BUSINESS COUNCIL OF TORONTO

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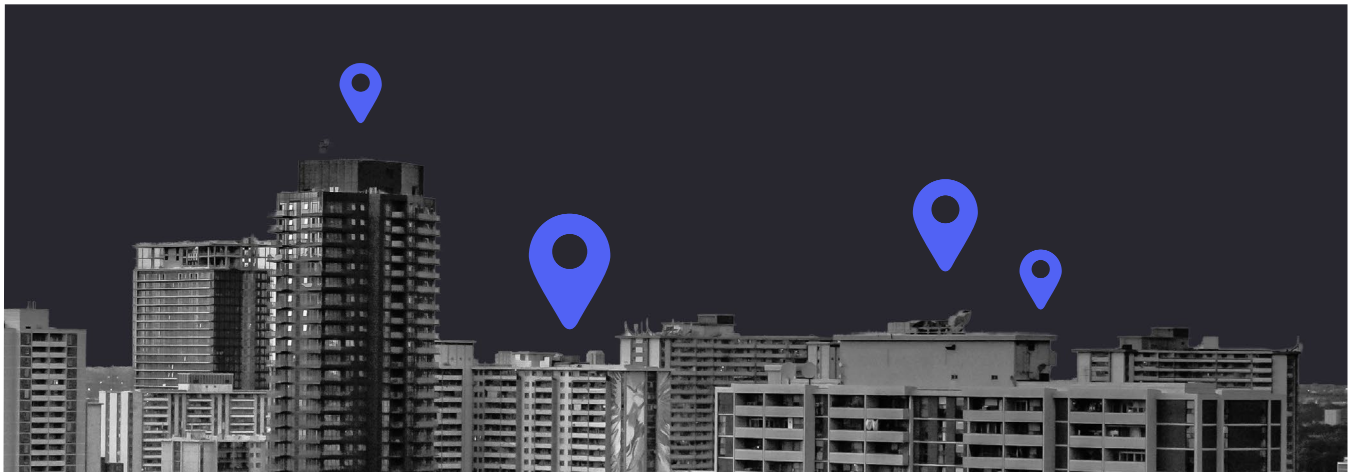
THE CAPITAL TO COMPETE:

UNLOCKING FINANCING FOR HIGH-GROWTH COMPANIES



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About this Report

Canadian firms often remain smaller than their international counterparts. Small and medium-sized enterprises (SMEs) account for more than 99% of Canada's employer businesses, in part because Canada's tax and regulatory environment can discourage growth and make it harder for firms to reach the next level. Many also struggle to secure the capital needed to scale — particularly innovation-driven firms with complex financing needs, limited cash flow, or insufficient collateral.

As Canada's financial capital and North America's second-largest financial hub, Toronto is central to solving this problem. Its banks, insurers, pension funds, and asset managers are the channels through which capital reaches high-growth SMEs.

Convened by the Toronto Region Board of Trade, the Business Council of Toronto's Financial Services Competitiveness Coalition (FSCC) brings together executives of Canada's leading financial institutions to clear the structural challenges undermining our financial sector and economic growth. Central to this work is ensuring that capital flows efficiently to the businesses with the greatest potential to grow, innovate, and compete.

This report, prepared by Charles Lammam, examines the barriers limiting access to debt and equity financing for Canadian startups and scale-ups, and recommends a suite of policy reforms to help unlock capital for high-growth firms. Lammam is an economic and policy professional with experience spanning think tanks, government, financial services, and consulting. The majority of the research and writing for this report was conducted between April and May 2026. The Board thanks FSCC members and the Canadian Bankers Association for the insights they contributed to the report's development.

Executive Summary

Canadian businesses are good at generating ideas. Turning those ideas into globally competitive companies, however, has long been a struggle. A central reason is that growth firms struggle to access the capital they need to scale.

This report focuses on a specific type of business: growth-oriented startups and scale-ups. Unlike most small and medium-sized enterprises (SMEs), which are designed to generate stable income for their owners, these firms have the potential to compete globally. Their success depends heavily on access to capital at every stage of growth.

These firms matter disproportionately. Canadian research shows that high-growth firms constitute just four percent of firms with at least 10 employees, and generated roughly 40 percent of net employment growth between 2009 and 2012. According to Organisation for Economic Co-operation and Development (OECD) analysis across 18 countries, young firms account for only 17 percent of employment but create 42 percent of all new jobs. Innovative SMEs are two to three times more likely to adopt new technologies, three times more likely to hold intellectual property, and twice as likely to export as other firms.

Despite their economic importance, the financing environment for these firms has deteriorated sharply. Early-stage funding gaps have resulted in Toronto-Waterloo, Vancouver, and Montreal – Canada's three largest startup ecosystems – losing $66 billion in ecosystem value between 2019 and 2024, resulting in 133,000 fewer high-quality startup jobs. During this period, Canadian startup ecosystems grew by roughly 2 percent annually, compared with 9 to 17 percent among leading global peers. Toronto fell from 13th to 20th place in the Global Startup Ecosystem Rankings over the past six to eight years, while Vancouver and Montreal experienced even steeper declines.

The consequences are increasingly visible. In 2024, only one-third of Canadian-founded startups raising more than $1 million were based in Canada, down from three-quarters in 2016. A growing number are relocating to the United States and Europe. The number of U.S. entrepreneurship visas issued to Canadians over the past decade is equivalent to 3.4 percent of Canada's entire entrepreneurial population — double the rate of the previous decade.

The challenge is fundamentally one of capital access. Growth firms rely on two primary sources of financing: debt and equity. Canada faces notable shortcomings on both fronts.

On the debt side, banks remain reluctant to lend to growth firms because these companies often lack the traditional collateral banks prefer. Their value is often concentrated in intellectual property, software, data, and future growth prospects rather than physical assets. Regulatory capital requirements reinforce this caution by making SME lending significantly more expensive than mortgage lending. As a result, Canada ranks last among advanced economies in the share of business lending directed to small and medium enterprises – just 12 percent against an OECD average of 47 percent. In addition, the gap between small business and large corporate borrowing rates averages 1.9 percentage points in Canada, against an OECD average of 1.4 percentage points.

On the equity side, venture capital activity has fallen dramatically. Venture capital investment as a share of Canada's GDP dropped from 0.47 percent in 2021 to 0.2 percent in 2024. The remaining investment is increasingly concentrated – two-thirds of all funding in 2025 flowed through 26 large deals – leaving most growth-stage companies without meaningful access to capital. In the first quarter of 2026, growth-stage venture investment effectively disappeared — there was one deal worth roughly $1 million across the entire country. This compares to the five-year Q1 average of $140 million. Angel investment reached a five-year low in 2025, with Canadian angels investing $113.79 million across 490 deals, down more than 20 percent from the prior year.

These challenges are not inevitable. They are influenced by policy choices, and policy choices can be changed.

This report proposes nine recommendations, organized around three objectives: improving access to debt financing, mobilizing equity capital, and strengthening the broader policy framework that supports entrepreneurship and investment.

Improving Access to Debt Financing

1 REDUCE REGULATORY CAPITAL REQUIREMENTS ON SME LENDING

The Office of the Superintendent of Financial Institutions (OSFI) should accelerate its proposed reduction in SME risk weight to 75 percent, introduce a lower risk weight of 70 percent for qualifying growth firms, and reduce the risk weight on bank venture capital equity investments for minority stakes in Canadian venture companies and funds from 400 to 100 percent.

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2 EXPAND THE CANADA SMALL BUSINESS FINANCING PROGRAM

The federal government should create a Growth Track within the Canada Small Business Financing Program (CSBFP) with higher loan limits and revenue thresholds calibrated to growth firms, streamline the program administration and claims process, and increase program awareness beyond lenders.

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3 ESTABLISH INTELLECTUAL PROPERTY LENDING INFRASTRUCTURE

Canada should develop standardized intellectual property (IP) valuation methodologies, clarify legal frameworks for defaults on IP-backed loans, update related regulatory requirements, and build capacity within lending institutions to assess and underwrite IP-backed loans.

Mobilizing Equity Capital

4 MODERNIZE INSURANCE COMPANY INVESTMENT RULES

The federal government should update holding periods, investment limits, and sector restrictions to allow insurers to play a larger role in growth financing.

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5 ESTABLISH A NATIONAL SECURITIES REGULATOR

Ontario's recent commitment to join the passport system is a positive step towards harmonizing securities regulation across Canada. However, federal and provincial governments should establish a truly national securities regulator to replace the current system of 13 provincial and territorial regulators.

While the passport system improves coordination, a national regulatory body with a system-wide mandate would reduce administrative burden for market participants and strengthen the effectiveness of enforcement. Additionally, it would promote faster response times and improve alignment with U.S. regulatory developments.

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6 ADOPT FUND-OF-FUNDS BEST PRACTICES AND REMOVE THE 30 PERCENT OWNERSHIP RULE

The federal government has committed $1 billion to the Growth Venture Capital Catalyst Initiative (VCCI) and another $750 million to address early growth-stage funding gaps, while Ontario has committed up to $4 billion to the Protect Ontario Account Investment Fund. The long-term success of these initiatives will depend on program design.

Governments should apply lessons from successful programs such as Israel's Yozma model by emphasizing private-sector leadership, commercial objectives, and clear pathways to private ownership.

At the same time, governments should also consider specific regulatory barriers that may discourage participation in these funds and the broader venture capital (VC) ecosystem by institutional investors. For instance, pension funds — which conduct venture capital activity through dedicated in-house investment teams or in partnership with external investment managers — are subject to ownership restrictions, including the federal pension fund 30% ownership rule, which can limit their ability to take controlling positions in portfolio companies. Fund-of-funds programs should therefore be structured to accommodate these constraints and facilitate participation by pension funds.

Creating the Conditions for Growth

7 MODERNIZE THE CAPITAL GAINS TAX FRAMEWORK

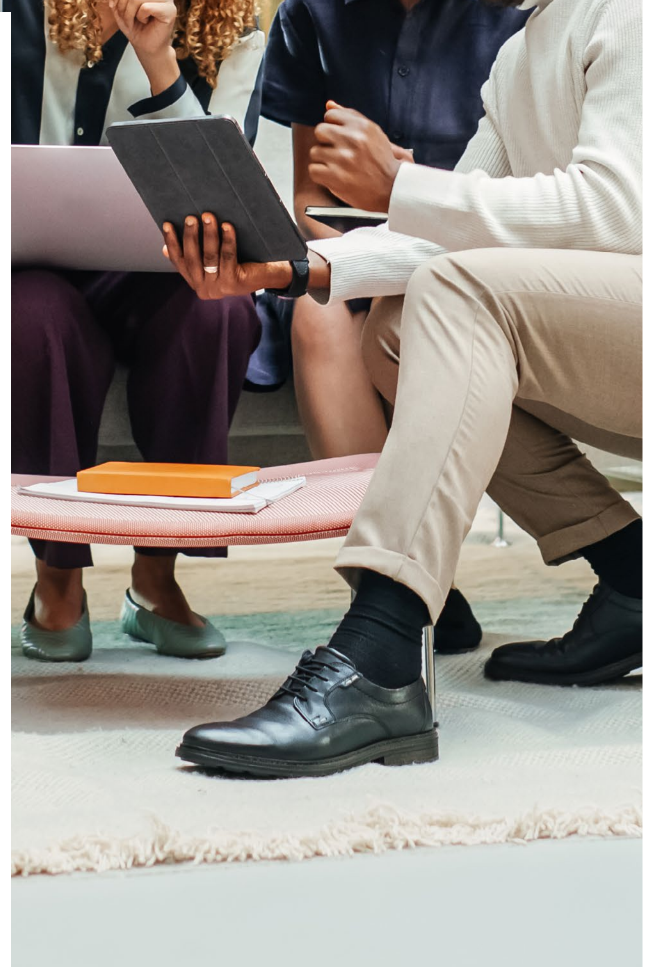
The federal government should introduce broad rollover provisions for reinvested capital gains after company exits and move toward a regime equivalent to U.S. Qualified Small Business Stock provisions, which offer capital gains exclusions for investments held in qualifying companies on a per company, rather than lifetime basis.

8 REFORM TAX, REGULATION, AND COMPETITION POLICY

Federal and provincial governments should address tax competitiveness, regulatory burden, internal trade barriers, and competition policy to strengthen Canada's attractiveness as a place to build and scale companies.

9 STREAMLINE AND CONSOLIDATE SUPPORT PROGRAMS

Federal and provincial governments should establish a unified digital portal consolidating program information, eligibility criteria, and applications. In parallel, program design should shift from size-based eligibility thresholds to age-based criteria to avoid penalizing firm growth and scaling. Finally, all programs should be subject to mandatory five-year review to prove their impact.



Taken together, these recommendations form an integrated strategy to improve access to capital and strengthen Canada's innovation economy. Better lending rules help only if founders know the loan programs exist. Pension capital flows into venture only if the funds receiving it are structured to earn returns. Capital raised on better terms compounds when the tax system lets entrepreneurs reinvest their exits.

The goal is a financing environment in which Canadian companies can grow from startup to global competitor without having to leave Canada to do so.

The cost of getting this wrong is significant. If the financing gap goes unaddressed, it means more companies relocate, more intellectual property is sold abroad, and more value is lost on top of the $66 billion already gone since 2019. Recent announcements have committed capital, but whether they are able to help close the gap depends on addressing the reforms set out above.

Stuck at Small

Canada does not lack promising companies — it lacks the environment to help them grow and scale here.

The recent wave of federal and provincial announcements, in innovation funding, domestic procurement commitments, tax incentives, and broader industrial strategy, rests on an assumption: that once public capital is committed, it will find its way to the firms capable of turning public dollars into meaningful returns. Governments point to dollars allocated, programs launched, and targets set. But commitment is not the same as impact.

This is especially true for Canadian high-growth companies. However, it's not clear that the collection of announcements and new programming is meaningfully impacting our ability to grow and retain domestic champions. This distinction matters because Canadian businesses are good at generating ideas. Turning those ideas into companies that scale – particularly in Canada – has long been a challenge, and recent evidence suggests the problem is worsening.[1]

A critical constraint for high-growth firms is access to capital. Canada's financial system is well-suited to financing large, established corporations and residential real estate. It is far less suited to financing small, innovative, high-risk companies.[i] According to a recent survey commissioned by the Canadian Federation of Independent Business, access to financing is the second most common barrier to starting a business.[2] When growth firms cannot raise the capital they need at home, founders relocate. Heavy regulatory burden, weak competition, and a tax system that penalizes growth add to the problem.[3]

Some factors are beyond the reach of public policy. Canada will have to continue to compete against deeper U.S. capital pools, more established innovation ecosystems, and the gravitational pull of Silicon Valley. Many of the barriers facing Canadian growth firms, however, are the result of domestic policy choices. Those barriers – and the reforms needed to address them – are the focus of this report.

THE SCOPE OF THIS REPORT: GROWTH-ORIENTED STARTUPS AND SCALE-UPS

Canada has just under 1.1 million employer small and medium-sized enterprises (SMEs) — businesses with fewer than 500 employees that collectively employ around 8 million Canadians in the private sector.[4] But not all SMEs are alike.[ii]

Many are lifestyle SMEs, such as bakeries and corner stores, designed to generate stable income for owners. They play an important role in local economies and communities but are not typically structured for rapid expansion and scale.

This report focuses on a different subset of firms: growth-oriented startups and scale-ups. These firms are built with the potential to grow quickly, serving large markets, and ultimately competing on a national or global scale.

A startup is typically a young company, often less than five years old, that is still testing whether an idea can become a sustainable business. Revenue may be limited or non-existent, founders are investing heavily in product development, and the product and market fit are still being refined. Failure rates are high, reflecting the inherently experimental nature of early-stage innovation.

A scale-up has moved beyond this stage. It has demonstrated that its business model works and revenue is growing, often quickly. The challenge is no longer survival but speed — can the company raise capital fast enough to capture the market before a

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i Canada is not alone in confronting this challenge. In 2024, former European Central Bank President Mario Draghi delivered a landmark competitiveness report to the European Commission concluding that Europe's failure to finance and scale innovative firms represents an existential economic threat. The problems listed in the report — too many micro-firms, too little growth capital, entrepreneurs leaving for the U.S., banks structurally ill-suited to finance intangible-asset-heavy companies — are strikingly similar to Canada's.

ii Canada has approximately 1.1 million employer businesses. Small businesses (1-99 employees) account for the vast majority at 98.2 percent (1.08 million businesses), while medium-sized firms (100-499 employees) represent 1.5 percent (16,953 businesses) and large enterprises (500+ employees) comprise just 0.3 percent (3,380 businesses).

competitor does?

Between 2018 and 2020, only 16.4 percent of Canadian SMEs grew revenues by more than 10 percent, while nearly 40 percent reported zero or negative growth.[5] Growth was concentrated among a relatively small group of firms: larger and younger companies, exporters and firms entering new markets, and innovative companies – those introducing new or significantly improved products, processes, or business methods, holding intellectual property, or adopting advanced technologies and e-commerce platforms.

Although these firms represent a minority of all SMEs, their economic contribution is disproportionately large. High-growth firms account for a significant share of job creation despite making up a small share of all businesses. Canadian research shows that high-growth firms — just 4 percent of firms with at least 10 employees — generated roughly 40 percent of net employment change between 2009 and 2012.[6] Firms with one or more employees that achieved high-growth status represented only 1 percent of all firms but accounted for 63 percent of net employment growth. OECD analysis across 18 member countries similarly found that firms less than five years old accounted for just 17 percent of employment but created 42 percent of all new jobs.[7]

Their contribution extends beyond employment. Innovative SMEs are important drivers of productivity growth and knowledge spillovers. Statistics Canada survey data show that innovative SMEs were two to three times more likely to adopt new technologies, three times more likely to hold intellectual property, and twice as likely to export as their non-innovative peers.[8]

Canada faces a particular challenge in converting promising firms into large enterprises. The share of high-growth firms in Canada's service sectors is below the OECD average, and only 2 percent of mid-sized Canadian firms successfully scale into large enterprises.[9] When promising firms cannot navigate through critical growth stages, the cost extends beyond lost jobs. Canada also forgoes productivity gains, future tax revenues, and the knowledge spillovers that flow when successful companies spawn new ventures.

Improving the conditions that allow these firms to grow is therefore an economic imperative.

The first section examines how Canada's growth firms finance themselves, and where existing sources of capital fall short. The following sections set out recommendations to improve access to debt financing, mobilize equity capital, and strengthen the broader policy framework that supports business growth.

Canadian Startups and Scale-Ups Face a Capital Gap

For too many Canadian firms, debt financing is out of reach and equity capital is in short supply.

Canada’s startups and scale-ups face a capital access problem. Understanding why means looking at how growth firms finance themselves and where the available options fall short.

HOW STARTUPS AND SCALE-UPS ACCESS FINANCING: DEBT VS EQUITY

Most businesses rely on two sources of financing: debt and equity.

Debt financing includes bank loans, lines of credit, trade credit, and leases. Equity financing includes angel investment, venture capital, and private equity. The choice between debt and equity depends on firm characteristics, growth stage, and asset structure.

Traditional debt financing works well for established businesses with hard collateral, predictable cash flows, and proven models. A manufacturer can pledge equipment and inventory, and a retailer can show stable revenues. Banks understand these businesses because there is a relatively clear way to price and manage risk.

Equity financing targets a different profile of firms: companies with high-growth potential, intangible assets, and uncertain but potentially large returns. A software company with no revenue but a validated product might attract angel investors; a biotech firm burning cash to develop a drug candidate might raise venture capital. Investors accept the risk because successful exits can return multiples of the original investment. Unlike lenders, they do not require regular repayments and can tolerate extended periods of negative cash flow while firms pursue growth.

In the earliest stages, however, often neither source of capital is readily available. Because lenders must conduct due diligence and assess repayment risk, firms with no revenue or limited assets often face significant barriers to traditional bank lending, regardless of company profile. Founders rely on personal savings, family, and informal financing to develop a product and validate a market. Debt typically does not become accessible until the company has revenues and hard assets to pledge as collateral, while institutional capital is concentrated among a relatively small number of firms.

The result is a persistent financing gap that follows many Canadian growth firms throughout their development.

