

Business Development Bank of Canada (BDC) Questions & Answers

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

a. Current business environment (1000 characters)

At the Sustainable Finance Forum (November 2022), Prime Minister Trudeau said:

“We are up against many challenges: affordable housing, climate change, inequalities, and the rising cost of living. The Government of Canada is continuing to work to tackle these challenges. There are also many Canadians doing their part to bring solutions: entrepreneurs, community leaders, and others.

We must ensure they have the necessary support: we need to help them to find investors who will allow them to intensify their efforts. It’s about figuring out how we can mobilize capital towards these ideas, how we can drive more investment towards the solutions that will help the economy grow, improve people’s lives, and ensure we are ready for the future.”

This is why the Government of Canada is supporting social innovation and social finance with the \$755M Social Finance Fund and a robust strategy to build an economy that works for everyone. BDC should be part of this strategy.

b. Opportunities (1000 characters)

Community Economic Development (CED) creates more democratic economies. CED recognizes that economic, social, cultural, and environmental challenges are interdependent, complex, and dynamic. Across Canada, CED initiatives foster inclusive economic opportunities, access to capital for business development, local ownership, job creation, poverty reduction, and environmental stewardship. CED can also provide the foundation for COVID-19 recovery that allows us to “build back better.”

Social innovation and social finance (SI/SF) get to the structural issues and systems that have created these challenges. It changes the way businesses are run to reduce poverty, exclusion, and environmental damage. That is the real innovation – creating business models and operations that provide needed goods and services to all Canadians, while also benefiting workers, communities, and the planet.

c. Challenges (1000 characters)

Canada is facing unprecedented socioeconomic challenges that include recovering from the pandemic; adjusting to rising prices for food, shelter, commodities, and other goods and services; responding to shortages in the housing supply and skilled labour; meeting climate change targets; growing Indigenous economies; and addressing the relationship between systemic racism and economic injustice.

Overcoming these challenges requires more than minor adjustments to current practices. Governments around the world are investing in the social and solidarity economy and social innovation — “ideas that, once adopted, help communities respond to a challenge or realize their aspirations more effectively than before. Governments around the world are also accelerating the growth of social finance — the practice of making investments to create social or environmental impact as well as financial returns — to unlock the private and philanthropic capital needed to tackle pressing challenges”.

2. Considering the effects of the COVID-19 pandemic and the changing economic conditions on SMEs, how has Canada’s business landscape changed and how can the BDC best position itself to support Canadian businesses in this evolving environment? (2000 characters)

Every business is more than just an economic entity engaged in market transactions. Every market activity, the exchange of goods and services, has an economic, social, cultural, and environmental impact. There is no invisible hand directing our economy; rather the business choices we make drive the behavior and outcomes of the market. Therefore, why and how we support business finance, capacity, and support becomes so vital to the impact of the market on the whole of society.

Since BDC’s last review and adjustments in 2010, the business environment has undergone near revolutionary changes. Business models in Canada are evolving from profits and extraction at any cost to an understanding of the social purpose and sustainability responsibility of businesses.

This shift in the fundamental role of business, from shareholder to stakeholders, requires that BDC create an entirely refreshed investment and lending options, re-design of the advisory services, and adjust its own business practices to achieve its legislative mandate “to fill the gaps in the lending market.”

If BDC is to be relevant in the future and continue to serve the needs of its shareholder, the Canadian government, it must make the adjustment to a market and business environment where social inclusion, economic equity, and justice for all leads its lending, investing, advisory services, and business practices. For example, BDC could introduce net-zero commitments or scorecards to identify and foster ventures able to demonstrate positive social and environmental impacts.

3. What actions and activities are needed for the BDC to address market gaps in the Canadian SME ecosystem, while ensuring the BDC remains complementary to private sector service providers? (2000 characters)

Just as BDC has focused its activities on underserved populations and regions, so too should it focus on underserved legal structures. Non-profits and co-operatives that are increasingly undertaking business operations also need capital and advisory services to grow. BDC can play a pivotal market-building role to complement the capital being injected by the federal government through the Social Finance Fund.

4. Are there underserved segments, industries or regions of the Canadian SME ecosystem for which the BDC should look to adjust its activities, including emerging sectors of the economy? (2000 characters)

The most pernicious socio-economical and environmental challenges that Canadian communities are facing require new approaches. Throughout Canada, thousands of social purpose organizations (SPOs) are putting their values at the core of their business model to transform peoples’ lives. A growing number of SPOs are looking to diversify their revenues through the sale of goods or services – creating social enterprises – and then directing those revenues to fulfill their mission and build their resilience. The sale of goods and services is among the fastest-growing revenue sources for non-profits and charities. Yet, there is some evidence that social enterprises may have relatively more difficulty accessing financing.¹

Social innovation requires a robust ecosystem for success, and a key component of that ecosystem is social finance. Social Finance refers to the practice of making investments intended to create social or

¹ Innovation, Science, and Development Canada (2022) SME Profile: Social enterprises in Canada.

environmental impact, in addition to financial returns. Like all businesses, SPOs require access to capital to grow and scale. A strong social finance market would allow potential investors, like BDC, to partner with social innovators and work together to solve our country's biggest social challenges.

