CIBC
- Scotiabank
- Banque Nationale
- Desjardins Group
- Caisse Groupe Financier
- Uni Coopération financière
- Canadian Bankers Association
- Canadian Credit Union Association
- Canadian Lenders Association
- Lending Loop
- Alberta Central
- ATB Financial
- Critical Path Group
- Libro Credit Union
- Vancity

Advisory service providers

- Canadian Association of Management Consultants
- Brevitas Consulting (Ontario)
- The Burnie Group
- M Groupe Conseil Inc.
- Joseph Vaccaro
- Jenifer Bartman Business Advisory Services
- Ryan Seeds Consulting Inc
- 9376-4889 Québec Inc
- GCL Group
- Gary Herman Consulting Services
- Linx Agency Inc
- Burgener Consulting Inc.

Venture capital firms

- Canadian Venture Capital & Private Equity Association
- Westcap Management
- New Brunswick Innovation Fund
- Stand-up Ventures
- Build Ventures
- Lumira Ventures
- Relay Ventures
- Northleaf Capital Partners
- Amplitude Ventures
- Pangaea Ventures
- Teralys Capital
- HarbourVest Partners
- Genesys Capital
- Kensington Capital Partners Limited
- Boreal Ventures
- CTI Life Sciences Fund
- Yaletown Partners
- Pelorus VC
- Cycle Capital Management
- Conexus Venture Capital
- Sandpiper Ventures
- Tidal Ventures
- Pender Ventures
- Plaza Ventures
- Renewal Funds
- Version One Ventures

Angel investors

- Golden Triangle Angel Network
- Anges Québec
- Valhalla Private Capital
- Metiquity Ventures
- VANTEC's e-Fund
- Island Capital Partners
- East Valley Ventures
- Venn Innovation
- Yukon Venture Angels
- National Angel Capital Organization (NACO)
- Invest Ottawa
- Capital Angel Network
- Pelorus Venture Capital
- Maple Leaf Angels
- Okanagan Women's Mentoring and Angel Network (OKGN WMAN) Angel Fund
- Quintessence Investments
- AQC Capital
- Bennett Jones
- Torys

Growth capital providers

- Bond Capital
- Timia Capital
- Inovia Capital
- Canadian Business Growth Fund
- Fulcrum Capital Partners
- Monfort Capital
- PFM Capital
- Amorchem
- Georgian Partners
- Luge Capital

Innovation-focused enterprises

- Neovation
- Primal
- ApplyBoard
- Plexxis Software
- Blumind
- Lemurian Labs
- VR Vision Inc
- Dunn Pierre Barnett & Company Canada Ltd.
- NeonTrain Inc.
- OSF Global Services Inc.
- Acart Equipment Ltd.
- Aero HygenX Inc.
- Budge Studios
- Shinydocs
- Canvass Analytics
- Careteam Technologies
- Compugen
- Conavi Medical
- Morgan Solar Inc

- Northern Vision Development LP and Northern Vision Development Corp.
- Svante
- Canadian Accelerators and Incubators Network
- Innovabot

Not-for-profit organizations

- Groupe 3737
- The51
- NACCA
- Futurpreneur Canada
- National Indigenous Economic Development Board
- Canadian Council for Aboriginal Business
- Indigenous Chamber of Commerce
- École des dirigeants des Premières Nations
- Métis National Council
- Native Women's Association of Canada
- Société de crédit commercial autochtone (SOCCA)
- Inuit Tapiriit Kanatami
- Startup Canada
- Women in Capital Markets
- Black Canadian Women In Action
- Rise
- Federation of Black Canadians
- Evol
- Canadian Black Chamber of Commerce
- Black Opportunity Fund
- Coralus
- Women Entrepreneurship Knowledge Hub
- Centre for Women in Business
- Audace au Féminin
- Réseau des Femmes d'affaires du Québec
- Newfoundland and Labrador Organization of Women Entrepreneurs
- Black Business Association of BC
- Community Business Development Corporation Hants-Kings
- Community Futures East Kootenay
- Community Futures Fraser Fort George
- Women's Enterprise Organizations of Canada
- WeBC
- NWT Business Development and Investment Corporation
- Rural Manitoba Economic Development Corp.
- Nunavut Business Credit Corporation
- Link North
- NORCAT
- Rural Development Network
- Saskatchewan Economic Development Alliance
- The Métis Voyageur Development Fund
- Kitikmeot Chamber of Commerce
- Council for the Advancement of
- African Canadians (Africa Centre)
- Alberta Women Entrepreneurs (AWE)
- Canadian Council for Small Business and Entrepreneurship
- Centre for Entrepreneurship Education and Development
- Atlantic Association of Community Business Development Corporations
- Community Futures Network of Canada
- Community Futures British Columbia
- Community Futures Ontario
- Community Futures Manitoba / Saskatchewan
- Community Futures Centre West
- Community Futures Network of Alberta
- Community Business Development Corporation Blue Water
- Next Generation Manufacturing Canada
- TecTerra
- Small Business BC
- Atlantic Provinces Economic Council
- Ontario Nonprofit Network