LIMITED DEBT FINANCING OPTIONS ARE CONSTRAINING GROWTH FIRMS

Statistics Canada’s 2023 Survey on Financing and Growth of Small and Medium Enterprises demonstrates that Canadian SMEs rely overwhelmingly on debt rather than equity financing. Among the 49.3 percent of SMEs that sought external financing, 25.7 percent applied for debt financing and 27.4 percent sought trade credit, while only 1.4 percent pursued equity investment.[10] The data suggest that even firms seeking external capital continue to rely primarily on borrowing rather than ownership-based financing.

A PRIMER ON DEBT FINANCING FOR SMES

Statistics Canada's 2023 Survey shows that 36.3 percent of innovative SMEs requested debt financing in 2023.[11] Debt financing, however, takes many forms, each designed to address different business needs.

Trade credit — The most common form of financing, requested by 33.9 percent of innovative SMEs. Suppliers extend payment terms – typically 30-90 days – allowing companies to receive goods before payment is due. While not technically a bank loan, trade credit functions as short-term financing and is particularly important for inventory-based businesses managing cash flow cycles.

Credit cards — Requested by 18.1 percent of innovative SMEs. Credit cards provide revolving credit with immediate access to funds with high approval rates (92.1 percent) but at a cost: interest rates average 19.5 percent, making them the most expensive form of debt. They are generally used for short-term operational expenses and immediate financing needs.

Lines of credit — Requested by 14.5 percent of innovative SMEs. These facilities allow firms to draw funds as needed up to an approved limit and pay interest only on outstanding balances. With an average interest rate of 10.2 percent, lines of credit are used for managing cash flow gaps and seasonal fluctuations.

Bank term loans — Requested by 10.9 percent of innovative SMEs. These loans provide a lump sum that is repaid over fixed periods, typically five years. The average interest rate was 8.1 percent and nearly half of borrowers (48.7 percent) were required to provide collateral, such as personal or business assets. Term loans are used for larger investments, including equipment, expansion, and acquisitions.

Lease financing — Requested by 9.9 percent of innovative SMEs. Leasing enables companies to use equipment without ownership, preserving cash. Because the leased equipment serves as collateral, lease financing is commonly used for vehicles, machinery, and technology infrastructure.

Non-residential mortgages — Requested by 4.8 percent of innovative SMEs to finance commercial real estate purchases. These loans carried an average term of eight years and an average interest rate of 7.1 percent. The property itself secures the loan.

Among innovative firms that obtained financing, 63.5 percent used the funds for working capital, including inventory, suppliers, and payroll. Other common uses included machinery and equipment (18.0 percent), computer hardware (13.2 percent), vehicles (12.2 percent), and land and buildings (11.0 percent). Innovative SMEs were more likely than non-innovative firms to use debt financing for R&D (5.3 percent versus 1.2 percent) and entering new markets (3.8 percent versus 1.9 percent).

When innovative SMEs were denied credit, lenders most frequently cited insufficient sales or cash flow (48.2 percent) — nearly double the rate for non-innovative firms (26.7 percent). Other common reasons included a lack of credit history (24.1 percent), insufficient collateral (21.1 percent), operating in an unstable industry (15.8 percent), and projects assessed as too risky (11.3 percent).

These denial patterns highlight a persistent mismatch between traditional lending practices and the realities of growth-oriented firms. Conventional underwriting relies heavily on established cash flows and tangible collateral, while innovative businesses often derive much of their value from intangible assets, intellectual property, and growth opportunities that may not yet generate predictable revenues.

The pattern holds even among growth-oriented firms. Innovation, Science and Economic Development Canada's analysis of the survey data breaks financing requests down by firm characteristics, showing that even the firms most likely to scale rely primarily on debt (Table 1).[12]

Table 1: Percentage of SMEs that Requested External Financing (%) by Type of Financing, 2023

Category	External (Any)	Trade Credit	Debt	Government	Lease	Equity
All SMEs	49.3	27.4	25.7	6.9	6.9	1.4
Innovation Status						
Innovator	62.7	33.9	36.3	13.4	9.9	2.7
Non-Innovator	44.1	25.0	21.8	4.5	5.9	0.9
Exporter Status						
Exporter	58.2	34.4	29.8	11.3	7.3	2.9
Non-Exporter	47.7	26.2	25.0	6.1	6.9	1.1
Growth (Sales>20%)	58.0	32.5	33.4	12.1	10.4	2.6

Source: Statistics Canada's 2023 Survey on Financing and Growth of Small and Medium Enterprises

Innovative SMEs — those engaged in product, process, organizational, or marketing innovation — were considerably more active in seeking external financing than non-innovators. Nearly two-thirds requested external financing, compared with 44.1 percent of non-innovators. Yet, debt financing dominated funding requests: 36.3 percent of innovators sought debt, compared with only 2.7 percent seeking equity.

Exporters showed a similar pattern. Nearly 60 percent requested external financing, compared with 47.7 percent of non-exporters. Among exporters, 29.8 percent sought debt financing while only 2.9 percent sought equity. Exporters were also more likely to request government financing (11.3 percent versus 6.1 percent) and leases (7.3 percent versus 6.9 percent), reflecting the capital demands of international expansion.

High-growth firms — those with sales growth exceeding 20 percent — were the most active overall, with 58.0 percent requesting external financing. Even in this segment, debt (33.4 percent) dominated equity (2.6 percent). High-growth firms also made greater use of trade credit (32.5 percent) and government financing (12.1 percent), suggesting that firms exhaust debt-based sources before turning to equity.

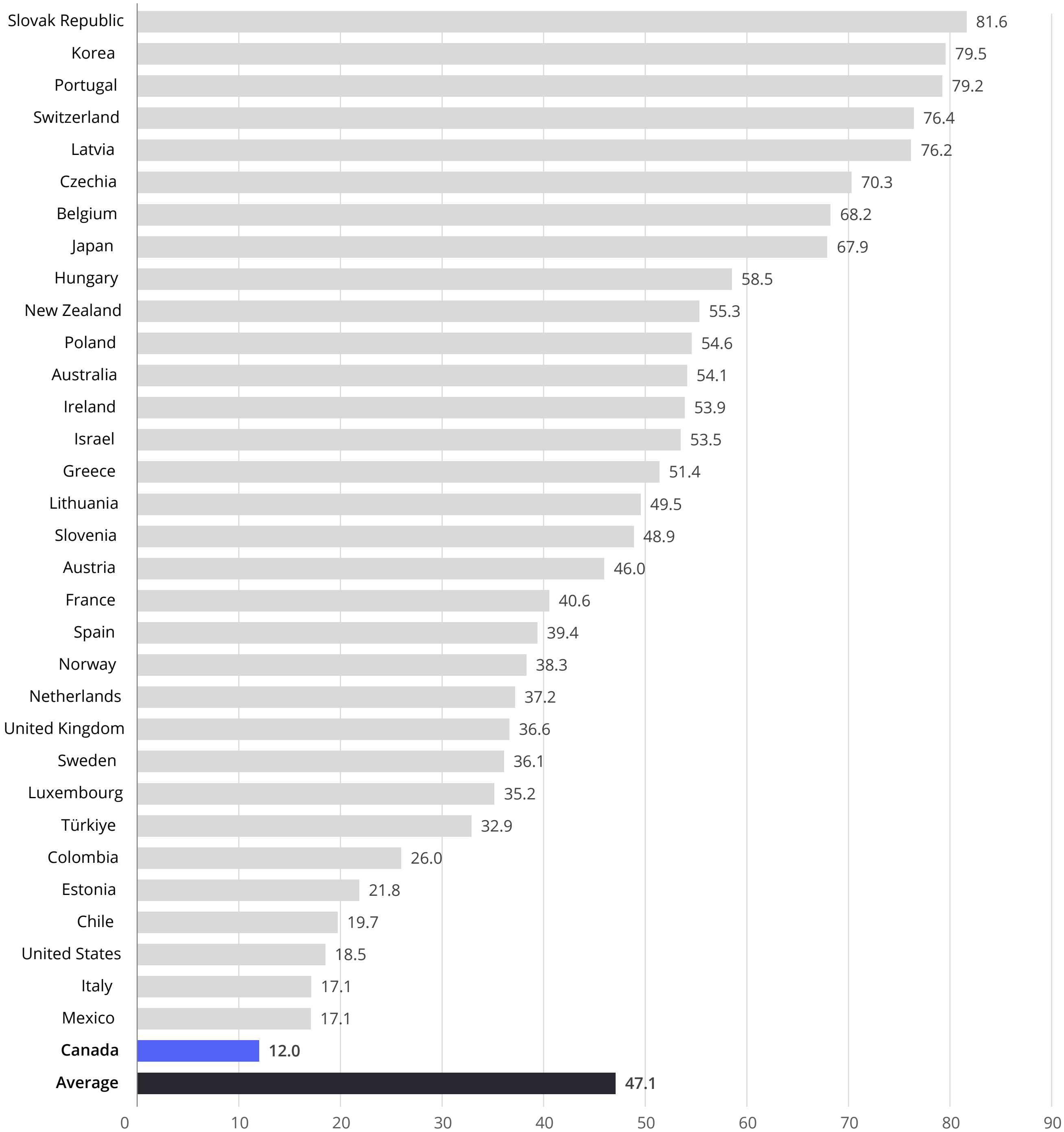
Despite relying heavily on debt, growth firms face distinct financing barriers. When innovative SMEs were denied credit, lenders most frequently cited insufficient sales or cash flow (48.2 percent versus 26.7 percent for non-innovative firms), a lack of credit history (24.1 percent versus 18.0 percent), operating in an unstable industry (15.8 percent versus 2.1 percent) or projects deemed too risky (11.3 percent versus 4.7 percent).[i]

These patterns reflect a structural problem in Canada's financing ecosystem. Canada ranks last among OECD countries in the share of total business lending directed to SMEs (Figure 1). Between 2014 and 2024, only 12 percent of Canadian business loans went to small and medium enterprises, against an OECD average of 47.1 percent (Figure 1). This outcome is partly the product of regulatory and capital framework incentives that make lending to large corporations and residential mortgage borrowers more attractive than lending to small businesses.[ii]

i Statistics Canada assigns a low data quality rating for the insufficient sales/cash flow and poor or limited credit experience/history estimates for innovative SMEs. While the estimates have a high level of sampling variability, the difference between innovative and non-innovative firms is large enough to draw broad conclusions from the data.

ii The OECD Financing SMEs and Entrepreneurs Scoreboard uses country-specific SME definitions as reported by national financial authorities. For Canada, the financial definition of SME differs from the national statistical definition: the Scoreboard uses loan size (under $1 million CAD) as the threshold, while Statistics Canada's Survey on Financing and Growth of SMEs defines SMEs by employee count (1–99 employees for small, 100–499 for medium). The OECD methodology explicitly recommends using growth rates rather than levels for cross-country comparisons. See OECD (2026), Financing SMEs and Entrepreneurs Scoreboard, Methodology. The Canadian Bankers Association has raised the same methodological concern in its submission to the Competition Bureau's SME financing market study: see CBA, "Capital for Canada" (February 2026). However, the differences in definitions are not sufficient in explaining Canada's relative positioning in the OECD. Its last place ranking is still telling of a broader structural challenge in Canada.

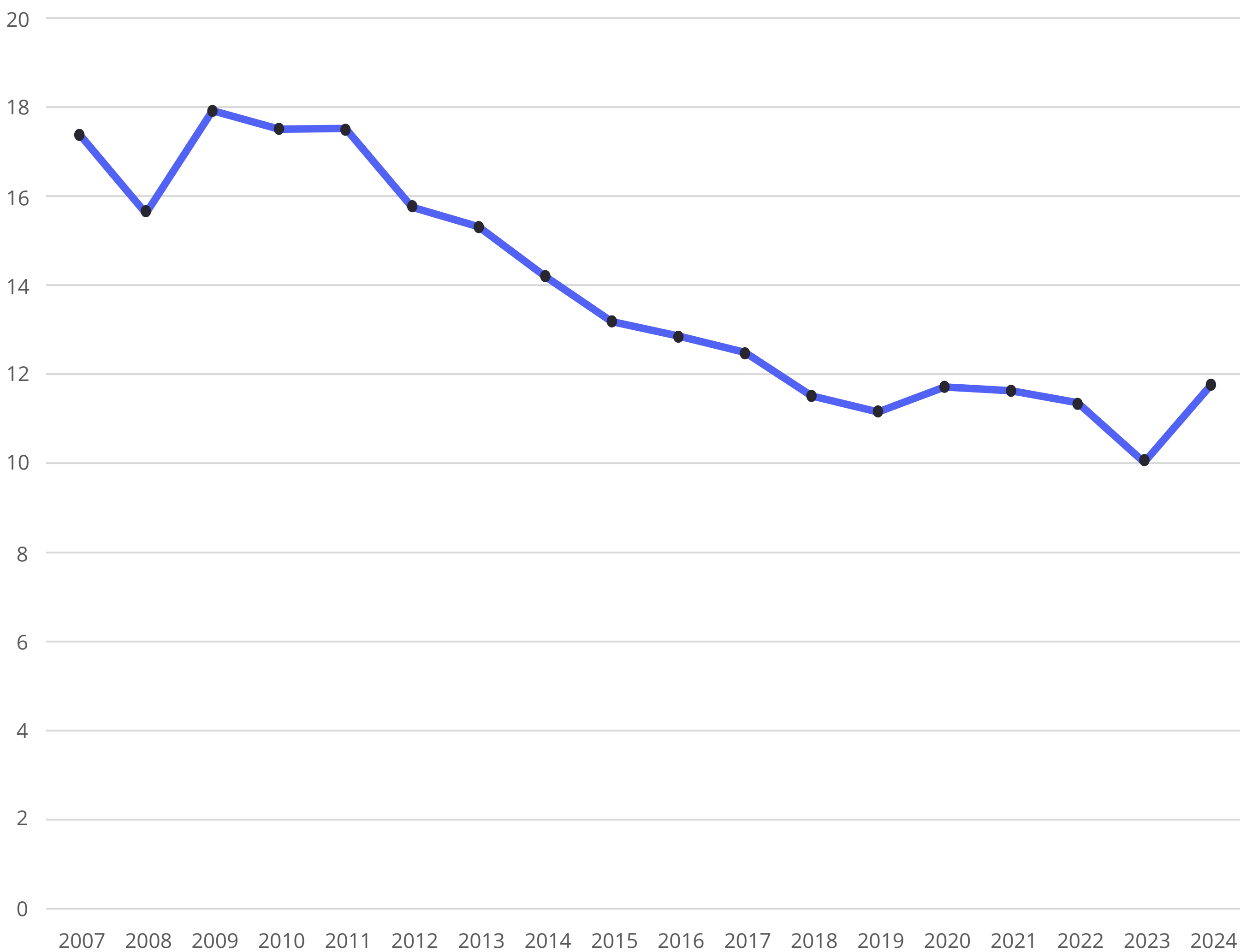
FIGURE 1: PERCENTAGE OF TOTAL BUSINESS LOANS GOING TO SMES (%), OECD COUNTRIES, AVERAGE BETWEEN 2014 AND 2024 (OR AVAILABLE DATA)



Source: OECD; author's calculations

More telling is Canada's own trendline for SME lending since 2007 (Figure 2). The SME share of business lending has declined steadily from approximately 17 percent in 2007 to 12 percent in 2024 (with a low of 10 percent in 2023), pointing to a deterioration that is not explained by international definitional variation.

FIGURE 2: PERCENTAGE OF TOTAL BUSINESS LOANS GOING TO SMES (%), CANADA, 2007 – 2024



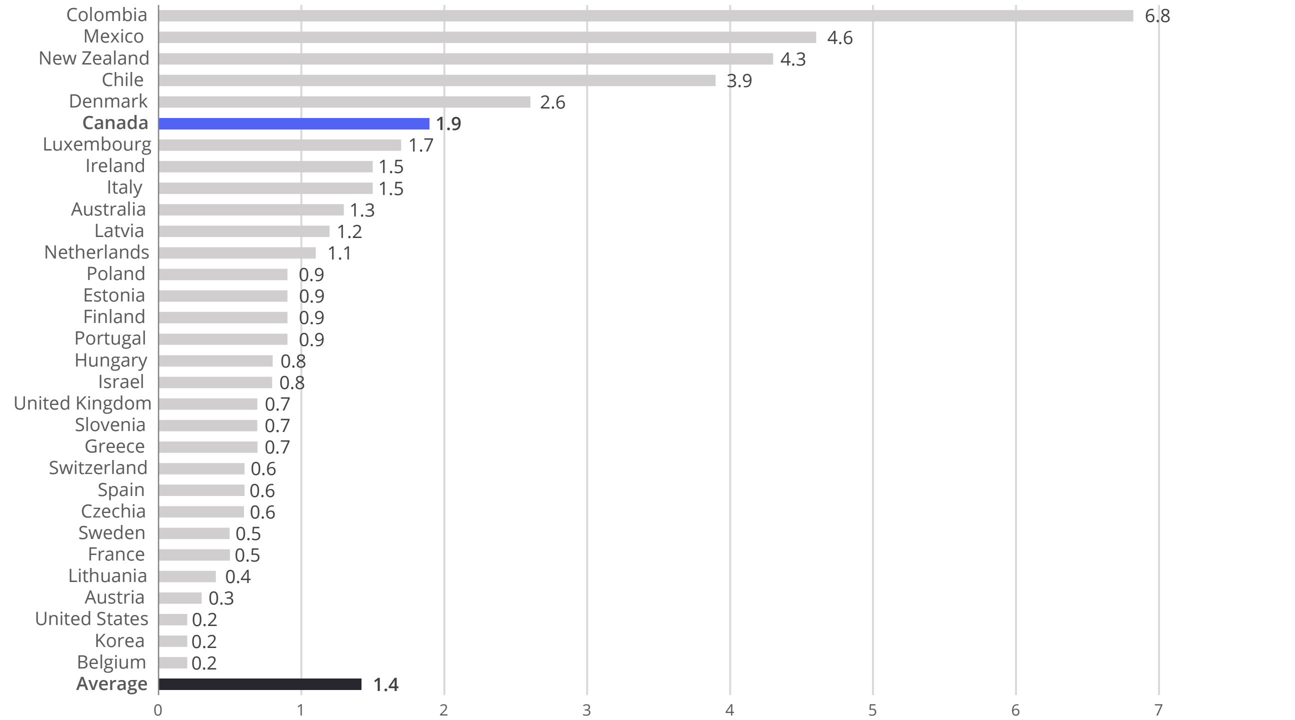
Source: OECD

When SMEs do access debt, they face higher borrowing costs than peers in other advanced economies (Figure 3). Between 2014 and 2024, Canadian SMEs paid an average of 1.9 percentage points more than large firms on business loans, against an OECD average spread of 1.4 percentage points.[i] Half a percentage point may sound modest, but on a $1 million loan over five years it is real money, and it compounds over the life of a growing company. Importantly, the international comparison uses the prime rate as a proxy for large-firm borrowing costs — a standard OECD methodology that could understate the true spread.[ii]

i The OECD Financing SMEs and Entrepreneurs Scoreboard uses country-specific SME definitions as reported by national financial authorities. Definitions vary across countries — the United States defines SMEs as firms with fewer than 500 employees, the European Union uses fewer than 250 employees, and other countries use revenue thresholds or combinations of criteria. See OECD (2026), Financing SMEs and Entrepreneurs 2026: An OECD Scoreboard, "Methodology for producing national Scoreboards"

ii The OECD Financing SMEs and Entrepreneurs Scoreboard calculates the interest rate spread as the difference between the average rate charged on SME loans and the prime rate, treating prime as a proxy for the cost of credit to large firms. The Canadian Bankers Association has noted this methodology is imprecise in the Canadian context: "loans for large corporations have significant variances for companies of similar size that are based on various risk and capital factors." The prime rate may therefore be an unreliable proxy for large-firm borrowing costs. See OECD (2026), Financing SMEs and Entrepreneurs Scoreboard, Canada and CBA, Capital for Canada (February 2026). That said, the Competition Bureau's own market study notice states: "The 2024 OECD Scoreboard revealed that

FIGURE 3: INTEREST RATE SPREAD – SME VS LARGE ENTERPRISE LOANS, PERCENTAGE POINTS, OECD COUNTRIES, AVERAGE BETWEEN 2014 AND 2024 (OR AVAILABLE DATA)



Source: OECD; author's calculations

The Competition Bureau's ongoing study of competition in SME financing has noted the interest-rate premium Canadian SMEs face relative to peers in other developed countries, identified opportunities to increase competition in the banking sector, and highlighted barriers to switching lenders.[13]

More fundamentally, many growing businesses require financing that falls outside traditional lending models. As the C.D. Howe Institute observed in a 2023 report, "the amount of financing required for growth often exceeds that which banking institutions are able to provide, and the risks associated with growing enterprises may exceed that which banks can bear."[14]

A software startup scaling from $2 million to $20 million in revenue needs capital for hiring, marketing, and infrastructure long before those investments generate returns. A biotechnology company can spend years developing a drug candidate before reaching clinical trials. In both cases, the financing requirement is real, but the cash flows and collateral that traditional lenders rely upon are often absent.

