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### **Re: Business Development Bank of Canada Legislative Review**

We are writing to provide feedback on the Business Development Bank of Canada's (BDC) legislative review. There are two key questions we address in our response.

1. 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?
2. 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?

### **Summary**

Nonprofit social enterprises and cooperatives are underutilized for building inclusive and sustainable economies. Their high potential and Canada's evolving economic landscape require BDC to move beyond supporting only for-profit business models. For this reason, ONN urges Innovation, Science and Economic Development Canada to consider adjusting the Business Development Bank of Canada's lending and advisory services to meet the unique needs of underserved nonprofit social enterprises and co-operatives by:

- Exploring new investment and lending models that allow nonprofit social enterprises and co-operatives to grow, scale and replicate across Canada. This includes patient capital loans and equity-like investment options.
- Hiring or partnering with consultants specific to nonprofit social enterprise and co-operatives in BDC's advisory service teams to meet the unique needs of the sector.

### **Feedback on review questions**

- 1. 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?**

Since BDC's last review and adjustments in 2010, the business environment in Canada has undergone near revolutionary changes in a short amount of time. The COVID-19 pandemic exposed the shortcomings of the current extractive economic system, necessitating nothing less than transformative change. As communities across Canada face unprecedented environmental, social, and economic challenges, from an affordability crisis, climate emergencies, and deepening polarization, there is a growing need for a more sustainable, local, democratic, and inclusive economic development model.

While new ways of doing business - that move away from a purely profit motive to a social and environmental purpose driven mindset - have always existed, nonprofit social enterprises and cooperatives are at the precipice of growth, if well supported now.

**2. 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?**

Nonprofit social enterprises and cooperatives are a vital part of Canada's small and medium sized enterprise (SME) ecosystem. Social enterprises generate revenue with the objective to have a positive social and/or environmental impact. They can be structured as a for-profit or non-profit, and may take the form of a co-operative, a social business, and/or a charity. Co-operatives are entities owned by its members who share similar economic, cultural and/or social needs. Each member has the right to vote, giving them democratic power within the organization. A key goal for co-operatives is to create a business that gives back to the community in which it operates.

Many social enterprises and co-operatives are nonprofits - caterers and couriers, manufacturers and repair shops, recycling and waste management services, daycare and PSW co-ops. Like small businesses they produce and deliver goods and services, however with additional public benefits:

- Offering meaningful jobs and training opportunities to people with multiple barriers to finding/maintaining employment, such as people with disabilities and people experiencing homelessness, to build economic self-sufficiency and reduce reliance on social programs;
- Hiring and spending locally to ensure dollars are circulating within the local economy, particularly in rural and remote regions;
- Leading clean energy initiatives and ensuring enterprise activities are low carbon and environmentally sustainable;
- Providing high quality goods and services that are affordable, accessible and culturally appropriate; and
- Reinvesting surpluses back into their community-based missions.

Additionally, social enterprises and co-operatives are resilient business models. Studies have shown that social enterprises continue to grow even during recessions.<sup>1</sup> A recent study, *Co-operatives and Mutuals Show Stability in the Face of COVID-19*, demonstrates how key structural features of 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 (who are often one in the same), with an ability to mobilize them when needed. This leads to greater, 5- and 10-year, survival rates in comparison to other small and medium sized enterprises, and the ability to operate in more challenging economic conditions.

Across Canada there are an estimated more than 20,000 social enterprise businesses operating that are incorporated as nonprofit or charitable organizations. Despite their impact and ability to reduce climate-related impacts, nonprofit social enterprises and co-operatives struggle to access financing, support and opportunities to grow and scale.

ISED's *March 2022 SME Profile of Social Enterprises in Canada* found that social enterprises have relatively more difficulty accessing financing. Nonprofit social enterprises and co-operatives, like all businesses, require a supportive ecosystem, including business acumen, access to financing and resources to succeed, grow and scale. Just as BDC has focused its activities on underserved populations and regions, so too should it focus on underserved legal structures, including nonprofits and co-operatives that are increasingly undertaking business operations.

#### Nonprofit social enterprises and cooperatives are underserved segments of the Canadian SME ecosystem and BDC's current activities do not support their growth

Currently, there is a significant gap in BDC's service umbrella where access to BDC loans, investments and advisory services is nearly non-existent for nonprofit social enterprises and co-operatives. Since nonprofit social enterprises and co-operatives are not centered on revenue growth and profitability alone, they require more time to grow their businesses. Traditional investment and lending models that prioritize fast growth and short-term profitability are not designed to meet the unique needs of nonprofit social enterprises and co-operatives. In addition, the traditional model of requiring personal asset equity for loans to nonprofits (usually requiring a board member's house) creates a significant barrier.

However, patient capital loans are usually long term, with low interest rate and flexible repayment terms. With long-term patient loan capital that isn't focused on immediate returns,

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<sup>1</sup> Carlo Borzaga, Gianluca Salvatori and Riccardo Bodini. "Social and Solidarity Economy and the Future of Work. International Labour Organization. July 2017. p. 15.  
[https://www.ilo.org/wcmsp5/groups/public/--ed\\_emp/--emp\\_ent/--coop/documents/publication/wcms\\_73160.pdf](https://www.ilo.org/wcmsp5/groups/public/--ed_emp/--emp_ent/--coop/documents/publication/wcms_73160.pdf)



BDC can better support the growing nonprofit social enterprises and co-operatives in Canada's SME ecosystem to economically thrive while tackling the most pressing challenges in our communities. Equity-like investment options that allow nonprofit social enterprises and co-operatives access flexible financing without risking losing control of their social missions can have a similar impact as well.

Nonprofit social enterprises and co-operatives' unique structure and mission-driven model also requires specific business advisory services that include appropriate social enterprise and cooperative expertise, such as a network of experienced social enterprise specific consultants. An example of this is [Innoweave](#)'s national network of coaches who provide coaching services to nonprofits around social innovation.

### **Conclusion**

Canada's business landscape is changing and there is a better way of doing business that can lead to a prosperous and a fairer economy that benefits both people and our planet. To better support Canadian businesses in this evolving environment, ONN encourages BDC to make adjustments where social inclusion, economic equity and environmental sustainability lead its lending, investment and advisory services. Nonprofit social enterprises and co-operatives have been an underserved sector in the Canadian SME ecosystem for far too long. Now is the time to fill this gap.

### **About ONN**

ONN is an independent nonprofit network for the 58,000 nonprofits and charities in Ontario, focused on policy, advocacy, and services to strengthen the sector as a key pillar of our society and the economy. We work to create a public policy environment for nonprofits and nonprofit social enterprises, co-operatives and other community-owned structures as they work to create jobs, innovate, scale up, and promote economic development and community well-being through local, low-carbon economic activities.