Business Accelerators and Incubators

- Centre d'entreprises et d'innovation de Montréal (CEIM)
- Mouvement des accélérateurs d'innovation du Québec
- CENTECH
- Numana
- Accelerator Centre
- Creative Destruction Lab - Toronto
- Communitech
- VentureLAB

- Techstars
- DMZ Ventures
- Volta
- Ignite Labs
- SFU VentureLabs
- Innovate Calgary
- Alacrity Canada

Other interested parties

- Social Enterprise Council of Canada
- Buy Social Canada
- Toronto Region Board of Trade
- World Trade Centre Toronto
- Foresight Canada
- Common Good Solutions
- University of New Brunswick (J. Herbert Smith Centre for Technology Management & Entrepreneurship (University of New Brunswick)

GOVERNMENT STAKEHOLDERS

Federal organizations

- Atlantic Canada Opportunities Agency
- Agriculture and Agri-Food Canada
- Canada Economic Development for Quebec Regions
- Federal Economic Development Agency for Northern Ontario
- Federal Economic Development Agency for Southern Ontario
- Pacific Economic Development Canada
- Prairies Economic Development Canada
- Export Development Canada
- Department of Finance Canada
- Treasury Board of Canada Secretariat
- Privy Council Office
- Global Affairs Canada

PROVINCIAL / TERRITORIAL GOVERNMENT

Departments

- Ministry of Jobs, Economic
- Treasury Board and Finance, Development and Innovation, Government of Alberta Province of British Columbia
- Ministry of Trade and Export Development, Government of Saskatchewan
- Ministry of Economic Development and Jobs, Government of Manitoba
- Ministry of Economic Development, Job Creation and Trade, Government of Ontario
- Ministry of Economy and Innovation, Government of Quebec
- Opportunities New Brunswick, Government of New Brunswick
- Ministry of Economic Development, Government of Nova Scotia
- Ministry of Economic Development, Innovation and Trade, Government of Prince Edward Island
- Ministry of Industry, Energy and Technology, Government of Newfoundland and Labrador
- Ministry of Economic Development, Government of Yukon
- Ministry of Business Immigration and Trade, Government of Northwest Territories
- Ministry of Economic Development and transportation, Government of Nunavut

Agencies and Crown corporations

- Invest Nova Scotia
- InBC
- Alberta Innovates
- Alberta Enterprise Corporation
- Calgary Economic Development
- Halifax Partnership

ANNEX C
LIST OF ACRONYMS

BCAP	Business Credit Availability Program
BDC	Business Development Bank of Canada
BDC Act	Business Development Bank of Canada Act
CEO	Chief Executive Officer
CDAP	Canada Digital Adoption Program
CFDC	Community Futures Development Corporation
CFIB	Canadian Federation of Independent Business
CSI	Cleantech Scale-up Initiative
DEI	Diversity, equity and inclusion
EDC	Export Development Canada
FACE	Federation of African Canadian Economics
FCC	Farm Credit Canada
FBDB	Federal Business Development Bank of Canada
GDP	Gross Domestic Product
GTC	Growth and Transition Capital
HASCAP	Highly Affected Sectors Credit Availability Program
ICE	Industrial, Clean and Energy Technology Venture Fund
IDB	Industrial Development Bank
IFG	Indigenous Growth Fund
IFI	Indigenous Financial Institution
IPO	Initial Public Offering
ISED	Innovation, Science and Economic Development Canada
NACCA	National Aboriginal Capital Corporations Association
OECD	Organisation for Economic Co-operation and Development
RDA	Regional Development Agency
SME	Small and medium-sized enterprises
VC	Venture Capital
VCAP	Venture Capital Action Plan
VCCI	Venture Capital Catalyst Initiative
WES	Women Entrepreneurship Strategy
WIT	Women in Technology

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