This creates a structural gap in Canada's financing ecosystem. Conventional lending criteria can exclude growth firms, while alternative debt instruments remain relatively limited and unfamiliar to many SMEs. The result is a debt-financing system that serves stable, asset-heavy businesses reasonably well but often struggles to support firms pursuing rapid growth, innovation, and commercialization.

INSUFFICIENT EQUITY FINANCING IS A KEY BOTTLENECK FOR THE ECOSYSTEM

When it comes to scale-ups, equity capital is intended to complement debt by filling the financing gap that traditional lending cannot address. Venture capital investors specialize in high-risk, high-return opportunities: they understand intangible assets, tolerate negative cash flow during growth phases, and provide follow-on capital as firms scale. However, in practice, Canada's venture capital pool is undercapitalized, concentrated, and increasingly dependent on foreign investors.

Canadian SMEs face a larger interest rate premium above large firms compared to SMEs in other OECD countries. In 2021 and 2022, the difference between what SMEs and large businesses in Canada paid was 1.64 and 2.10 percentage points respectively."

A PRIMER ON FUNDING ROUNDS

Startups raise capital in stages. Each stage carries a different risk profile, serves a different purpose, and draws from a different pool of investors. Funding at these stages is overwhelmingly equity-based, though some companies layer in specialized debt instruments – such as venture debt or revenue-based financing – alongside equity rounds.

Pre-seed and seed — At the pre-seed stage, founders are still building the product or testing whether the idea works. They often rely on personal savings, family loans, and credit cards for funding. The seed stage follows once there is a product, early customers, or a working prototype. Angel investors are often the first source of external capital, funding the team and the work needed to prove the business model. Canadian pre-seed deals in 2025 averaged $0.88 million, while seed rounds averaged $3.03 million.[15] Investors at this stage are mainly angels, accelerators, and specialist early-stage funds.

Series A — At this stage, the company has shown the product works and proven customers' willingness to pay. Series A capital is used to scale the business: hiring, go-to-market capacity, and operational build-out. Research by Charles Plant at the C.D. Howe Institute, which normalizes funding by company age, finds that Canadian Series A firms raise $295,000 per month of company existence compared to $528,000 for U.S. firms – about 56 percent of the U.S. level.[16]

Series B — At this stage, the company is scaling a proven model, expanding into new markets, building infrastructure, and deepening its team. Rounds are larger and funders typically include growth-stage venture capitalists (VCs). This is where domestic capital becomes more constrained: Canadian investors account for roughly 80 percent of financings under $5 million, but a much smaller share of larger rounds. Accessible capital for Series A and B in Canada declined in 2025, with dollars invested falling to two-thirds of 2024 levels and deal count down 28 percent.[17]

Series C and beyond — At this stage, the company is generating meaningful revenue and raising to accelerate expansion, enter new markets, or prepare for exit. Rounds can reach into the hundreds of millions. The largest Canadian Series C on record, raised by Toronto-based Waabi in 2025, totalled over $1 billion (US$750 million). U.S. investors participated in roughly two-thirds of Canadian financings above $50 million in 2025.[18]

Exits — An exit is the point at which early investors convert their shares into cash. There are three main exit pathways. An initial public offering (IPO) lists the company's shares on a public stock exchange, allowing early investors to sell to public-market buyers. A merger or acquisition (M&A) involves the company being bought outright by another firm, most often a larger competitor or a strategic acquirer. A secondary transaction involves existing shareholders, typically early investors or founders, selling their shares to new investors while the company itself remains private.[19]

In Canada, M&A dominates the formal exit landscape. In 2025, 29 venture-backed exits generated $358 million in disclosed proceeds, all through M&A activity, with no traditional venture-backed IPOs since 2023. Secondary activity has grown substantially — reaching $1.3 billion in 2025 — and now provides an important source of liquidity in the absence of IPO activity, though it recycles existing ownership rather than injecting new capital into companies.[20]

The National Angel Capital Organization (NACO) quantified the cost of these equity financing challenges to the Canadian economy in its 2026 report with Startup Genome on early-stage funding gaps. It found that Canada's three largest startup ecosystems — Toronto-Waterloo, Vancouver, and Montreal — together lost $66 billion in ecosystem value between 2019 and 2024, corresponding to an estimated 133,000 fewer high-quality startup jobs.[21]

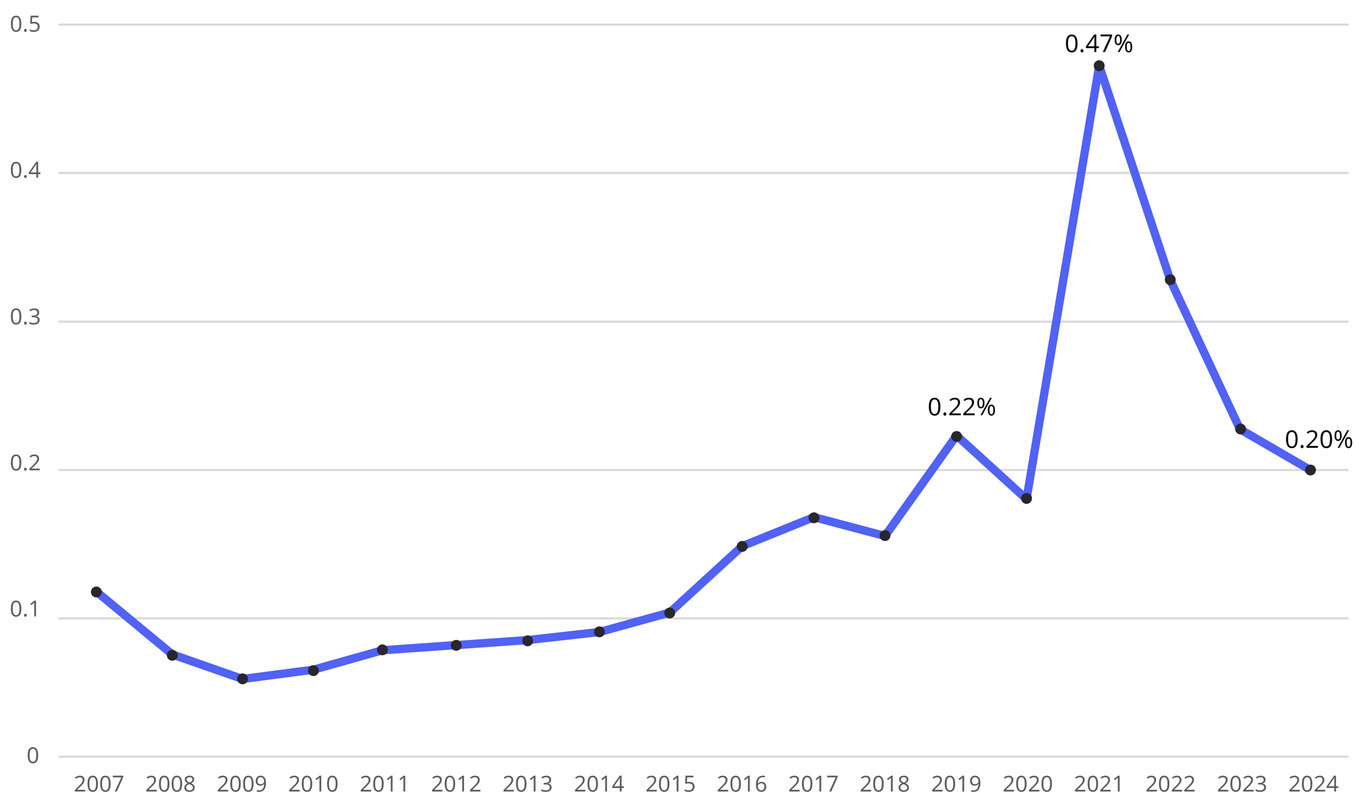
During this period, Canadian ecosystems grew at roughly 2 percent annually, while leading global peers grew between 9 and 17 percent. This performance gap is reflected in global rankings: over the past six to eight years, Toronto fell from 13th to 20th place, Vancouver from 15th to 36th, and Montreal from 20th to 39th in the Global Startup Ecosystem Rankings.

Drawing on approximately 65,000 funding rounds since 2006, NACO also identified a minimum annual seed and pre-seed funding gap of US$141 million, with seed rounds in Canada's major tech hubs running 37 to 40 percent smaller than comparable U.S. ecosystems.[22]

NACO's 2026 State of Angel Investing in Canada report found that 2025 marked a five-year low in angel capital deployed: Canadian angels invested $113.79 million across 490 deals, down 22.1 percent in capital deployed and 20.1 percent in deal count from 2024.[23]

Taken together, these trends point to a broader contraction in early-stage risk capital. After a temporary pandemic-era surge, Canada's venture capital intensity dropped sharply, declining from 0.47 percent as a share of GDP in 2021 to 0.2 percent in 2024 — more than half in three years (Figure 4). When venture capital contracts, growing firms find it harder to secure financing in Canada.

FIGURE 4: VENTURE CAPITAL AS A SHARE OF GDP (%), CANADA, 2007 – 2024



Source: OECD

A recent OECD report on Canada's industrial policy documents how Canadian VC participation drops sharply at later stages. In 2022, Canadian-only VC investments made up 33 percent of seed rounds, 19 percent of early-stage rounds, and just 9 percent of later-stage rounds. The OECD calls this "innovation leakage": heavy reliance on foreign venture capital pushes promising firms to relocate or be acquired by foreign entities, weakening domestic ecosystems.[24]

At the same time, the VC landscape is also becoming more concentrated. The 2025 year-end report from the Canadian Venture Capital and Private Equity Association (CVCA) found that total deployed capital fell 6 percent to $8 billion while deal volume dropped 12 percent. Investment has pooled into a handful of large transactions, with 26 mega-deals accounting for 66 percent of all funding in 2025. When two-thirds of capital flows through 26 deals, the majority of companies raising smaller rounds are effectively squeezed out.[25] Data from RBCx show that only 42 percent of venture dry powder is now earmarked for new ventures, down from 81 percent in 2022.[26]

This concentration matters because emerging managers and smaller funds are more likely to back unconventional founders, explore non-consensus sectors, and take risks that larger, established venture funds avoid. Fewer players mean fewer bets placed, fewer sectors covered, and fewer opportunities for entrepreneurs who do not fit the established pattern.

The trend intensified in early 2026. According to the CVCA's Q1 2026 report, growth-stage venture investment fell to near zero, with just one deal worth roughly $1 million in the first three months of the year — compared to a five-year Q1 average of $140 million.[27] Total venture investment across all stages dropped to $936 million over 104 deals, the lowest deal count since 2017. Earlier-stage investment accounted for almost 70 percent of the total, a reversal from 2025 when later-stage funding was expanding.[28]

The Business Development Bank of Canada (BDC) finds that Canadian investors are more involved in early-stage seed rounds, while U.S. and foreign investors dominate critical later-stage growth financing.[29] According to the Centre for International Governance Innovation, this dependency on foreign capital effectively mandates an "exit-first" culture, siphoning Canadian innovation and talent into the American economy.[30] The broader effect is an environment in which entrepreneurs prove their concepts in Canada only to move south to scale.

Research from Leaders Fund shows that only one-third of Canadian-founded startups that raised more than $1 million in 2024 were based in Canada, down from three-quarters in 2016 (Figure 5). Nearly half now operate from the U.S., more than double the share in 2016. For the first time in 2024, more Canadian-educated founders who raised significant capital started their companies in the United States than in Canada.[31]

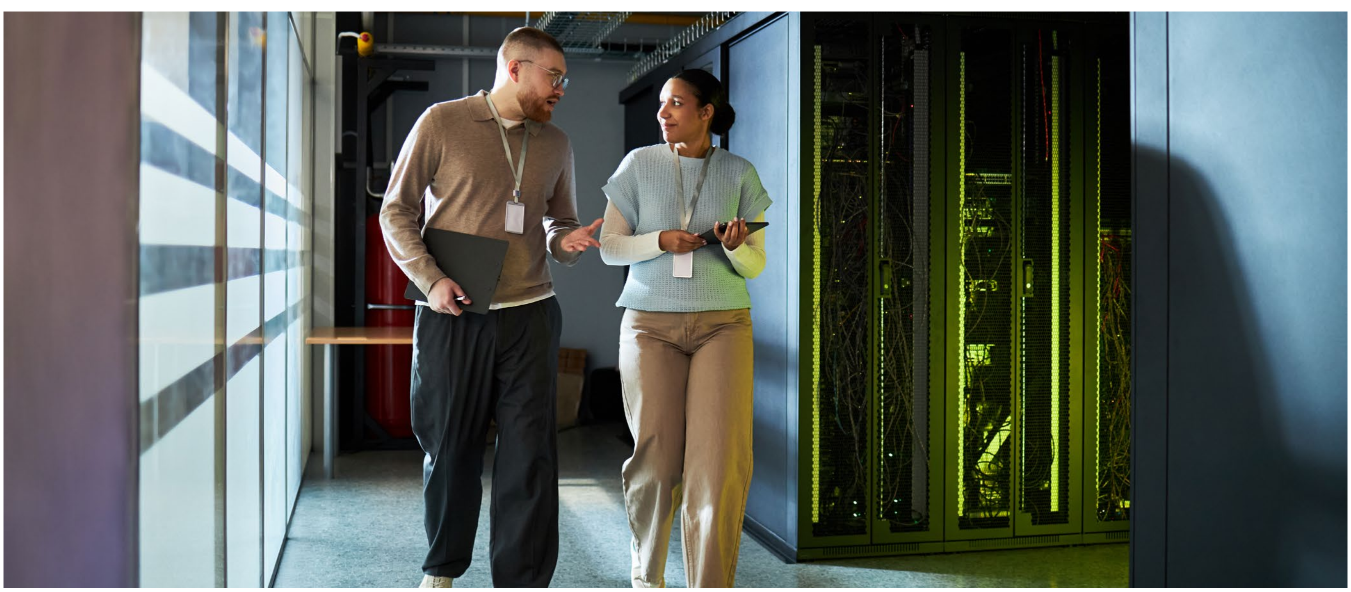
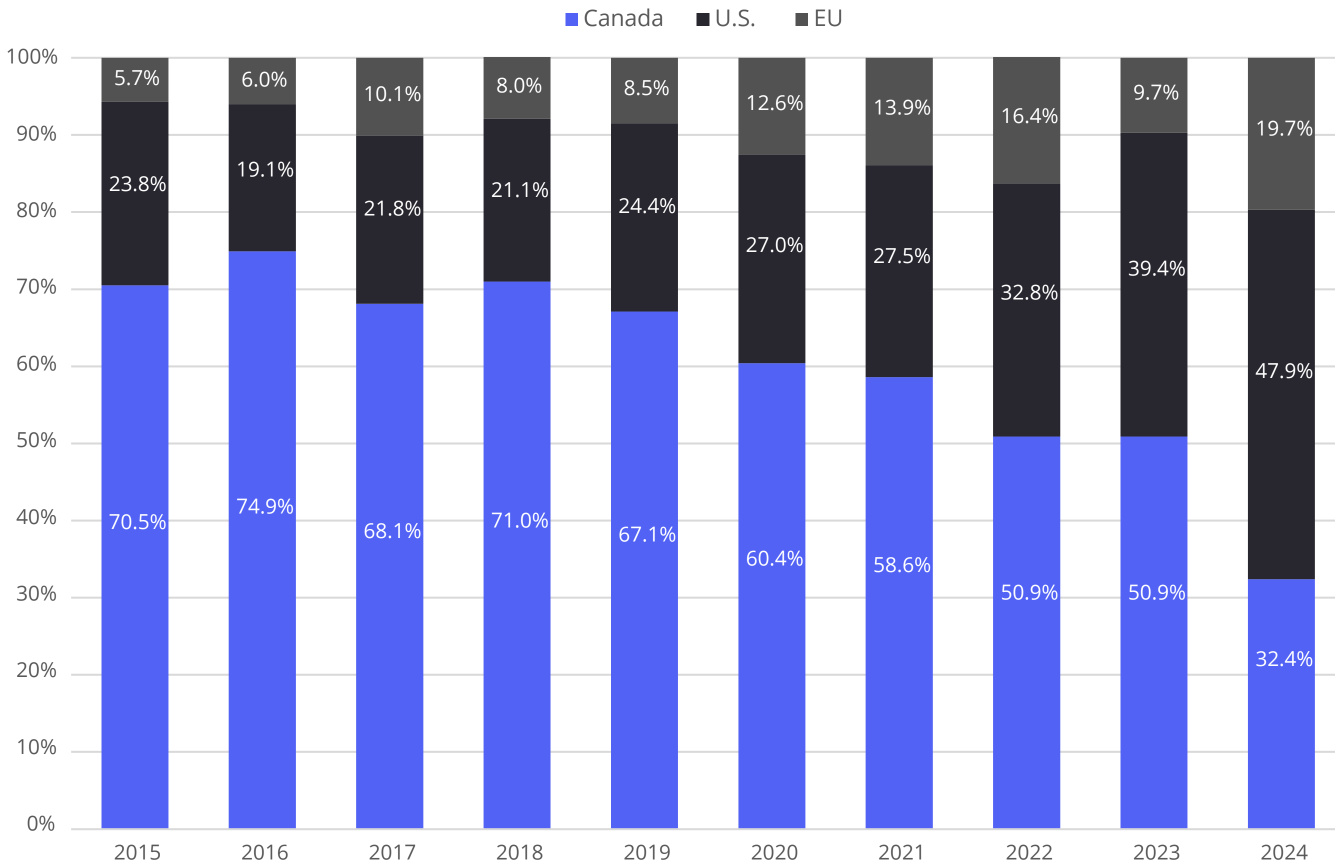


FIGURE 5: PERCENTAGE OF OVERALL CANADIAN FOUNDED COMPANIES BY LOCATION



Source: Leaders Fund
Note: Based on companies that raised more than $1 million.

According to a BDC analysis, the total number of U.S. entrepreneurship visas issued to Canadians over the past decade is equivalent to 3.4 percent of Canada's entire entrepreneurial population – double the rate of the previous decade.[32]

When entrepreneurs need financing to scale, whether in early rounds to prove the business case or in later rounds to fund market expansion and team building, they increasingly find capital easier to raise in the U.S.[i]

The domestic capital gap has drawn market interest. The Royal Bank of Canada recently announced a $1 billion growth fund to provide direct equity to Canadian companies, aiming to help high-potential firms scale at home rather than seek foreign capital.[33] Similarly, OMERS, one of Canada's largest pension funds, has set a target of adding at least $10 billion to its Canadian investment portfolio over the next five years.[34]

However, these initiatives alone cannot resolve the constraints in Canada's financing ecosystem. Early-stage rounds in Canada remain smaller and slower to close than in peer countries. Later-stage capital is heavily dependent on foreign investors, often creating pressure to relocate to access sufficient scale-up financing. At the same time, bank financing remains challenging to access for firms whose value is driven by intangible assets, whose cash flow is uneven, or whose scale potential is unproven. The gap is most acute in knowledge-intensive sectors where intellectual property is the primary asset — firms that face the steepest barriers because traditional lenders cannot value or collateralize their core assets.

i Canada's three major startup cities attract just 5 percent of the venture capital investment flowing to America's three leading hubs: San Francisco, New York, and Boston.