ISED's March 2022 SME Profile of Social Enterprises in Canada found that despite a growing interest in the social enterprise sector, social enterprises have relatively more difficulty accessing financing.

BDC can help close the capital financing gap faced by organizations that deliver positive social outcomes, and help accelerate the growth of the existing social finance market in Canada.

5. What types of activities should the BDC undertake to provide countercyclical support during economic downturns? (2000 characters)

A recent study, *Co-operatives and Mutuals Show Stability in the Face of COVID-19*, demonstrates how, thanks to key structural features, the co-operative and mutualist model contributed to its resilience during the first 18-months of the pandemic. Co-operatives and mutuals are oriented towards long-term objectives and are close to their community and their members, with an ability to mobilize them when needed. This leads to greater 5- and 10-year survival rates than other SMEs, and the ability to operate in more challenging market conditions. Investing in co-operative and non-profit business models is an undervalued strategy for building and maintaining economic activity in underserved communities.

6. How can the BDC best promote equity, diversity and inclusion in the Canadian SME ecosystem? (2000 characters)

Strong, resilient communities are built around the principles of democracy, human rights, social justice, and respect for equity, inclusion, and diversity. CED approaches make concrete efforts to promote participation and include people that are often excluded from decision making processes that directly impact them. BDC should integrate an intersectional approach.

Intersectionality² is concerned with institutional and systemic barriers to equality. Its origins helped explain the oppression of African-American women: the experience of being a Black woman cannot be understood independently of being either Black or a woman, but rather include intersections and interactions between the two identities (e.g. race and gender). Today, the analysis has expanded to include (but is not limited to): class, sexual orientation, gender identity, ability, age, culture, and language.

In its efforts, BDC should consider intersectionality which:

- Is a starting point for practicing equity, inclusion, and diversity
- Moves from merely describing similarities and differences distinguishing systems of oppression to focusing on how these systems interconnect and interact
- Sees privilege and power as an interactive system: a matrix of domination, exploitation, and oppression where, depending on the context, one may benefit, be penalized, or (most likely) both benefit and be penalized by a system of oppression

7. How can the BDC support SMEs to adapt to climate change or reduce their climate-related impacts? (2000 characters)

Community economies can be sites of transformation and offer practical opportunities to address the ecological and climate crises in ways that enhance equity and well-being for all. Transformation can include creating new and stronger relationships to foster innovative and sustainable economies. While a

² Kimberlé Crenshaw (1989), *Demarginalizing the Intersection of Race and Sex*.

focus on physical infrastructure is necessary for the transition away from fossil fuels, a lack of focus on social infrastructure may exacerbate underlying inequities in the labour market and the broader economy, undermining the potential to deliver on a physical infrastructure agenda.

For example, supply change measurement (and therefore knowing your current climate-related impacts) can be expensive and out of reach for SMEs. Proportionate measurements would increase accessibility to businesses of different sizes and capacities.

When considering financing options for SMEs, BDC should assess the following just transition³ principles:

- Respects rights, including human, labour, Indigenous, and those of future generations
- Involves affected workers and communities as partners, not only as stakeholders, in determining their own paths forward
- Creates new economic opportunities for affected workers and communities

8. [Are there any considerations that we have missed or elements we should explore further when addressing the top priorities for the BDC Legislative Review? \(1500 characters\)](#)

Accelerate Reconciliation with Indigenous Peoples

Indigenous Peoples have long been advocating for a new and just relationship. BDC should consider the following calls and principles⁴:

- Recognize treaties, agreements, and other constructive arrangements between Indigenous Peoples and the Crown as acts of reconciliation based on mutual recognition and respect
- Recognize and respect Indigenous Peoples' right to self-determination including the inherent right to self-government in the pursuit of economic and social development which will require: a renewed fiscal relationship, developed in collaboration with Indigenous nations, that promotes a mutually supportive climate for economic partnership and resource development; economic and social progress and development on an equitable basis; community-based supports and solutions designed to improve social and economic security; and long-term, sustainable funding
- Commit to meaningful engagement/consultation, build respectful relationships, and obtain the free, prior, and informed consent to actions which impact Indigenous Peoples and their rights, including land, territories, and resources, before proceeding with economic development projects
- Ensure Indigenous Peoples have services and infrastructure that meet social and economic needs, and have access to safe housing, clean drinking water, and adequate food
- Ensure Indigenous peoples have equitable access to jobs, training, and education opportunities, and Indigenous communities gain long-term sustainable benefits from economic development projects

³ Hadrian Mertins-Kirkwood (2022), *Toward an inclusive just transition*.

⁴ Truth & Reconciliation Commission (2015), *National Inquiry into Missing & Murdered Indigenous Women & Girls* (2019), and *United Nations Declaration on the Rights of Indigenous Peoples Act* (2021)