COMMERCIALIZATION TALENT: CANADA BUILDS, BUT STRUGGLES TO SCALE

Capital access is not the only barrier for firm growth. Statistics Canada survey data show that innovative SMEs commonly report rising input costs (44.8 percent), a lack of skilled employees (30.1 percent), and labour shortages (24.4 percent).[35]

One constraint stands out as particularly acute: access to commercialization talent. A study found that Canadian scaling firms spend more on R&D than U.S. peers as a share of revenue, but lag in commercialization functions such as marketing, sales, and market development — areas where managerial expertise is scarce.

Canada ranks last among OECD countries in large manufacturing firms per capita. At the same time, among Canadian university graduates working in the U.S., those in commercialization roles outnumber those in technical roles by 59 percent.[36,37]

The shortage shows up in executive suites. At a recent Globe and Mail event on Canadian tech companies above $100 million in revenue, Prophix CEO Alok Ajmera noted that five years ago, 90 percent of his executive team was Canadian, but after growing the business fourfold, only a third are now Canadian.[38] Similarly, Jane App co-CEO Alison Taylor described relying on executives from the U.S. because too few Canadian companies have reached sufficient scale to produce experienced leaders domestically.

ECONOMIC CONSEQUENCES

These debt and equity financing constraints produce three measurable economic effects.

First, founder relocation. Entrepreneurs follow capital, and when the financing they need to scale is available only in the U.S., they move — and in the process, Canada subsidizes American competitiveness with homegrown talent and publicly funded education.

Second, premature exits. Without enough capital to scale, promising Canadian firms sell early to foreign buyers rather than grow into global competitors. Canada loses the jobs, tax revenue, and spillover benefits a scaled domestic company would have generated.

Third, suppressed productivity and job creation. As noted earlier, high-growth firms are disproportionately important to job creation and productivity growth.[39] When financing constraints prevent these firms from scaling, the Canadian economy forgoes not only direct employment growth but also indirect spillovers, including supplier development, talent formation, and knowledge diffusion when successful firms spin off new ventures.

Taken together, these effects point to an underperformance in Canada's growth firm ecosystem. The following sections set out nine policy recommendations designed to close financing gaps across the firm lifecycle, organized into three clusters.

The first cluster — debt — focuses on strengthening the banking system's capacity and incentives to lend to innovative and high-growth firms. Recommendations include changes to how bank lending is regulated, a redesign of the federal loan guarantee program, and introducing a structural framework to support IP-based lending.

The second cluster — equity — aims to unlock the large pools of institutional capital that are largely unavailable to startups and scale-ups. Pension funds and insurance companies manage trillions of dollars on behalf of Canadians, yet only a small share is deployed into venture and growth-stage companies. Recommendations involve regulatory changes, legislative modernization, and government fund-structure changes.

The third cluster — conditions — addresses the broader environment in which founders, financial institutions, and investors operate. Recommendations include reforms to capital gains taxation, changes to the overall competition framework, and increasing the accessibility and efficiency of government programming.

Each cluster begins by diagnosing the sources of underperformance before setting out targeted policy interventions designed to improve Canada's ability to finance and scale high-growth firms.

Improving Access to Debt Financing

Canada’s financial system is not well designed to serve the financing needs of high-growth firms. The barriers that produce these financing challenges are a result of policy decisions. The recommendations in this section target those barriers directly.

Reduce regulatory capital requirements on SME lending

Capital rules shouldn't steer banks away from financing startups – it's time to update them.

JURISDICTION: FEDERAL (OSFI)

OVERVIEW:

OSFI should accelerate its proposed cut to SME risk weights from 85 to 75 percent, introduce a lower 70 percent risk weight for qualifying growth firms, and reduce the 400 percent risk weight on bank venture capital equity investments to 100 percent for minority stakes in Canadian venture companies or funds. These changes would align regulatory capital requirements with the government's stated priority of increasing business lending to startups and scale-ups.

POTENTIAL IMPACT:

Lowering the SME risk weight from 85 to 75 percent would reduce the capital banks must hold for every $100 of SME lending from $8.50 to $7.50, improving the attractiveness of lending to growth firms relative to other asset classes – including residential mortgages. A further reduction to 70 percent for qualifying growth firms would create a regulatory incentive aimed at the segment that contributes disproportionately to job creation and productivity growth. Reducing the venture capital risk weight from 400 to 100 percent would lower required capital from $40 to $10 per $100 invested, encouraging bank participation in domestic VC financing while maintaining prudential oversight.

THE CHALLENGE:

Banks are required to hold capital as a cushion against the possibility of loan defaults. The amount they must hold is determined by a "risk weight" assigned to each type of asset. A higher weight means more capital must be held, which makes that category of lending more expensive for the bank.[i]

Under Basel III rules implemented by the OSFI, bank loans to SMEs carry an 85 percent risk weight. This means that for every $100 in SME loans, a bank must hold $8.50 in regulatory capital (assuming a 10 percent capital adequacy ratio).[ii]

Residential mortgage lending receives substantially more favourable treatment. Mortgages insured by the Canada Mortgage and Housing Corporation (CMHC) carry a risk weight of zero or near zero, because the government guarantee behind CMHC's insurance is treated as a sovereign exposure under OSFI's capital framework.[40] Even uninsured residential mortgages typically have risk weights between 20 and 35 percent depending on loan-to-value ratios.

The result is that residential mortgage lending is far more capital-efficient than business lending. This matters because regulatory capital is expensive. Banks must fund capital requirements through retained earnings or equity issuance, both of which carry opportunity costs. When a bank can deploy capital into mortgages at a zero or 20 percent risk weight, or into SME loans at 85 percent, the incentives plainly favour mortgage lending.

OSFI Superintendent Peter Routledge has publicly acknowledged this dynamic, noting that the current framework makes it more costly for banks to lend to SMEs than to write mortgages.[41] From a financial stability perspective the framework is functioning as designed — residential mortgages are a lower risk than business loans. However, the second-order effect is a banking system that systematically underserves growing firms.

i A recent C.D. Howe Institute task force report on prudential requirements and business lending identified what it termed the "missing middle" — enterprises too large for retail bank lending but too small to access capital markets directly — as the segment most affected by prudential rules. The task force, composed of former OSFI Deputy Superintendents, bank executives, and insurance leaders, found that OSFI's conservatism in reviewing and approving bank internal models pushes institutions toward higher capital charges than underlying risks warrant.

ii Regulatory capital is calculated as Loan Amount × Risk Weight × Capital Adequacy Ratio. Assuming a standard 10 percent capital adequacy ratio: current (85 percent): $100 × 0.85 × 0.10 = $8.50.

HOW REGULATORY CAPITAL AFFECTS LENDING DECISIONS: AN ILLUSTRATIVE EXAMPLE

Consider two $1.5 million loan applications at a Canadian bank.

Application A: an uninsured mortgage on a residential property with a 20 percent down payment.

Application B: a term loan to a software company expanding its sales team, with $6 million in annual recurring revenue and positive cash flow.

Under OSFI’s capital framework, the uninsured mortgage carries a 35 percent risk weight, requiring the bank to hold $52,500 in regulatory capital (assuming a 10 percent capital ratio). The software company loan carries an 85 percent risk weight, requiring $127,500 in regulatory capital — nearly 2.5 times more. The bank’s return-on-equity calculation makes the mortgage more profitable even if both borrowers present similar default risk. The framework creates a systemic bias toward residential lending over business lending.

Capital requirements also discourage banking sector participation in venture capital. Canadian banks currently face a 400 percent risk-weighted asset treatment for venture capital equity investments.[42] At a 10 percent capital ratio, banks must hold $40 in regulatory capital for every $100 of VC investment — more than ten times the capital required for an insured mortgage.

Together, the bias toward mortgage lending, the higher relative cost of SME debt, and the high risk-weight treatment of VC investments limits the flow of capital to growth firms.

THE RECOMMENDATION:

In November 2025, OSFI proposed reducing the risk weight for small business lending from 85 percent to 75 percent as part of its draft Capital Adequacy Requirements (CAR) 2027 Guideline.[43] The proposal represents an important step toward improving access to credit for SMEs, but further action is warranted to address the financing challenges faced by startups and scale-ups.

The proposed cut to 75 percent would lower the required capital to $7.50 per $100 loan — a material change that would improve the economics of SME lending and allow banks to offer better terms to a wider range of businesses.[44] But growing firms — those with established revenue, proven business models, and professional management teams — present different risk profiles than smaller or earlier-stage businesses, and likely warrant differentiated treatment in the capital framework.

OSFI should implement its proposed 75 percent risk weight on an accelerated timeline and assess whether growing firms warrant a further cut to 70 percent or lower. A tiered structure — general SME lending at 75 percent, growing firms at 70 percent — would reflect the different risk profiles while preserving the integrity of the risk-based capital framework.

International experience demonstrates that such adjustments can be implemented within Basel III principles.

The European Union applies an SME Supporting Factor of 0.7619 to risk-weighted assets for exposures up to €2.5 million, producing an effective risk weight of about 76 percent.[45] The European example shows that targeted regulatory relief for SME lending can operate within the Basel framework without compromising overall capital adequacy.

The United States applies a 100 percent risk weight to most corporate SME loans in its proposed Basel III Endgame rules, having declined to adopt the Basel Committee's 85 percent SME preference. But the interplay between baseline risk weights and loan guarantee programs determines actual capital requirements. Small Business Administration (SBA) guaranteed loans receive preferential treatment: the guaranteed portion (typically 75 to 85 percent of the loan) carries a 0 to 20 percent risk weight, and only the unguaranteed portion carries the standard 100 percent corporate weight. Because the SBA program is large, that preferential treatment extends across a substantial share of U.S. small business lending.

The treatment of venture capital investments should also be revisited.[46] Reducing the current 400 percent risk weight to 100 percent for minority equity stakes in Canadian venture funds or venture-backed companies would encourage bank participation in domestic VC financing while maintaining meaningful prudential safeguards.

Together, lower risk weights for SME lending and for VC equity would expand the pool of bank capital available to growing firms.[i]

i The C.D. Howe Institute's task force on OSFI prudential requirements reached similar conclusions, recommending that OSFI examine whether the 400 percent risk weight for speculative unlisted equity reflects actual risk or undue conservatism, and dedicate resources to expediting approval of bank internal model changes for SME lending. The task force also recommended that OSFI evaluate whether Basel standardized risk weights are properly calibrated for Canadian conditions rather than imported from international experience.

Expand the Canada Small Business Financing Program

Redesigning a proven program to help more Canadian firms grow.

JURISDICTION: FEDERAL (INNOVATION, SCIENCE AND ECONOMIC DEVELOPMENT CANADA [ISED], DEPARTMENT OF FINANCE)

OVERVIEW:

The Canada Small Business Financing Program (CSBFP) provides guaranteed loans to SMEs, unlocking access to financing that most recipients would not have received otherwise. However, its $1.15 million loan cap and $10 million revenue ceiling are too small, effectively excluding many growth firms. The federal government should create a Growth Track within the CSBFP with higher loan limits and revenue thresholds calibrated to growth firms, bringing Canada in line with the U.S. SBA 7(a) program, and increase program awareness beyond lenders.

POTENTIAL IMPACT:

Raising the loan cap from $1.15 million to C$5 million (a conservative benchmark relative to the U.S. SBA program) and the revenue ceiling from $10 million to $50 million would extend Canada's most important small business financing mechanism to firms most likely to scale. A CSBFP Growth Track combined with improved awareness (currently only 16 percent of small businesses know the program exists) would help close this gap.

THE CHALLENGE:

CSBFP is the federal government's flagship loan guarantee initiative for small business lending. Rather than lending directly, the government guarantees 85 percent of a lender's eligible losses if a borrower defaults.[47] This reduces the downside risk for banks and makes them more willing to lend to businesses that might otherwise be deemed too risky. The program has been in place for decades, and the evidence suggests it works well. Budget 2025 announced the federal government's intention to transfer the program from ISED to BDC. To date, however, no further details have been provided on this potential transfer.[48]

In 2024-25, the program delivered 6,409 loans totaling $1.9 billion.[49] A government evaluation estimated that the program has an incrementality rate of 76 percent, meaning roughly three-quarters of borrowers would not have received financing otherwise.[50] However, the CSBFP caps term loans at $1.15 million and limits eligibility to firms with under $10 million in revenue — insufficient for a technology company investing in software, specialized talent, or intellectual property. A growth firm with $15 million in revenue seeking $2 million to expand operations is ineligible, despite being precisely the kind of company that would benefit from patient capital. Loan distribution patterns further reinforce this focus. Nearly half of CSBFP loans flow to businesses in accommodation and food services, rather than to export-oriented or innovation-driven firms.

Banks have also identified challenges with the CSBFP's complex guidelines and administrative requirements, which can limit their ability to support clients in accessing the program. In addition, the claims process can be slow due to the requirement to pursue personal guarantors and the associated communication burden.[51]

THE RECOMMENDATION:

The CSBFP is one of Canada's most important business financing tools, but it was designed for Main Street businesses, not growth firms. Its $1.15 million loan cap and $10 million revenue ceiling exclude a large share of scale-ups that need funding to grow. The program is also distinctive: it is the only permanent loan loss-sharing program available in every province and territory, accessible to all industry sectors (excluding agriculture), and delivered in partnership with financial institutions to provide loans that would not otherwise be available.

Regardless of where the program lives, the federal government should create a Growth Track within the CSBFP, with parameters calibrated to growth firms, including a higher revenue ceiling and loan maximum in line with peer jurisdictions. Eligible uses should also be expanded to reflect how growth firms actually deploy capital.[i]

Additionally, program amendments such as simplifying program administration, streamlining the claims process, and sharing data on liability and potential improprieties with lenders, would benefit both the applicants and the financial institutions that deliver the program.[52]

Transforming the existing CSBFP rather than building a new program has practical logic. The CSBFP is delivered by chartered banks and credit unions under a federal loan loss-sharing guarantee (85 percent government, 15 percent lender). The lender network, administration systems, and loss-verification processes already exist. Incrementality can be assessed using the established survey instruments.

Awareness of the CSBFP should also be substantially improved. Survey data indicate that only 16 percent of Canadian small businesses know the program exists. Closing this gap — through direct government promotion, lender disclosure at the point of business loan application, and distribution through trusted industry channels — would broaden the program's reach.

The U.S. Small Business Administration's 7(a) loan program offers an instructive contrast (Table 2). In fiscal 2024, the SBA 7(a) program approved 70,242 loans totaling US$31.1 billion, against 6,409 CSBFP loans totaling C$1.9 billion over the same period.[53] The United States approves roughly 11 times more guaranteed small business loans in absolute terms — or 30 percent more per capita.

While both programs share similar guarantee structures — government guarantees covering up to 85 percent of a lender's losses — they differ substantially in loan limits and eligible uses. The SBA 7(a) program caps loans at US$5 million and supports a broad range of uses, including working capital, equipment, real estate, debt refinancing, and business acquisitions. In contrast, the CSBFP caps loans at C$1.15 million and restricts uses to real property, equipment, leasehold improvements, intangible assets, and working capital — debt refinancing and share purchases are excluded. The CSBFP does, however, maintain 85 percent coverage of a lender's net loss regardless of loan size, whereas the SBA's rate drops to 75 percent for loans above $150,000 USD.

Delivery and awareness also diverge sharply. The SBA operates a network of more than 5,000 approved lenders with dedicated infrastructure and direct government promotion; small businesses know to approach SBA-approved lenders for guaranteed financing.[ii] The CSBFP, by contrast, is delivered through Canada's regular banking system. The federal government website instructs businesses to "ask about the CSBFP" when speaking to their financial institution — an instruction that assumes prior knowledge of the program. Borrowers must proactively request CSBFP financing from their bank, which processes the application using its standard credit criteria before registering the loan with ISED.

i For one proposal on CSBFP expansion parameters — including specific loan size limits, revenue thresholds, eligible loan types, insurance elements, and expanding lender membership beyond Canadian Payments Association members — see Brice Scheschuk, "Capital Where It Counts: Four Structural Reforms to Rebuild Canada's Entrepreneurial Economy Long-Term," Build Canada.

ii An SBA borrower survey found that 90 percent reported the 7(a) loan was "very important" or "somewhat important" to their business success, suggesting widespread familiarity with the program.

Table 2: SBA 7(a) vs. Canada Small Business Financing Program: Scale and Structure Gap

Metric	US (SBA 7(a)) - CAD	Canada (CSBFP) - CAD	Gap
Annual Volume	70,242 loans / $42.6B	6,409 loans / $1.9B	**11x more loans, 30% more per capita**
Maximum Loan	$6.85 million	$1.15 million	**6x higher cap**
Average Loan	$607,042	$294,067	**2x larger**
Distribution	5,000+ approved lenders	Banks/credit unions only	**Dedicated infrastructure**
Awareness	Direct SBA promotion to borrowers	Borrowers must ask lenders	**Active vs. Passive**

Notes: Data is for fiscal year 2024/25. US SBA figures converted from USD to CAD using the Bank of Canada 2024 annual average exchange rate of 1.37. CSBFP figures in CAD. In the US, the guarantee is 85% (≤$150K USD), 75% (>$150K USD). In Canada, it is 85% of net eligible losses.
There are other differences including: eligibility, permitted uses, interest rates, and fees.

AN OPTION TO CONSIDER: LOAN SECURITIZATION TO MULTIPLY LENDING CAPACITY

When a bank makes a loan, it cannot deploy that same capital elsewhere until the loan matures. This limits how much any individual bank can lend in total. The constraint is partly structural — capital deployed cannot be redeployed — and partly regulatory: the 85 percent risk weight makes SME lending capital-intensive relative to mortgages, which can carry risk weights as low as zero.

Securitization offers a mechanism to recycle that capital. A bank makes loans, sells them to a government-sponsored facility, and receives immediate payment. The facility pools hundreds of loans and issues securities backed by the loan payments, which institutional investors — such as pension funds and insurance companies — buy. The bank has its capital back and can lend again. The same dollar of bank capital finances several businesses instead of just one.

The United States operates an active securitization market for small business loans through the Small Business Administration's 7(a) Program.[54] Banks originate government guaranteed loans, sell the guaranteed portions to investors in the secondary market, and use the proceeds to make new loans. In fiscal 2024, the program supported more than $30 billion in lending, with a significant portion sold through securitization.

Canada has no equivalent infrastructure for growth-firm debt. A facility to purchase, pool, and securitize CSBFP loans could unlock institutional capital and let banks recycle lending capacity. Such a system would require standardized underwriting criteria so investors can assess pooled loan risk, a secondary market where the securities can trade, and appropriate OSFI treatment that makes these securities attractive to institutional portfolios.

Securitization addresses capital recycling but does not resolve the underlying regulatory capital penalty on SME loans. Cutting risk weights for SME lending would address that penalty directly by making SME loans more capital-efficient to hold. The two approaches could work in tandem, but reducing risk weights is the more fundamental fix to the incentive structure. The mechanics that exist internationally to implement these solutions can be adapted to Canada's market structure.

Establish intellectual property lending infrastructure

The economy of the future runs on intellectual property, financing must catch up.

JURISDICTION: FEDERAL (ISED)

OVERVIEW:

The CSBFP was amended in 2022 to permit financing against intellectual property. However, uptake has been negligible. This suggests that a guarantee mechanism alone is not sufficient to enable IP-backed lending without market infrastructure. Canada should develop standardized IP valuation methodologies, clarify legal frameworks for security interests in IP, and build capacity within lending institutions to assess and underwrite IP-backed loans. This is a longer-run initiative and should be designed with careful evaluation at each stage.

POTENTIAL IMPACT:

Making intangible assets financeable through debt would open a significant new capital channel for knowledge-intensive growth firms whose primary value lies in IP rather than hard collateral. Given the negligible uptake under the current guarantee framework, success depends on whether the underlying infrastructure can be built and adopted by lenders.

THE CHALLENGE:

Intellectual property (IP) represents an increasing share of firm value in knowledge-intensive sectors, yet Canadian banks cannot effectively use IP as loan collateral.[55,56]

The challenge is most acute for IP that is hard to define, value, or enforce — software codebases, AI-trained models, and proprietary algorithms. Unlike patents, these assets are not formally registered, change continuously, and may have limited enforceability. For many of Canada's fastest-growing knowledge-intensive firms, they are the primary store of value.

The result is a financing gap for IP-intensive businesses, including software companies with valuable codebases, biotech firms with patent portfolios, and design firms with trademarks and brand value. Traditional lending requires hard collateral that can be seized and liquidated on default. Real estate, equipment, and inventory meet that test; intellectual property does not.

On the practical side, IP valuation is difficult and subjective. A patent's value depends on enforceability, market demand, competitive alternatives, and commercialization risk. Canadian banks generally lack the in-house expertise to value IP independently, and the market for third-party valuation services in Canada is underdeveloped.

Legal barriers and institutional barriers compound the challenge. Canada's priority registration systems for IP collateral are fragmented and incomplete, leaving significant categories of IP outside formal collateralization.[57] Moreover, the prudential framework treats intangible collateral as high risk: while personal guarantees are recognized as credit risk mitigation under the CAR Guideline, intellectual property is not.[58]

Canada has taken a modest step in addressing the financing gap for IP-intensive firms. The CSBFP was amended in 2022 to permit financing against intangible assets — including intellectual property — under its loan loss-sharing framework.[59] However, uptake has been negligible: intangible-asset and working-capital loans accounted for just 0.8 percent of CSBFP lending value in 2022-23, the first year they were eligible, rising to 2.7 percent by 2024-25.[60] The near-zero uptake suggests that a guarantee mechanism alone is not enough if lenders lack the tools to value IP. This is a reminder that the supporting infrastructure for investments matters as much as the guarantee itself.

The low uptake reflects three gaps. First, Canadian banks use varied approaches to IP valuation, and there is no single universally standardized methodology.[61] Unlike real estate or equipment, where established appraisal methods exist, IP valuation remains subjective and expertise is concentrated in specialized firms.[62] Canadian banks often do not have deep in-house IP valuation expertise at scale, relying on external specialists for that insight. Second, legal uncertainty around IP seizure and liquidation in default scenarios makes lenders hesitant even with government guarantees.[63] If a borrower defaults, can the lender actually recover value from a patent portfolio or software codebase?[64] The answer is unclear and reduces lender confidence.[65] Third, the CSBFP's $1.15 million loan cap may be too small for IP-intensive firms whose capital needs often exceed that threshold. A biotech company with a valuable patent portfolio seeking $3 million to commercialize would be ineligible for the CSBFP regardless of the IP collateral framework.[i]

Together, these infrastructure gaps explain why the guarantee mechanism alone has not generated meaningful uptake.

THE RECOMMENDATION:

The 2022 amendment to the CSBFP showed that a loan guarantee alone is insufficient to create a functioning market for IP-backed lending. Despite making intellectual property eligible collateral, uptake remained negligible.

The lesson is clear: risk-sharing mechanisms cannot substitute for the underlying market infrastructure required to value, secure, and underwrite intangible assets.

i Additionally, Basel III's treatment of intangibles as regulatory capital deductions creates constraints that discourage bank participation even when guarantees are in place.

Canada should therefore focus on establishing that infrastructure by addressing the three barriers that prevent uptake: a) standardized IP valuation methodologies that banks can apply consistently across patents, trademarks, copyrights, trade secrets, software, and AI-trained models; b) legal frameworks for security interests in IP and enforcement in default; and c) capacity within lending institutions through training programs and access to third-party valuation expertise, modelled on South Korea's KOTEC and Japan's patent office programs (see Breakout box).

The regulatory framework for capital treatment will also need to be updated to drive uptake. The Canadian Bankers Association has noted that banks face capital regulatory constraints when lending against IP "with limited relief even under advanced internal models," making IP-backed term loans capital-intensive and economically uncompetitive relative to conventional collateral.[66] Addressing valuation methodology, legal clarity, and lender capacity will not be sufficient on their own if the capital treatment of IP collateral remains unfavourable. OSFI should examine whether IP can be formally recognized as risk-mitigating collateral under the CAR Guideline, subject to the valuation and legal frameworks recommended above.

The build-out should be designed from the outset with rigorous evaluation. The program should answer three questions: Can standardized valuation methodologies be developed and adopted by lenders? Will banks participate even with guarantees and valuation tools in place? Does IP-backed lending reach firms that would not otherwise have access to capital, or does it simply substitute for other forms of financing? If the infrastructure demonstrates that IP lending can mobilize capital for growth firms at reasonable credit losses, it should be scaled. If not, resources should be redirected to interventions with stronger evidence.

Unlike other recommendations in this report that can be implemented in the near term, IP lending infrastructure is a multi-year undertaking that requires industry consultation on the design, challenges, and opportunities. Policymakers should treat it as such, with phased milestones, independent evaluation, and clear criteria for scaling or stopping.

SOUTH KOREA AND JAPAN'S IP LENDING INFRASTRUCTURE

South Korea and Japan have built IP lending infrastructure: guarantee programs and standardized technology appraisals give lenders the confidence to extend credit to IP-intensive firms they would not otherwise serve. South Korea addresses these challenges through KOTEC, a government-backed corporation that guarantees credit for technology-intensive firms based on standardized technology appraisals rather than traditional collateral.[67] Japan's patent office runs a similar program: it provides regional banks with IP business evaluation reports that help lenders assess IP-intensive firms and build underwriting capacity.[68] Both approaches use government support to extend credit to firms that would not otherwise qualify.

Mobilizing Equity Capital

Debt financing barriers are only part of the challenge. Large pools of institutional capital managed by pension funds, insurance companies, and other long-term investors remain largely inaccessible to Canadian startups and scale-ups. The recommendations in this section aim to unlock more of that capital and strengthen the domestic equity financing ecosystem.

Modernize insurance company investment rules

Insurers' capital shouldn't be kept on the sidelines. Modernize the rules and put it to work.

JURISDICTION: FEDERAL (DEPARTMENT OF FINANCE, OSFI)

OVERVIEW:

Canadian life and health insurers face regulatory restrictions that foreign competitors do not. The specialized financing (life companies) regulations impose a 13-year holding period and a $250 million capital cap on investments in growth firms — constraints foreign insurers investing in Canadian companies do not face. A separate categorical restriction also blocks insurers from investing in healthcare services, despite natural business model alignment. Bill C-15, enacted in March 2026, modernized some Insurance Companies Act provisions but left these binding constraints in place. The federal government should extend the holding period to 25-30 years, raise the capital cap, permit healthcare services investment, release the long-delayed fintech regulations, and direct OSFI to base capital charges on underlying asset risk rather than fund legal structure.

POTENTIAL IMPACT:

These reforms are enabling rather than transformative. Life insurers need predictable cash flows to match long-dated liabilities — a profile most growth firms cannot provide. As a result, regulatory changes alone will not turn insurers into major venture investors. However, extending the holding period and raising the capital cap would allow insurers to invest where business model alignment exists, facilitate exits to Canadian financial institutions rather than foreign investors, and level the playing field with foreign competitors. In a constrained financing environment, these improvements are worth pursuing.

THE CHALLENGE:

Canadian life and health insurers manage significant pools of long-term capital but face regulatory restrictions and business model constraints that limit their ability to invest in startups and scale-ups. Based on consultations with major Canadian insurance companies, these barriers are real but incremental in their effect.

Primary barrier: Specialized financing entity regulations

The Insurance Companies Act generally restricts life insurers from investing in companies outside the financial services sector.[69] The specialized financing (life companies) regulations provide a partial exception that allows insurers to invest in non-financial firms, including startups, but with two binding constraints.[70]

First, a 13-year holding period. Section 4 states that "a life company shall not, by way of specialized financing activities, hold control of, or hold a substantial investment in, an entity for more than 13 consecutive years." Insurers must either divest within that window or fold the acquired firm into their core business. The 13-year clock is short relative to the horizons over which scale-ups mature in Canada, creating artificial exit pressure.

Second, a $250 million aggregate capital cap per investment. Section 5(c) restricts investments where "the aggregate balance sheet value of the shares and ownership interests...is more than $250 million." This limits the ability of insurers to participate in larger growth-stage rounds or to follow on as portfolio companies scale.

Recent reforms have not addressed these constraints. Bill C-15, enacted in March 2026, repealed statutory portfolio ceilings in the Insurance Companies Act on commercial loans, real property, and equity investments, replacing them with discretionary OSFI supervision. However, it did not amend the specialized financing regulations, the categorical restriction on non-financial-sector investments, or finalize the long-promised Non-Financial Activities Regulations, which remain on the Department of Finance's Forward Regulatory Plan. The 2026 Spring Economic Update references forthcoming regulations to allow federally regulated financial institutions to make a broader range of investments, but the specifics relating to the Insurance Companies Act have not been released and the implementation timeline is not known.[71]

These constraints create an imbalance relative to foreign insurers, which face no comparable restrictions when investing in Canadian companies, while Canadian insurers cannot deploy long-term capital into domestic growth opportunities. The impact is most pronounced for health-related investments, where life and health insurers could support evolving healthcare demands but are prevented from doing so under current rules.

Secondary barrier: OSFI capital charges on private credit funds

When life insurers invest in private credit funds, the capital charge depends on the fund's legal structure rather than the underlying asset risk. Funds structured as limited partnerships receive capital charges of 30 to 50 percent — treatment equivalent to equity investments — while mutual fund structures receive more favourable treatment. As a result, economically similar portfolios can face materially different capital requirements solely due to legal form.

Tertiary barrier: Internal risk models

Canadian life insurers must rely on prescribed formulas to calculate capital requirements rather than the internal ratings-based models permitted for major banks under OSFI's CAR Guideline. This can lead to inefficient capital allocation and may restrict lending capacity to Canadian businesses. OSFI has permitted internal models for segregated fund guarantee products and certain unrated infrastructure debt investments, but those permissions remain narrow. The Life Insurance Capital Adequacy Test 2025 guideline replaces existing internal models for segregated funds with a standardized approach.[72]

While expanded use of internal models could improve capital efficiency, its impact on growth firm financing would be limited. Even banks with advanced internal models continue to face difficulties financing intangible-asset-intensive firms. Extending similar flexibility to insurers would not change the underlying mismatch between insurer business models and startup capital needs.

Fundamental constraint: Asset-liability matching

The primary constraint on insurer investment in growth firms is not regulatory but structural. Life insurers have long-dated liabilities — promises to pay benefits decades into the future — that must be matched with assets generating predictable, stable cash flows. Infrastructure public-private partnerships work well because they generate steady, contractual revenues over multi-decade periods. Early-stage growth firms do not. Software firms may generate little revenue for extended periods, and biotech companies often face long development cycles with highly uncertain outcomes. These characteristics are fundamentally misaligned with insurers' liability structures.

THE RECOMMENDATION:

The federal government should amend the specialized financing (life companies) regulations to extend the 13-year holding period to 25-30 years and increase the $250 million capital cap.[73]

Extending the holding period to 25 or 30 years would align the regulatory framework with the maturation cycle of growth companies, while a higher cap would let Canadian insurers deploy meaningful capital into larger growth opportunities and follow on as successful portfolio companies scale beyond current limits.

These reforms would facilitate exits for growth firms to large Canadian financial institutions rather than foreign acquirers, keeping successful companies and their economic benefits in Canada. They address the primary barrier identified through industry consultation, though they remain incremental given the asset-liability matching constraints.

The federal government should also release the long-delayed financial technology regulations that would clarify which technology companies qualify as financial-sector-adjacent under the Insurance Companies Act. The regulations have been on the Department of Finance's Forward Regulatory Plan since 2020 but remain unpublished, creating regulatory uncertainty that deters investment even where it might be permitted.

The Insurance Companies Act should also be amended to explicitly permit life and health insurers to invest in healthcare services companies. Life and health insurers are healthcare businesses in material respects: they manage health benefits, process medical claims, and have direct commercial interests in healthcare outcomes. Preventing them from investing in diagnostic laboratories, virtual care platforms, or healthcare infrastructure creates an artificial barrier that serves no policy purpose while advantaging foreign competitors who face no such restriction.

Together, these amendments would let Canadian insurers deploy capital into sectors where business model alignment exists and where their domain expertise can add value to portfolio companies — particularly health technology and services, where insurers have natural strategic fit.

OSFI should apply capital charges to private credit fund investments based on the underlying asset risk rather than the fund's legal structure. Currently, funds structured as limited partnerships face 30 to 50 percent capital charges regardless of portfolio composition, while mutual fund structures receive lower charges. The result is an artificial capital penalty that discourages certain fund structures without serving any risk management purpose.

Look-through treatment would address that inconsistency in two contexts. First, it would let asset managers seed new venture capital and private equity funds without artificial capital penalties, promoting fair competition between fund structures. Second, it would let insurers deploy capital more efficiently into private credit strategies.

But look-through treatment does not directly solve the growth firm financing gap. Private credit requires collateral — accounts receivable, physical equipment, real estate. Asset-light startups whose value resides in intellectual property, codebases, or brand equity do not fit the private credit model regardless of capital treatment. This reform addresses a capital allocation inefficiency without creating new financing pathways for IP-intensive companies.

Finally, life insurers should be allowed to use internal risk models to compute capital requirements, similar to the framework used for banks under OSFI's CAR Guideline. That would align the insurance regulatory framework with banking regulation and could improve capital efficiency.

Together, these regulatory reforms are enabling rather than transformative. The fundamental constraint on insurance company investment in growth firms is asset-liability matching — an underlying business model issue. Insurers require predictable long-term cash flows to match long-dated liabilities: infrastructure investments with contractual revenues fit that requirement, while early-stage growth companies with uncertain, lumpy cash flows do not. In an environment where capital is so constrained, even an incremental change is worth pursuing.

Removing regulatory barriers lets insurers invest at the margin where business model alignment exists, but they will not turn growth firms into suitable general account investments for life insurers.

Policymakers should calibrate expectations accordingly: these reforms improve efficiency at the margin, but they are not a primary solution to Canada's growth-stage financing gap.

Establish a national securities regulator

One economy, one set of rules. Canada needs a single rulebook for its capital markets.

JURISDICTION: FEDERAL AND PROVINCIAL (DEPARTMENTS OF FINANCE AND SECURITIES REGULATORS)

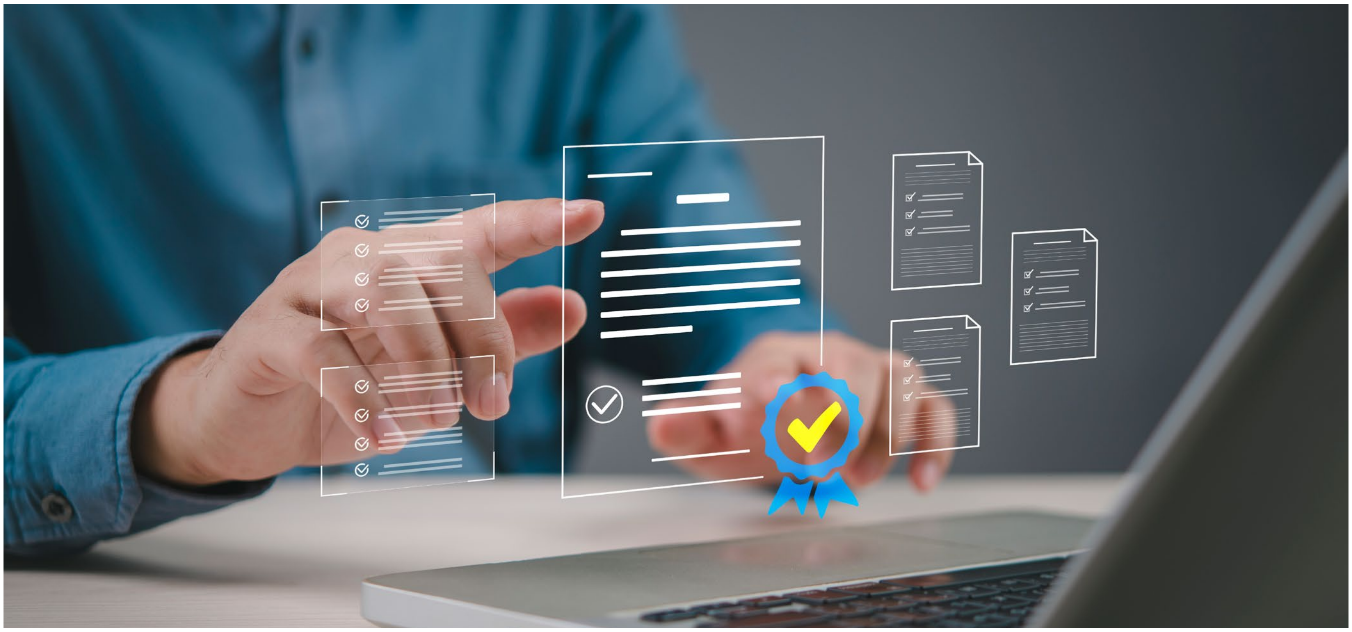
OVERVIEW:

Canada's securities framework includes competitive advantages for small public companies. The Toronto Stock Exchange (TSX) Venture Exchange provides lower-cost access compared to U.S. exchanges, and recent innovations like the Listed Issuer Financing Exemption demonstrate that targeted regulatory simplification can increase capital formation. However, maintaining these advantages requires institutional capacity to respond quickly to U.S. regulatory developments.

While Ontario's recent commitment to join the passport system is a welcome step toward greater regulatory harmonization, federal and provincial governments should go further by establishing a national securities regulator to replace the current fragmented system of 13 provincial and territorial regulators. A unified regulator would reduce duplication, improve regulatory coherence, and strengthen Canada's ability to maintain competitiveness as U.S. standards and market practices evolve.

POTENTIAL IMPACT:

A national securities regulator would eliminate compliance costs and administrative complexity associated with navigating multiple jurisdictions, while reducing delays for growth firms accessing capital markets across provinces. It would also strengthen institutional capacity to monitor and respond to changes in U.S. securities regulation, helping preserve Canada's relative competitiveness in capital formation.



THE CHALLENGE:

Canada is one of the few advanced economies without a centralized securities regulator. Peers like the United States, the United Kingdom, and Australia manage their capital markets through single national bodies, while Canada maintains 13 separate provincial and territorial regulators, each with its own legislation, rules, and compliance requirements.

This fragmentation is reinforced by a broader regulatory ecosystem of 44 federal and provincial financial regulators, with most regulatory activity focused on stability rather than on competition and growth.[74,75]

The inefficiencies are most visible in the limits of the Canadian Securities Administrators passport system.[76] While the participation of Ontario in the system, home to the TSX and the country's largest capital market, better aligns regimes between all provinces and territories, there are still shortcomings.[77] The passport system relies on mutual recognition; where rules or local orders differ, the system does not eliminate all duplication or jurisdiction-specific review.

Past efforts to establish a unified body, including the Capital Markets Regulatory Authority (CMRA), fell short and were abandoned. In the absence of a national authority, the patchwork of enforcement and rules creates inconsistencies that deter investment.

Beyond reducing fragmentation costs, staying competitive requires the institutional capacity to respond to U.S. regulatory developments. When U.S. regulators adjust disclosure requirements, capital-formation rules, or compliance timelines, Canada's 13 provincial and territorial regulators must coordinate responses across jurisdictions. This introduces delays and risks regulatory drift relative to U.S. standards. Recent innovations like the Listed Issuer Financing Exemption — which let junior issuers raise capital using a simplified five-page template instead of a full prospectus — show that Canada can maintain advantages through targeted regulatory simplification. But preserving them while keeping pace with evolving U.S. regulations requires more agile institutional structures than fragmented provincial coordination can provide.

THE RECOMMENDATION:

To build a more competitive capital-markets ecosystem, the federal Department of Finance and provincial ministries should jointly create a national securities regulator. This move would finally realize a longstanding consensus first championed in the 2003 Wise Persons' Committee report, "It's Time," which argued that a single regulator is fundamental to market efficiency and national competitiveness.[78] A national regulator would cut red tape and keep Canada's financial markets a preferred destination for domestic and international capital.

Adopt fund-of-funds best practices and remove the 30 percent ownership rule

Position today's public investments to build tomorrow's private market.

JURISDICTION: FEDERAL (ISED, DEPARTMENT OF FINANCE, OSFI) AND PROVINCIAL (ONTARIO MINISTRY OF FINANCE)

OVERVIEW:

The federal government has committed $1 billion to the Growth Venture Capital Catalyst Initiative (VCCI) and $750 million to an early growth envelope, while Ontario has committed $4 billion to the Protect Ontario Account Investment Fund. These initiatives have the potential to expand the pool of growth capital available to Canadian firms, but their long-term success will depend on program design. Governments should adopt international best practices demonstrated by Israel's Yozma program, including government buyout options on defined timelines, preferential upside for private investors, and management by experienced fund managers with proven track records. Beyond fund design, governments should remove regulatory barriers that contribute to limiting institutional participation in the domestic VC ecosystem as a whole, including the 30 percent ownership limit for pension funds.

POTENTIAL IMPACT:

Properly structured fund-of-funds programs catalyze rather than displace private capital — Israel's $100 million Yozma program built a self-sustaining VC market where government capital exited after five years. Such a structure would increase the likelihood that the Growth VCCI and Protect Ontario Fund build enduring private capital ecosystems rather than creating permanent government dependence. Additionally, removing the 30 percent rule would let pension funds make meaningful VC commitments without triggering regulatory ownership constraints. This change could unlock significant domestic venture capital without new government spending.

THE CHALLENGE:

This recommendation differs from the others in an important respect: the spending has already been committed. The 2025 federal Budget announced the $1 billion Growth VCCI and a $750 million early-growth envelope, while Ontario has committed $4 billion to the Protect Ontario Account Investment Fund.

The Growth VCCI requires a 3:1 private-to-public match — effectively $3 billion in private capital in a market where Canadian VC fundraising is falling — and is explicitly designed to attract Canada's largest pension funds. Whether those objectives are achieved will depend heavily on program structure. At this time, the program details have not been released.

Canada's experience with government-backed venture capital warrants caution. Canadian research shows that firms financed by government-sponsored venture capital generally underperform privately backed peers on measures of value creation, including IPOs and acquisitions, and innovation outcomes such as patent generation.[79] Government-backed funds can end up investing in lower-quality firms while displacing private capital that would otherwise allocate resources more effectively.

Canada's own policy history raises a broader concern. Ottawa launched the first Venture Capital Catalyst Initiative (then called the Venture Capital Action Plan [VCAP]) in 2013, followed by additional rounds in 2017 and 2021, and now a substantially larger commitment in 2025.[80] After more than a decade of recurring public intervention, venture capital in Canada remains heavily dependent on government-backed sources of funding. Rather than seeding a self-sustaining ecosystem, successive rounds of public investment have become a recurring feature of the market.

This reflects a challenge inherent to government venture capital programs. Public funds are intended to address market gaps, but prolonged public participation can weaken incentives for private investors to develop the expertise, networks, and risk tolerance needed to sustain the ecosystem independently. Investment decisions may become influenced by program objectives rather than commercial discipline, while portfolio companies can become oriented toward securing continued public support rather than attracting private capital.

This is not to diminish the fund-of-funds model itself. The Ontario Venture Capital Fund and BC Renaissance Capital Fund demonstrated that public capital could anchor a commercially managed fund alongside large institutional investors. The proof of concept and early success informed the federal government's adoption of the model through VCAP, and later VCCI.

Still, the persistence of Canada's funding gap despite more than a decade of public intervention raises a legitimate question: is government capital crowding private investment in, or crowding it out?[81]

CASE STUDY: THE MARS INVESTMENT ACCELERATOR FUND (IAF)

Not every government venture vehicle fits the crowding-out pattern. The MaRS IAF, created by the province of Ontario in 2008, is run inside the MaRS innovation hub and is an example of a public fund that met its intended objectives. Roughly $43 million in provincial capital was recycled into more than $93 million deployed across over 180 companies – more than double what taxpayers contributed.[82] The fund's design features play a key role in its success; the IAF is evergreen and has a narrow mandate: writing small pre-seed and seed cheques into companies that private capital is less likely to serve, limiting its risk to crowd-out or substitute for private investors.

However, IAF's model is difficult to scale, and its success is not a blueprint for the much larger commitments now being made by federal and provincial governments. The features that make it work are precisely the ones a multi-billion-dollar fund cannot easily replicate. The IAF is small and selective by design, while the Growth VCCI and the $4 billion Protect Ontario Account Investment Fund are meant to be large pools of capital.
Big pools will engage in later-stage, lower-risk deals that private capital already serves, where crowding-out is more likely. As the IAF is also embedded in the broader innovation hub, it can draw on an established network of mentors and corporate partners.

Notwithstanding programs like Growth VCCI and Protect Ontario, pension fund participation in Canada's VC ecosystem is a challenge. Canadian pension funds manage over $2.5 trillion in assets, but analysts estimate that they invest less than 1 percent in venture capital.[83] Domestic venture capital is an even smaller subset of that allocation.

Canadian pension funds allocate capital to U.S. and global venture funds at far higher rates than they allocate to domestic funds. The Canada Pension Plan Investment Board (CPPIB), Canada's largest pension fund manager, allocates just 12 percent of its portfolio to Canada — suggesting the barrier is structural rather than a reflection of opportunity quality.[84]

Two specific barriers limit pension participation:

First, a scale mismatch creates a systemic barrier. Canada's largest pension funds are reluctant to invest less than several hundred million dollars per transaction — an amount most Canadian VC funds and the companies they back cannot absorb.[85] The result is that pension funds are effectively priced out of the domestic venture market regardless of their interest in participating. While government fund-of-funds are designed to combat this issue, the fund itself must be large enough to absorb transactions without it becoming too dependent on one institutional investor and have a track record for success.

Second, Canada's pension regulations cap voting share ownership at 30 percent in any single corporation — a rule originally designed to keep pension funds as passive investors. As the Department of Finance stated: "The rule was also intended to reduce pension plans' exposure to risk should a controlled business fail."[86] In venture capital, where active governance is central to value creation and VC funds typically take board seats and provide strategic guidance, that cap restricts the terms on which pension funds can participate.

THE RECOMMENDATION:

An international example offers a model for a well-designed government venture capital program. Israel's Yozma program, launched in 1993 with $100 million in government capital, created ten hybrid public-private VC funds.[87] Each fund required three partners: a nascent Israeli venture capitalist, a foreign VC, and an Israeli investment company or bank.[88] The three-way structure was designed to build domestic institutional capacity while importing international expertise and networks.

The government retained a 40 percent equity stake that private partners could buy out at cost after five years, which most funds exercised. By 2000, Israel's VC market was fully private-sector driven and it remained that way for more than twenty years: from 2000 to 2024, the Israeli government had no direct participation. Six of the ten Yozma funds generated internal rates of return exceeding a 100 percent.

Israel's 2024 launch of Yozma 2.0 reinforces the lesson. The program was introduced not because the original model failed, but because Israel's venture ecosystem had become overly dependent on foreign capital (71 percent of total VC investment). The new initiative seeks to mobilize domestic institutional investors through a 30 percent government match while leaving investment decisions entirely in private hands.[89]

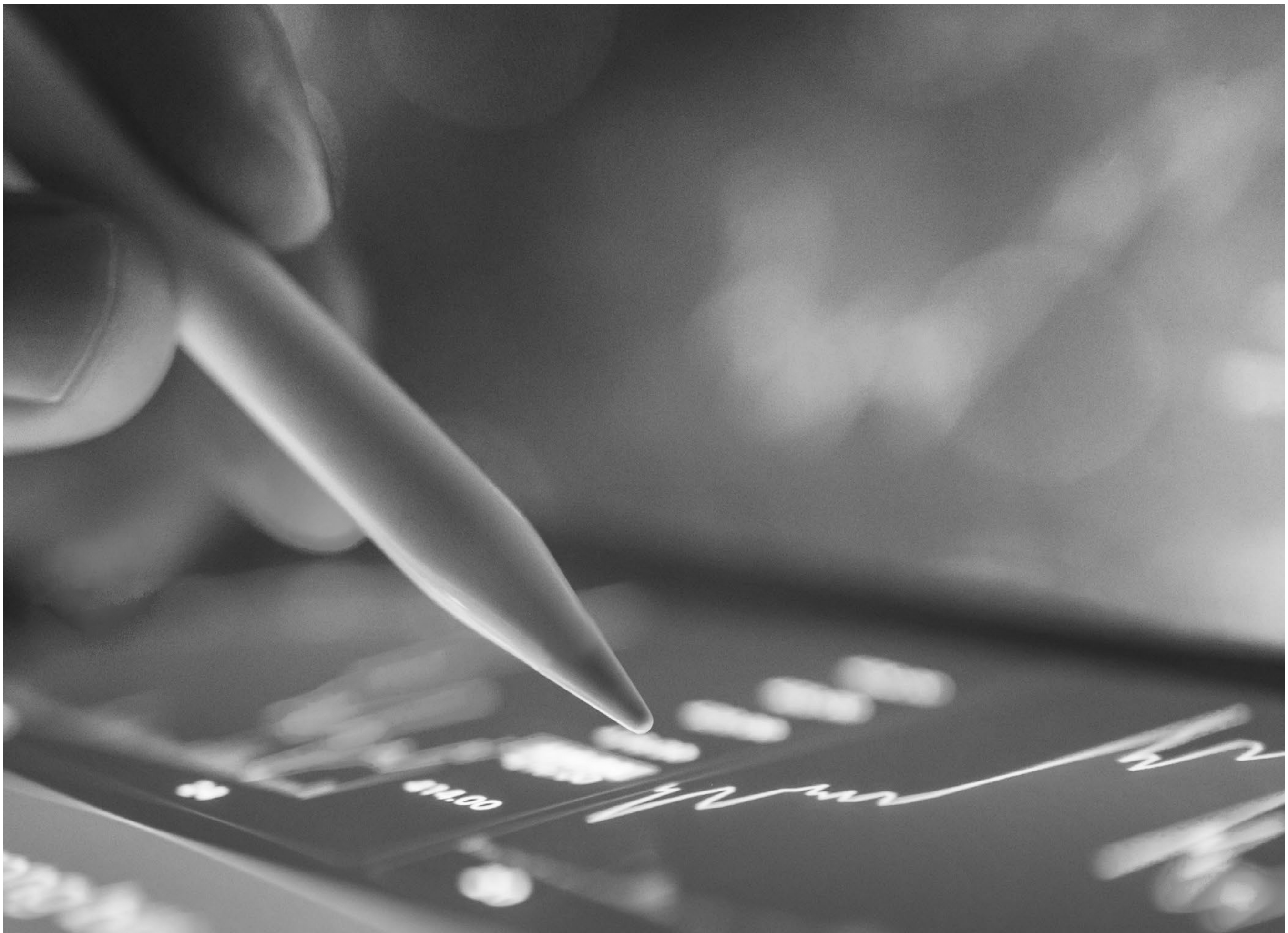
The Growth VCCI, Early Growth Fund, and Protect Ontario Account Investment Fund should incorporate similar design principles. First, government participation should include a defined exit mechanism. Public capital should have a predetermined buyout option, sunset provision, or wind-down timeline that encourages the transition to private ownership. The objective should be to build a self-sustaining market, not establish government as a permanent anchor investor. Second, fund-manager selection should prioritize demonstrated investment expertise while encouraging the development of new domestic managers rather than concentrating capital among a small number of established intermediaries and/or sectors. Third, evaluation metrics should extend beyond dollars deployed and portfolio returns. Governments should assess whether the programs increase private venture fundraising, expand domestic lead-investor capacity, attract institutional capital, and help firms remain headquartered and scale in Canada.

The ultimate test of success is not how much public capital is invested, but whether public capital becomes unnecessary.

A well-designed program should leave behind a stronger private market than the one it entered. Without clear exit mechanisms, disciplined governance, and rigorous evaluation, this latest round of public investment risks producing the same outcome as previous rounds: continued dependence on government-backed capital and a venture ecosystem that remains reliant on public support.

Government should also remove constraints that currently keep pension capital on the sidelines. The federal government should remove the 30 percent ownership limit that constrains pension fund participation in venture capital. The 2024 Fall Economic Statement announced an intent to amend the regulations following consultations led by former Bank of Canada Governor Stephen Poloz, but Parliament was dissolved before the change was enacted, and Budget 2025 did not reintroduce it.[90] Until the rule is removed, pension funds face constraints on the terms of their participation that do not exist in competing jurisdictions. The barrier appears structural rather than economic: recent research finds that pension funds investing in Canadian VC funds earn average returns of 25.8 percent, against 4.9 percent on their foreign VC investments.[91] The opportunity exists, but the regulatory framework prevents pension funds from acting on it.

The policy challenge is removing artificial barriers without mandating domestic investment. One study documents that U.S. state pension funds that overweight home-state private equity (often under political pressure) underperform comparable out-of-state investments by 3 to 4 percentage points annually.[92] Fiduciary obligations to plan participants must be preserved: pension funds should be free to choose domestic venture investment when those investments meet their return and risk criteria, but they should not be compelled to invest domestically when foreign allocations offer better risk-adjusted returns. Maintaining fiduciary integrity therefore requires a focus on removing regulatory friction rather than imposing investment mandates.



Creating the Conditions for Growth

Access to growth capital is necessary, but it is not sufficient. Even where financing is available, the broader policy environment shapes whether founders choose to build and scale their companies in Canada.

The recommendations in this section address the framework conditions that influence those decisions. They focus on the tax, regulatory, and competitive environment in which founders, investors, and growing firms operate. Together, these factors affect the attractiveness of Canada as a place to invest, take risks, attract talent, and grow globally competitive companies.

Modernize the capital gains tax framework

Let every successful exit fund the next generation of Canadian firms.

JURISDICTION: FEDERAL (DEPARTMENT OF FINANCE)

OVERVIEW:

Canada should introduce broad rollover provisions for reinvested capital gains and move toward a regime equivalent to U.S. Qualified Small Business Stock (QSBS) provisions, which offer capital gains exclusions for investments held in qualifying companies on a per company, not lifetime basis. Current taxation on realization reduces the pool of capital available for reinvestment when entrepreneurs and investors exit.

POTENTIAL IMPACT:

Capital gains rollovers would allow successful founders and investors to recycle more capital into the entrepreneurial ecosystem rather than triggering immediate tax liabilities upon exit. Over time, this would increase the pool of domestic risk capital available to startups and scale-ups. The U.S. QSBS provisions offer up to $15 million in capital gains exclusions per business compared to Canada's $1.275 million lifetime cap, encouraging serial entrepreneurship. Rollover provisions would move Canada toward this model. International experience and research evidence suggest capital gains rollovers have a material positive impact on angel investment, venture capital, and private equity activity. Every successful exit that stays in Canada becomes seed capital for the next company, the next fund, and the next generation of founders.

THE CHALLENGE:

Capital gains taxation compounds the financing challenges facing Canadian entrepreneurs and investors. In Canada, 50 percent of capital gains are included in taxable income and taxed at the individual's marginal rate.[93] The structure pulls capital out of the economy precisely when it could be redeployed into new ventures.

Canada's top marginal capital gains rate is 26.75 percent, above the OECD average of 18.19 percent. This places entrepreneurship at a disadvantage relative to passive investment, and real estate in particular, where principal-residence gains remain fully exempt.[94] As John Ruffolo of Maverix Private Equity notes, Canada has built one of the world's most powerful tax incentives for housing and one of the weakest for innovation.[95]

The 2024 federal Budget proposed raising the capital gains inclusion rate from 50 to 66.67 percent on gains above $250,000, sharply increasing the effective tax rate on entrepreneurial exits.[96] By one estimate, the change would have reduced venture capital deals by roughly 20 percent and private equity investment by more than 48 percent relative to historical levels.[97] Although the proposal was ultimately cancelled in 2025, it generated more than a year of uncertainty for founders, investors, and growing companies.[98]

However, the government also cancelled the Canadian Entrepreneurs' Incentive alongside it, which would have lowered the inclusion rate to 33.3 per cent on up to $2 million in eligible lifetime capital gains.[99] This reversal came without a clear commitment to alternative pro-entrepreneurship reforms.

Canada does provide limited rollover relief. Section 44.1 of the Income Tax Act allows deferral of capital gains on eligible small business corporation shares if proceeds are reinvested in other qualifying shares.[100] Bill C-15, enacted in March 2026, expanded the provision, raising the asset cap to $100 million and extending the reinvestment window from 120 days to the calendar year following disposition.[101] These changes are positive, but the regime remains restricted by firm size (the seller must be a Canadian-Controlled Private Corporation), by a limited definition of qualifying assets, and by an eligibility framework that excludes most institutional investors, angel investors, and non-corporate structures. A genuinely broad rollover provision remains absent from the Income Tax Act.

Many advanced economies offer rollover relief.[102] The U.K. provides business asset rollover relief, letting businesses defer capital gains tax when proceeds are reinvested in other qualifying assets. Australia's capital gains rollovers, introduced in 1999, encouraged more active M&A activity, particularly where share consideration replaces cash. The United States has historically allowed like-kind exchanges under Section 1031 of the Internal Revenue Code, especially in real estate, to defer gains on reinvested property.

Research suggests that capital gains tax rollovers would have a material positive impact on entrepreneurial finance in Canada — angel investors, equity crowdfunders, venture capital, and private equity.[103] John Ruffolo has advocated for implementing capital gains rollovers and Build Canada has named capital gains reform a priority for mobilizing domestic capital.[104]

THE RECOMMENDATION:

Canada should establish a broad capital gains rollover regime for investments in qualifying Canadian businesses and move toward a framework comparable to the United States' QSBS regime.

Canada taxes capital gains on realization, leaving exit proceeds taxed when they could be redeployed.[105] Section 44.1 of the Income Tax Act offers a narrow rollover, and Bill C-15 raised the asset cap to $100 million and extended the reinvestment window. However, this structure remains too limited to change investor behaviour at scale.[106]

Consider what happens when a successful Canadian entrepreneur exits. The capital gain triggers an immediate tax liability, shrinking the pool available for reinvestment; if that entrepreneur wants to back the next generation of Canadian startups, they do so with after-tax dollars. In jurisdictions with rollover provisions, the full proceeds can flow into new ventures, with taxation deferred until the capital is eventually withdrawn from productive use. The difference compounds: with each exit, less capital cycles back into the ecosystem than it would where the tax on reinvested gains is deferred.

A broad rollover would unlock this dormant capital, keep proceeds in the ecosystem, and reward scaling — a direct counter to the tax environment driving Canada's entrepreneurship decline.

International experience demonstrates the potential benefits. In 2003, Sweden introduced a tax reform letting founders and early employees defer corporate tax on capital gains from selling shares in unlisted companies, provided the proceeds are reinvested in other unlisted companies.[107] The result is a rolling reinvestment incentive: every successful exit cycles capital back into new ventures. Former employees of companies such as Spotify, Klarna, Skype, King, and iZettle have gone on to found and fund the next generation of Swedish startups, helping Stockholm emerge as one of the world's most productive startup ecosystems.

Canada's competitive gap with the United States is stark. The U.S. QSBS provisions offer a capital gains exclusion cap of $15 million — or ten times adjusted cost basis, whichever is greater — indexed to inflation, against Canada's Lifetime Capital Gains Exemption of $1.275 million for 2026. The Canadian Entrepreneurs' Incentive, originally proposed to add $2 million of reduced-rate capital gains treatment, was cancelled in Budget 2025 before implementation. Critically, the QSBS benefit applies per business rather than per lifetime, encouraging serial entrepreneurship. Build Canada's analysis documents how this gap pushes early-stage U.S. investors to acquire Canadian companies and reincorporate them in Delaware solely to access QSBS benefits, accelerating founder relocation.[108]

A Canadian QSBS-equivalent regime should build on the existing Lifetime Capital Gains Exemption by expanding eligibility to a broader range of growth-oriented sectors, increasing the exclusion limit, removing minimum ownership thresholds that exclude many employees and smaller investors, and shifting from a lifetime-based benefit to a per-company structure. Such a framework would reward repeated entrepreneurial success rather than treating it as a one-time event.

UNITED STATES–QUALIFIED SMALL BUSINESS STOCK (QSBS)

The United States offers one of the world's most generous capital gains regimes for entrepreneurship through the QSBS exclusion. Eligible shareholders in qualifying domestic C corporations can exclude capital gains on the sale of their shares from federal taxation entirely.

The One Big Beautiful Bill Act, signed into law in July 2025, substantially expanded the regime.[109] For stock issued after July 4, 2025, the per-issuer exclusion cap is the greater of US$15 million (up from $10 million, and indexed to inflation from 2027) or ten times the taxpayer's adjusted basis. A new tiered holding-period structure lets founders exclude 50 percent of gains at three years, 75 percent at four years, and 100 percent at five years. The asset-size threshold for qualifying companies rose from $50 million to $75 million, extending eligibility to later-stage firms.

Most industries qualify with exclusions for professional services, financial services, farming, and hospitality. Most importantly, the exclusion applies on a per company basis, rather than a lifetime basis, allowing serial founders and investors to claim the full benefit on each qualifying company.

By contrast, Canada's Lifetime Capital Gains Exemption provides a lifetime cap of C$1.275 million.[110]

Research suggests a material positive impact on entrepreneurial finance in Canada from capital gains rollovers, across angel investors, equity crowdfunders, venture capital, and private equity.[111] Switzerland and Singapore — consistently among the world's top five most competitive economies — levy no capital gains tax on the sale of company shares.[112] Canada's top marginal rate of 26 percent, by contrast, is in the upper half of the OECD.[i]

i Provincial governments have also experimented with tax-based mechanisms to mobilize angel capital. Nova Scotia's Innovation Equity Tax Credit, which provides a 35 percent non-refundable tax credit to early-stage equity investors, demonstrates an alternative approach to addressing seed and angel funding gaps. See Appendix C for further details.

Reform tax, regulation, and competition policy

Capital gets firms moving, policy determines how far they go.

JURISDICTION: FEDERAL AND PROVINCIAL

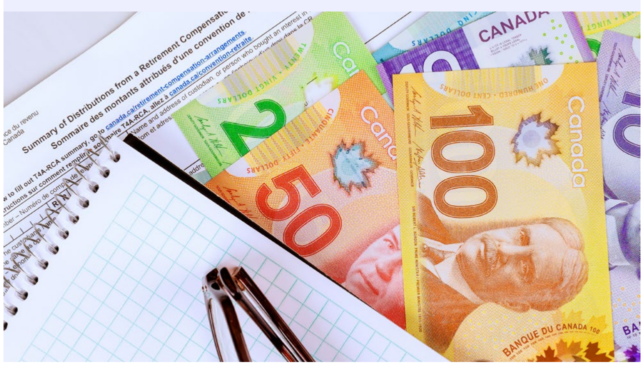
OVERVIEW:

The capital access reforms in this report operate within a broader policy framework of tax rules, regulation, and competition policy. Federal and provincial governments should pursue parallel reform across all three domains. Addressing capital access without addressing these framework conditions will produce results well below what the reforms could otherwise achieve.

POTENTIAL IMPACT:

International experience shows that countries moving simultaneously on tax reform, regulatory burden reduction, and competition policy generate compounding gains that exceed the sum of individual reforms. These effects are non-linear: each reform increases the effectiveness of the others by improving the efficiency with which capital is allocated and deployed.

Capital is necessary for growth, but not sufficient. The policy environment determines whether each dollar of investment translates into firm expansion, innovation, and job creation.



THE CHALLENGE:

Canada's growth capital challenges sit within a broader framework that shapes entrepreneurial activity. Canada's uncompetitive tax rates, heavy regulatory burden, and weak competitive pressures create an environment where starting and scaling firms is harder than in peer jurisdictions.[113]

A growth firm that secures financing through a reformed CSBFP still faces a tax system that penalizes expansion. An entrepreneur who raises a Series A from a newly catalyzed domestic VC fund still confronts a heavy regulatory burden. A company backed by pension fund capital still competes in sectors where incumbents are shielded from meaningful challenge. Each of the preceding recommendations addresses one dimension of capital access; without framework reform, their collective impact will be muted.[i]

Tax

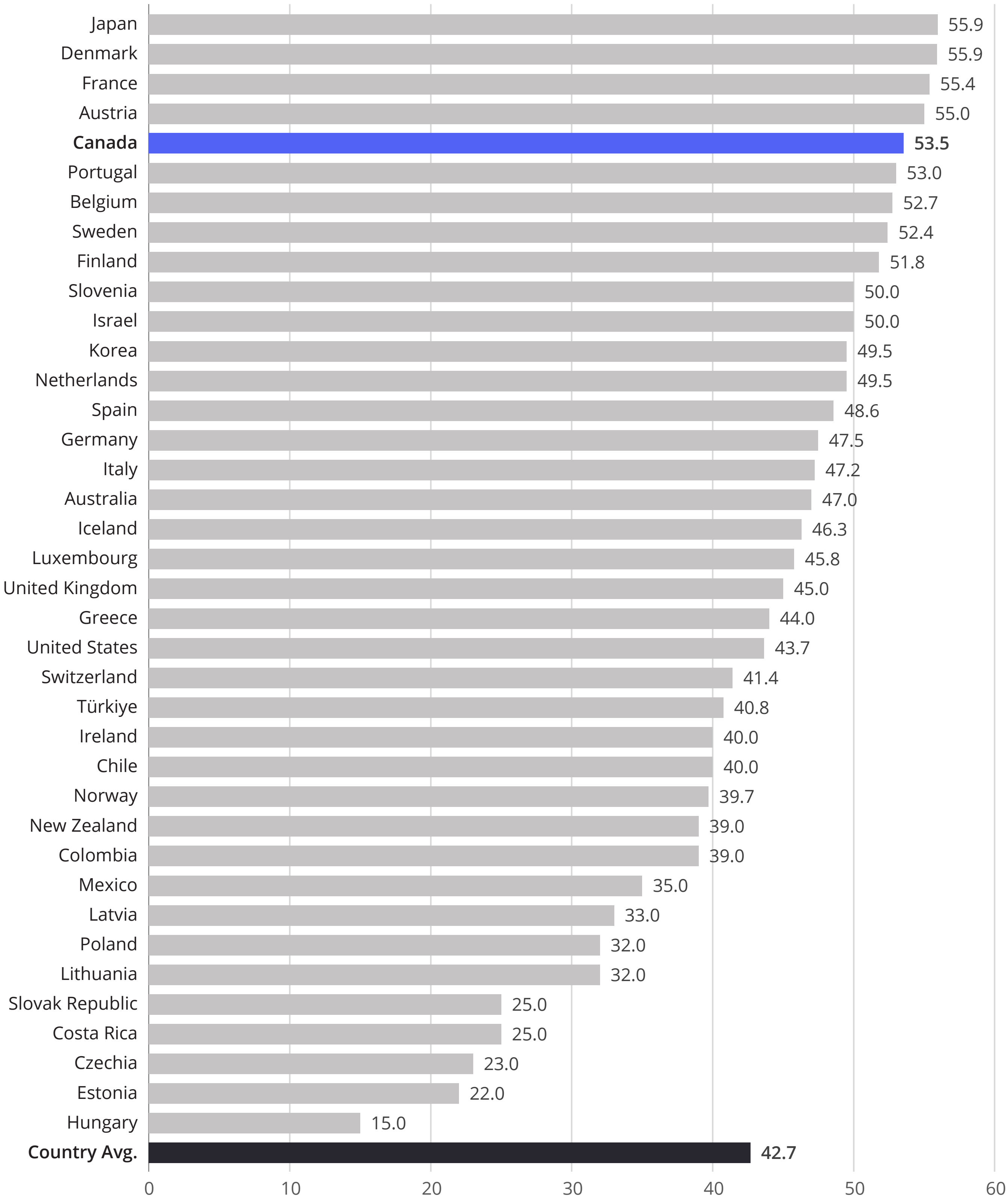
Canada's tax system discourages entrepreneurship, encourages brain drain, and penalizes firms for growing beyond certain thresholds.

Top marginal income tax rates now exceed 53 percent in several provinces when federal and provincial rates are combined. Research on entrepreneurship in Canada found that raising the top income tax rate reduces the entry of new employer businesses.[114] When entrepreneurs face marginal rates above 50 percent, the after-tax return on risk-taking falls below the opportunity cost of secure employment for many skilled individuals.

International comparisons highlight the disadvantage. Canada now levies the fifth-highest marginal individual income tax rate among 38 OECD countries (Figure 6). The rate has risen from 46.4 percent in 2011 to 49.5 percent a decade ago and to 53.5 percent today.

i The C.D. Howe task force reached the same conclusion. The task force argued that for regulatory capital reforms to have maximum impact, parallel efforts are needed across tax policy, regulatory approvals, and competition policy, because "changes to specific capital charges, while directionally sound, will not be sufficient on their own to resolve the broader challenge of credit availability for Canadian businesses."

FIGURE 6: TOP MARGINAL TAX RATE ON PERSONAL INCOME (%), 2025

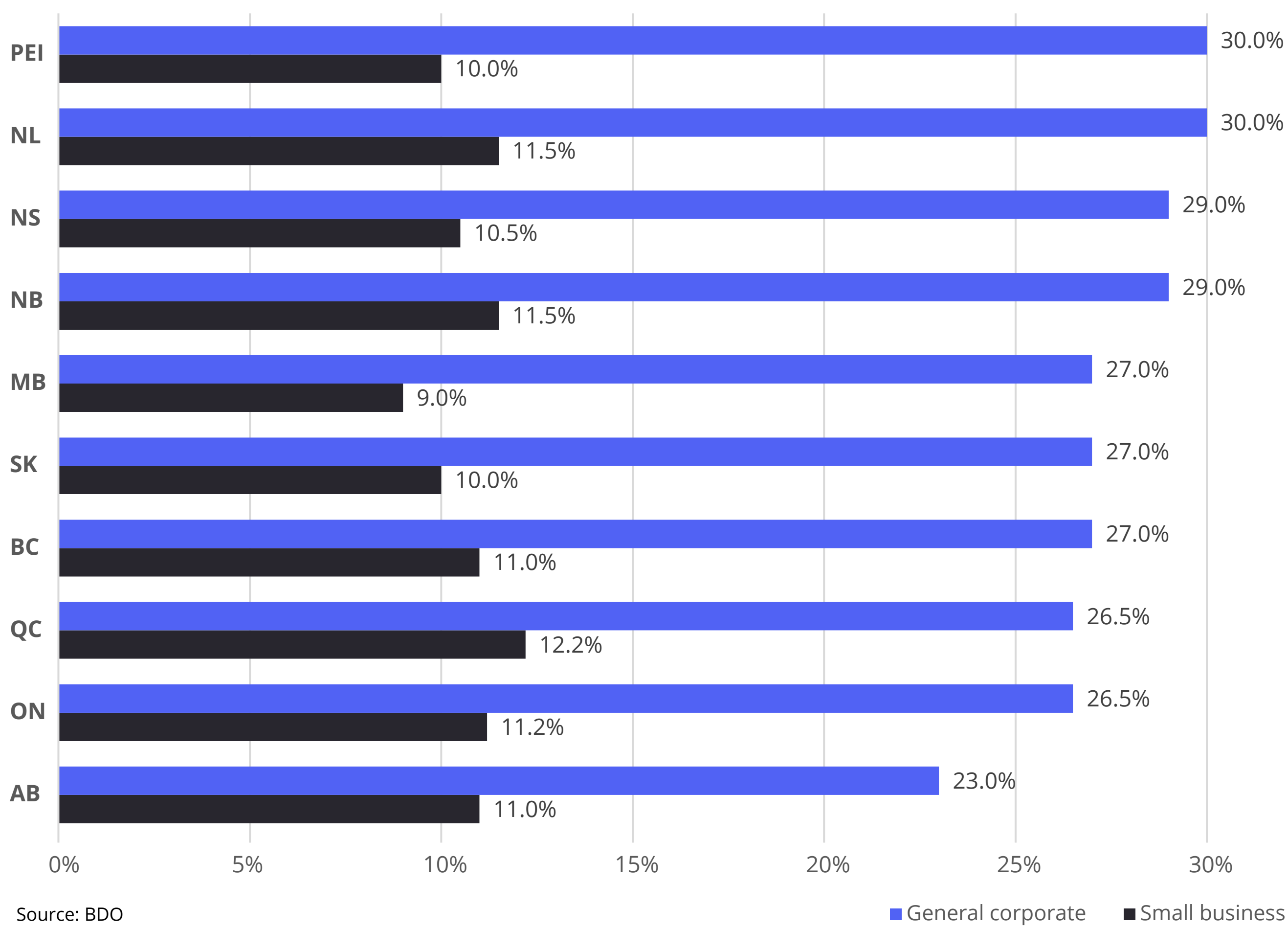


Note: Ireland's rate excludes the Universal Social Charge of 8%
Source: OECD

Canada's top rate is not only high by international standards, but the income level at which it applies is also relatively low. The top federal rate kicks in when income reaches roughly $258,000 in 2026. In the United States, it does not apply until income exceeds US$626,351 (about C$858,000 at current exchange rates). Canadian entrepreneurs hit the highest marginal rate at roughly one-third the income level of their U.S. counterparts. For founders drawing salaries from growing companies, the tax penalty on success arrives far earlier in the scaling process.

Beyond personal income taxes, Canada's corporate tax system creates scaling disincentives. A Statistics Canada study using firm-level tax returns from 2001 to 2019 documented companies "bunching" just below the Small Business Deduction threshold.[115] When a Canadian-Controlled Private Corporation (CCPC) crosses the $500,000 taxable income threshold, its marginal tax rate more than doubles from 11.2 to 26.5 percent in Ontario (Figure 7).[i] The analysis revealed that many small businesses actively adjust their taxable income to remain below the threshold. When the threshold increased in 2009, firms shifted their taxable income almost immediately, indicating tax planning was driving decisions rather than business considerations. Other CCPC-specific preferences, such as the Scientific Research and Experimental Development program, further weaken incentives to scale.[116]

FIGURE 7: COMBINED SMALL BUSINESS AND GENERAL CORPORATE TAX RATES, CANADIAN PROVINCES, 2026



Source: BDO

i This includes the Ontario government's recent reduction to the small business rate, from 3.2 to 2.2 percent, announced in the 2026 budget.

Further documented by TD Economics, the preferential treatment is targeted at the wrong segment: the small business rate channels support toward firms that generate fewer of the investment, innovation, and productivity spillovers associated with larger, scaling companies.[117]

The National Bank of Canada also concluded that the rate increase discourages firm growth. Examining Canada's firm-size distribution, it found a disproportionate share of micro-firms: nearly 70 percent of Canadian businesses have fewer than 10 employees, against about 50 percent in the U.S. Canada also has far fewer firms in the "scale-up zone," where companies build the capabilities to invest, innovate, and export.[118] Nearly 80 percent of U.S. GDP comes from firms with 100 or more employees, against 63 percent in Canada.[i]

Beyond specific tax provisions, Canada's overall corporate tax competitiveness has eroded. Build Canada's research shows that Canada lost its headline advantage when the U.S. Tax Cuts and Jobs Act cut federal rates from 39 percent to 21 percent in 2017, reaching effective parity with Canada once sub-national rates are added.[119] Critically, corporate taxes harm economic growth more than any other tax type.[120]

High marginal income tax rates, capital gains taxation without rollover relief, and Small Business Deduction cliff effects combine to discourage entrepreneurship and growth. Entrepreneurs who succeed face punitive tax treatment on exits.[121] Firms that grow face sudden tax increases at arbitrary thresholds, and reinvested capital triggers immediate taxation rather than deferral.

i The OECD validates this diagnosis, noting that "tax incentives for SMEs may also unintentionally discourage firms from scaling up, as benefits decline when they outgrow SME thresholds." The C.D. Howe Institute identified the same barrier, noting that tax code disincentives to scaling compound the credit access challenges facing growth firms.

CASE STUDY: ESTONIA'S COMPETITIVE TAX MODEL

Estonia offers a proven alternative — bold, broad tax policy in service of startups and economic growth. First, a single flat tax rate of 22 percent on personal income, neutral across all levels of earnings.

Second, a 22 percent corporate tax rate applies uniformly to all firm sizes and types. But the distinctive feature is Estonia's distributed-profits tax. Introduced in 2000, it charges zero corporate tax on earnings reinvested in the business and applies only when profits are extracted as dividends. This creates a direct incentive for reinvestment and scale.

Estonia's tax mix relies heavily on a consumption tax — a form of taxation that imposes less economic harm.

Since implementing this system in 2000, Estonia's GDP per capita has grown more than 119 percent, against 27 percent for Canada over the same period. Estonia now leads Europe in startups, venture capital investment, and unicorns per capita.[122] In 2024, Estonians started 18.7 businesses per 1,000 people, against Canada's 4.6.

Estonia has ranked first on the Tax Foundation's International Tax Competitiveness Index for over a decade. Canada currently ranks 13th overall but a concerning 27th on individual taxes, 25th on property taxes, and 22nd on corporate taxes.[123]

Regulatory burden

Canada's regulatory burden is a "silent killer" of competitiveness.[124] Canadian small businesses spend $51.5 billion annually on regulatory compliance, with $17.9 billion attributable to unnecessary or duplicative requirements.[125] Small firms with fewer than five employees pay over $10,200 per employee in compliance costs alone. Statistics Canada documented a 37 percent rise in federal regulatory restrictions between 2006 and 2021, linked to a 1.7-percentage-point decline in GDP growth alongside drops in business investment, productivity, employment, and new-business formation.[126] The World Bank's Business Ready provides internationally comparable data. Canada ranks 33rd on regulatory framework quality, behind G7 peers the United States (5th) and the United Kingdom (12th).[127] General construction permits took nearly 250 days in Canada as of 2020, roughly three times longer than in the United States.[128] Capital is mobile, and regulatory uncertainty pushes investment to jurisdictions where the rules are stable and approvals predictable.

Competition policy

Weak competitive pressure is the third framework barrier. Much Canadian economic activity is shielded from competition by deliberate policy choice. Canada's Product Market Regulation standing — a proxy for competition — has deteriorated from 10th among OECD members in 1998 to 26th in 2023.[129] Falling business entry rates combined with rising industrial concentration weaken firm investment and productivity growth. The OECD has repeatedly noted that restrictions on services trade remain high in Canada's network sectors, hindering dynamism and innovation. A Competition Bureau-commissioned study analyzing 15 OECD countries over 25 years estimates that aligning Canada's regulations with international best practices could boost GDP by 6.5 to 10 percent over the long run.[130]

Canada's foreign direct investment restrictiveness score is the highest in the G7 by a wide margin.[131] Growth firms that access capital still compete in markets where incumbents face limited competitive discipline, capping the returns available to investors and the incentives available to founders.

Internal trade barriers fragment what should be a unified domestic market. The provinces impose a tariff-equivalent on goods and services moving within Canada, raising costs for growth firms expanding nationally and dampening the competitive pressure that drives productivity and innovation. The IMF estimates that eliminating these internal barriers could raise real GDP by roughly 7 percent, or $210 billion in today's dollars.[132]

THE RECOMMENDATION:

Federal and provincial governments should pursue ambitious and coordinated reform of the tax system, the regulatory environment, and competition policy.

On tax, this means addressing the Small Business Deduction cliff, the competitiveness of top marginal income tax rates, and the corporate tax system overall.

On regulation, this means reducing the stock of unnecessary and duplicative rules, establishing shorter universal — rather than selective — project approval timelines, and pursuing full mutual recognition of goods and professional credentials across provinces. The Toronto Region Board of Trade's recent Beyond Red Tape report also recommends appointing a regulatory efficiency officer that reports directly to the head of government, institutionalizing a single-window model across all governments, and making international standards the default for Canadian regulations.[133]

On competition, this means reviewing the regulatory foundations of Canada's most concentrated industries, eliminating internal trade barriers, easing foreign-ownership restrictions where appropriate, and ensuring the *Competition Act* is applied rigorously where incumbent protection has become a barrier to new entry.

International experience shows that countries which move on tax reform, regulatory-burden reduction, and competition policy simultaneously generate compounding gains that exceed the sum of individual reforms.

Streamline and consolidate support programs

Firms should spend their time growing, not navigating government programs.

JURISDICTION: FEDERAL AND PROVINCIAL (ONTARIO)

OVERVIEW:

Canada operates a highly fragmented system of business and innovation support programs across federal and provincial governments. Federal and provincial governments should establish a unified digital portal consolidating program information, eligibility criteria, and applications. In parallel, program design should shift from size-based eligibility thresholds to age-based criteria to avoid penalizing firm growth and scaling.

POTENTIAL IMPACT:

A consolidated portal would reduce the navigation complexity that rewards bureaucratic expertise over innovation, making it easier for growth firms to find and access relevant programs. Shifting to age-based criteria, as the OECD recommends, would remove the perverse incentives that discourage firms from scaling past arbitrary revenue or employee thresholds to maintain eligibility.

THE CHALLENGE:

The challenge facing Canadian growth firms is not a shortage of government programs. It is a fragmented system that is rarely evaluated and that fails the very firms it is designed to help. Poor program design compounds the problem.

The OECD's 2026 industrial policy assessment documents the scale of program fragmentation for SME supports in Canada. Canada delivers SME support through 12 institutional actors — five federal departments, four regional development agencies, and three provincial governments — compared with three to six institutions in other G7 countries.[134]

The federal government alone runs 134 programs with innovation or business support mandates, spending billions annually through direct subsidies and tax credits.[135] This includes agencies and programs like the Business Development Bank of Canada (BDC), Export Development Canada (EDC), Farm Credit Canada (FCC), the Canada Small Business Financing Program (CSBFP), and successive rounds of the VCAP. In addition, there are the new $1 billion Growth VCCI and $750 million early-growth envelope. Provincial programs add another layer. Ontario alone operates dozens through agencies like Invest Ontario, MaRS, and the Ontario Capital Growth Corporation, as well as the $4 billion Protect Ontario Account Investment Fund and the $8 billion Building Ontario Fund. Appendix A catalogues major federal and provincial programs exceeding $1 million in annual disbursement.

Canada's industrial support totals 0.82 percent of GDP, which is less than half of the G7 average.[136] The government relies mostly on tax concessions rather than direct grants. Loans and other financial tools also play a major role in providing capital to smaller businesses. Federal institutions are responsible for 85 percent of total funding for SMEs and young firms. The BDC alone accounts for 62 percent of all SME and young firm support, while several institutions disburse relatively small amounts of funding. The OECD concludes that "Canada stands out for its relatively fragmented system."[137]

Recent Ontario initiatives illustrate how proliferation compounds fragmentation. The Protect Ontario Account Investment Fund commits $4 billion to AI, defence, and advanced manufacturing with pension co-investment.[138] The Building Ontario Fund allocates $8 billion for infrastructure with minimum $100 million investment requirements.[139] These are large commitments; whether they address the needs of startups and scale-ups is uncertain.

Structural challenges

This fragmentation creates three challenges:

1. Navigation complexity:

Firms must navigate overlapping federal, provincial, and agency-specific programs, each with distinct eligibility rules, reporting requirements, and timelines. The associated cognitive and administrative costs discourage participation.

2. Duplication and gaps:

Overlapping mandates lead to program redundancy in some areas and undersupply in others. Resources are diffused across multiple instruments rather than concentrated on scalable interventions.

3. Weak evaluation and accountability:

With dozens of programs operating independently, rigorous evaluation is rare, and incrementality is typically measured through self-reported surveys rather than counterfactual analysis. Programs persist whether or not they work.

Program design mismatches

Beyond fragmentation, individual programs are poorly designed to serve growth firms. Canada's flagship R&D support program — the Scientific Research and Experimental Development (SR&ED) tax credit — is a case in point. The OECD notes that Canada relies almost entirely on tax incentives for R&D support rather than direct grants, despite evidence that grants are more effective for early-stage, high-risk innovation. Budget 2025's expansion of the refundable credit ceiling from $3 million to $6 million in qualifying expenditures addresses part of this concern for smaller firms, raising the maximum refundable investment tax credit to $2.1 million annually.[140] However, larger growth firms and public companies remain limited to non-refundable credits, which provide tax relief only to the extent the firm has taxable income. A firm reinvesting heavily in R&D may generate losses or minimal taxable income, making non-refundable credits worthless in the near term. The OECD recommends shifting R&D support from size-based to age-based criteria to avoid penalizing firm growth.

The program's administrative burden undermines its effectiveness. The time, effort, and consulting costs required to prepare SR&ED claims often consume a significant share of the credit itself — a problem the federal government has acknowledged. Budget 2025 committed the Canada Revenue Agency to transformational administrative reforms effective April 1, 2026, including an elective pre-claim approval process targeting a 90-day review timeline (down from 180 days), AI-assisted risk assessment to reduce unnecessary audit interventions, and streamlined documentation requirements.[141]

Consolidation and focus

Canada's fragmented support system rewards bureaucratic navigation over innovation and growth.

The problem is well-documented, widely acknowledged, and persistently unaddressed. Successive expert panels and federal reviews over the past 15 years have called for consolidation of business support programs — and each time, the recommendations have stalled.

A 2025 working paper from the University of Toronto's Innovation Policy Lab, authored by former National Research Council President Iain Stewart, catalogues how programs operate in silos and describes previous coordination attempts as providing a more coordinated front end without reducing the underlying complexity.[142] Senator Colin Deacon's 2024 discussion paper reached similar conclusions, finding that programs are often undersubscribed not for lack of demand but because their design does not match the needs or capacity of intended applicants.[143] Budget 2022 announced a Canada Innovation Corporation to consolidate delivery, but implementation has been delayed. A government announcement made in December 2023 stated it would be fully implemented no later than 2026-2027.[144] The Spring Economic Update 2026, which also launched the Canada Strong Fund, committed the government to comprehensive mandate reviews of each organization in the federal financing ecosystem — an acknowledgment that duplication and unclear purpose remain unresolved.[145]

Government as customer

Canada already spends tens of billions of dollars a year on goods and services — purchasing power that can be redirected to support growth firms without creating new programs. Public procurement is one additional lever Canada could explore to improve capital access. Government purchasing has the potential to be a significant source of early-stage revenue, particularly for firms developing innovative products or services. Procurement contracts provide more than financing — they deliver customer validation, cash flow to sustain operations during development, and credible reference points that make it easier to raise private capital. For startups and scale-ups, a government contract can serve as both working capital and proof of market demand. See Appendix B for detailed analysis of procurement as a capital access mechanism and international models.

THE RECOMMENDATION:

International best practices point toward consolidation and focus. The United Kingdom, for instance, channels most government business financing through the British Business Bank, a single institution that operates multiple programs under one roof with unified reporting and evaluation, reducing fragmentation and improving coordination. Canada has not pursued this model, instead layering new programs on top of existing ones.

The policy challenge is not creating new programs but adapting existing mechanisms to serve unaddressed segments: the CSBFP infrastructure could support a growth track; BDC Capital could refocus on catalyzing private capital rather than direct deployment; provincial programs could consolidate around evidence-based interventions. Without deliberate reform, proliferation will continue.

Canada's federal structure compounds the fragmentation. Unlike the United Kingdom, where the British Business Bank consolidates debt guarantees and equity programs under one institution, Canada's constitutional division of powers means federal, provincial, and municipal programs will always operate under separate mandates. No single reform can eliminate this complexity, but two practical steps would reduce it.

First, federal and provincial governments could establish a unified digital portal that maps all available programs, filters by firm stage and sector, and provides a common intake pathway where eligibility criteria overlap. Second, both orders of government could adopt mandatory sunset reviews of business support programs on a five-year cycle, with the burden of proof on administering agencies to demonstrate measurable additionality and the absence of crowding out.[146] Reviews should assess whether programs collectively support growing firms, whether individual programs meet their stated objectives, and whether design flaws prevent programs from reaching intended beneficiaries.

Programs that cannot demonstrate additionality should be consolidated or eliminated, with resources redirected to interventions with a stronger evidence base.

The OECD's 2026 industrial policy assessment supports this approach, recommending "strengthening coordination between federal and provincial governments to avoid inefficient subsidy competitions" and "improving information dissemination about available support programmes."[147] The OECD also recommends shifting programs from size-based to age-based criteria to stop penalizing firm growth.

Two additional reforms would strengthen the consolidated framework. First, develop a clearly defined industrial strategy with measurable targets. The OECD notes that Canada lacks a unified strategic document outlining long-term objectives and priorities; a published strategy would improve policy predictability, enable proper evaluation, and create accountability for results. Second, establish robust evaluation frameworks. The mandatory five-year sunset reviews proposed above would redirect resources to interventions with stronger evidence.

CAPITAL ACCESS GAPS FOR EQUITY-DESERVING GROUPS

Research from Employment and Social Development Canada identifies barriers for entrepreneurs from equity-deserving groups including Indigenous peoples, Black Canadians and people of colour, women, 2SLGBTQI+ individuals, newcomers, and persons with disabilities. These founders face capital access gaps that exceed those documented for growth firms generally. They are also systematically perceived as “high-risk” despite that classification reflecting bias rather than evidence. Infrastructure barriers in rural and Indigenous communities, gaps in capacity-building support, language barriers, and limited access to professional networks that developed through exclusionary systems all compound the financing challenge.[148]

The recommendations in this report would benefit all Canadian growth firms, but implementation should explicitly address the barriers faced by entrepreneurs from equity-deserving groups. That means targeted outreach to underrepresented founder communities, ensuring capital gains rollover provisions do not inadvertently favour those with existing wealth and networks, including diversity metrics for fund managers and portfolio companies in pension fund domestic investment targets, and providing navigation support and capacity building in any unified program portal. Federal programs should collect disaggregated demographic data to measure whether reforms are reaching equity-deserving groups or reinforcing existing patterns of capital allocation.

Building Canadian Champions

Developing a financing pathway for launching, scaling, and succeeding at home.

Canada's startups and scale-ups face a capital access challenge that is driving entrepreneurs to relocate, suppressing job creation, and undermining productivity growth. The nine recommendations in this report are designed to work in concert to address the challenge.

On the debt side, risk weight reduction would make SME lending more profitable for banks, expanding the credit supply. A CSBFP growth track would extend Canada's guarantee mechanism to the firms most likely to scale, supported by a robust IP lending infrastructure.

To mobilize equity, pension fund and insurance reforms would unlock the institutional capital currently sitting on the sidelines, including through investment in government funds that employ best practices. A rationalized securities regulator would reduce friction for accessing public markets.

The recommendations also address the broader conditions in which growth capital operates. Capital gains reform would encourage successful founders and investors to recycle capital into new ventures rather than seeing it reduced through immediate taxation. Tax, regulatory, and competition reforms would improve the environment in which firms deploy capital and grow. Streamlining government support programs would make public resources easier to access and more effective.

Taken together, these reforms are mutually reinforcing. A founder might secure financing through a reformed CSBFP, raise growth capital from a pension-backed venture fund, scale through a more competitive and less burdensome regulatory environment, and ultimately reinvest the proceeds of a successful exit into the next generation of Canadian companies. That is the virtuous cycle these recommendations seek to set in motion.

The choice is not simply between maintaining the status quo or adopting a new set of reforms. It is a choice between continuing to lose ideas, entrepreneurs, and investment opportunities, or creating the conditions for them to grow and scale in Canada. It is a choice between financing innovation elsewhere or building it here.

The recommendations in this report should be pursued as a coordinated agenda. Implemented together, they would strengthen Canada's capital markets, improve access to growth financing, and create the conditions for more Canadian companies to start, scale, and succeed at home.

Appendix A: Government Support Programs for Entrepreneurship and Business Financing

Too many programs? We tallied them up.

This appendix catalogues major federal and provincial (Ontario) programs supporting entrepreneurship and business financing with annual disbursements or tax expenditures exceeding $1 million, organized by level of government and type.

Program	Jurisdiction	Instrument	Delivery Channel	Deal Size Per Firm	Annual/Total Envelope	Stage Focus	Sector Scope
Federal							
Business Development Bank of Canada Financing	Federal (Crown Corporation)	Commercial loans, lines of credit, syndicated loans	**Direct to firm**	$250,000-$5 million per deal	$10.0 billion in loans in fiscal 2025, $40.9 billion total portfolio	All stages	**Broad**
Business Development Bank of Canada Growth and Transition Capital	Federal (Crown Corporation)	Cash flow, mezzanine and quasi-equity financing to support the growth, transition and acquisition projects of SMEs with strong business models and management teams but limited tangible assets as collateral.	**Direct to firm**	$250,000 - $35 million per transaction	$452.8 million accepted across 173 deals in fiscal 2025	Scale-up / transition	**Broad**
Business Development Bank of Canada Venture Capital	Federal (Crown Corporation)	Direct equity - LP commitments to VC funds	**Direct via VC managers**	Varies by fund: ~$100K–$1M (Seed Venture Fund); $1M–$3M seed / $5M–$8M Series A, $8M–$12M Life Sciences Fund; ~$13M average Growth Venture Fund; ~$12M average, Growth Equity Partners; up to $15M Cleantech/Thrive	$533.8 million in 2025	Early growth to scale up	**Broad, with dedicated carve-outs for climate tech, life sciences, Indigenous entrepreneurs, Black entrepreneurs, and equity-deserving/ underrepresented groups**
Scientific Research and Experimental Development Tax Credit (SR&ED)	Federal (tax credit)	Refundable and non-refundable tax credit	**Via CRA tax filing**	"Refundable stream: Up to $2.1M/ yr (35% on first $6M qualifying expenditure) — available to CCPCs and eligible Canadian public corporations; phases out between $15M–$75M in taxable capital Non-refundable stream: 15% credit on qualifying expenditure above the $6M limit, or for corporations not eligible for the refundable credit; no expenditure ceiling"	Roughly $4-4.5 billion	All stages with R&D activity	**Broad**
Export Development Canada	Federal (Crown Corporation)	Loans, guarantees, AR insurance	**Direct to firm**	$1 million minimum (direct lending to Canadian exporters, requires $10+ million annual revenue); up to $34 million (Export Guarantee Program); $10M–$25M (buyer financing). No posted ceiling on direct lending — large project and structured finance deals can reach hundreds of millions.	$23.8 billion total in financing and investments in 2024	Early growth to mature	**Broad (export oriented)**
Strategic Response Fund	Federal (ISED)	Repayable contribution (default for firm-level projects); non-repayable for network/ collaboration projects only	**Direct to firm**	$10 million minimum government contribution (on projects with $20+ million total eligible costs); no posted maximum — determined case-by-case based on project scope	$5 billion total envelope	Mature / Large Project	**Broad**
Canada Small Business Financing Program	Federal (ISED); Delivered via banks	Loan guarantee (85%)	**From banks to firms**	Max $1.15 million total ($1 million amortizing + $150,000 line of credit)	$1.9 billion in 2025	Early-stage; young, smaller, and higher-risk businesses; predominantly accommodation, food service, and retail	**Broad**

APPENDIX A

Program	Jurisdiction	Instrument	Delivery Channel	Deal Size Per Firm	Annual/Total Envelope	Stage Focus	Sector Scope
Canadian Infrastructure Bank	Federal (Crown Corporation)	Loans, equity, loan guarantees	**Direct to projects**	Not published	$35 billion total envelope	Mature / Large Project	**Green Infrastructure, trade/transport, transit, broadband, Indigenous community infrastructure.**
National Research Council - Industrial Research Assistance Program (NRC-IRAP)	Federal (National Research Council)	Non-repayable contribution	**Direct to firm via Industrial Technology Advisors**	$50,000 - $10 million per project	$393.1M deployed to 3,136 SMEs in 2024-25; additional streams include $100M over 5 years for AI Assist and $244.2M for Defence Industry Assist	Early growth to scale up	**Tech/Innovation**
Venture and Growth Capital Catalyst Initiative (Growth VCCI)	Federal (BDC on behalf of ISED)	Equity (fund-of-funds)	**Via VC managers**	Not yet published	$1 billion total	Not yet confirmed	**Broad, with carve outs (Three streams: fund-of-funds, life sciences, emerging managers)**
$750 million Early-Growth Envelope	Federal	Not yet confirmed	**Not yet confirmed**	Not yet confirmed	$750 million total	Early growth	**Broad**
Canadian Tech Growth Fund	Federal (Dept/ agency not yet confirmed)	Flexible growth capital, investment support, equity stakes	**Not yet confirmed**	Not yet confirmed	$500 million total envelope	Scale up	**Canada's "most promising AI companies"**
Canada Growth Fund	Federal, arm's-length subsidiary of CDEV, investment management provided by the Canada Growth Fund Investment Management Inc., a wholly-owned subsidiary of PSP Investments	Equity, guarantees, offtake	**Direct to firm**	Deal size not published; focus on scale-up projects beyond technology demonstration stage; venture-scale investments explicitly excluded	$15 billion total envelope	Mature / Large Project	**Clean economy transition — emissions reduction projects, clean technology, and low-carbon supply chains (including critical minerals)**
Canada Strong Fund	New Crown Corporation, reporting through the Minister of Finance and National Revenue	Minority equity stakes alongside private capital with a mandate to deliver market-rate returns	**Details pending**	Not yet published	$25 billion initial federal contribution over 3 years	Mature / Large Project	**Clean and conventional energy, critical minerals, agriculture, and infrastructure**
Innovation for Defence Excellence and Security (IDEaS)	Federal (Department of National Defence)	Non-repayable contribution	**Direct to firm**	Up to $1.5 million for early stage projects; up to $6.75 million for advanced projects.	$1.6 billion over 20 years	All stages with R&D activity	**Defence and security innovation**
FedDev Ontario	Federal (regional development agency for Southern Ontario)	Interest-free repayable contribution	**Direct to firm**	Up to $10 million (maximum 50% of eligible project costs); no published minimum	$96.8 million deployed to 147 for-profit projects in 2024-25; intake-based with multiple calls per year	Scale-up	**Southern Ontario focus**
FedNor	Federal (regional development agency for Northern Ontario)	Repayable contribution (for profit-generating projects); non-repayable for not-for-profits, municipalities, and First Nations	**Direct to firm**	No published maximum; up to 50% of eligible supported costs, determined case-by-case.	Total planned spending for 2026-2027: $61.8 million	Growth-stage	**Northern Ontario focus**
Indigenous Loan Guarantee Program	Federal (administered through the Canada Indigenous Loan Guarantee Corporation)	Loan guarantee	**Via private lenders**	$20 million - $1 billion maximum	$10 billion total guarantee authority	Mature / Large Project	**Broad, all sectors except gaming**
Clean Technology Investment Tax Credit	Federal (tax credit)	Refundable tax credit	**Via CRA tax filing**	No per-firm limit; credit equals 15%–40% of eligible capital cost (rate depends on carbon intensity of hydrogen produced)	$4.5 billion over 5 years (2023-24 to 2027-28); $6.6 billion from 2028-29 to 2034-35 — combined envelope across the Clean Technology Investment Tax Credit and Clean Technology Manufacturing Investment Tax Credit	Scale-up to mature	**Clean energy generation, heat pumps, energy storage**
Clean Technology Manufacturing Investment Tax Credit	Federal (tax credit)	Refundable tax credit	**Via CRA tax filing**	No per-firm limit; credit equals 30% of eligible capital cost of qualifying manufacturing and processing equipment	$4.5 billion over 5 years (2023-24 to 2027-28); $6.6 billion from 2028-29 to 2034-35 — combined envelope across the Clean Technology Investment Tax Credit and Clean Technology Manufacturing Investment Tax Credit	Scale-up to mature	**Manufacturing of clean technology equipment; extraction, processing, and recycling of critical minerals**

Program	Jurisdiction	Instrument	Delivery Channel	Deal Size Per Firm	Annual/Total Envelope	Stage Focus	Sector Scope
Clean Hydrogen Investment Tax Credit	Federal (tax credit)	Refundable tax credit	**Via CRA tax filing**	$4.5 billion over 5 years (2023-24 to 2027-28); $6.6 billion from 2028-29 to 2034-35 — combined envelope across the Clean Technology Investment Tax Credit and Clean Technology Manufacturing Investment Tax Credit	$17.7 billion total (2023–2035)	Mature / Large Project	**Clean hydrogen production**
Carbon Capture, Utilization and Storage Investment Tax Credit	Federal (tax credit)	Refundable tax credit	**Via CRA tax filing**	No per-firm limit; credit equals 37.5%–60% of eligible capital cost (60% for direct air capture; 50% for capture equipment; 37.5% for transport, storage and use); enhanced oil recovery eligible at half rates as of April 28, 2026	$5.5 billion total (2022–2028; Budget 2023 estimate)	Mature / Large Project	**Industrial emitters pursuing carbon capture, utilization and storage**
Ontario							
Invest Ontario Fund	Ontario (Ministry of Economic Development, Job Creation, and Trade)	Customized business support - both financial and non-financial support	**Direct to firm**	No published range	$1.3 billion total envelope	Mature	**Life sciences, advanced manufacturing, technology, critical minerals, agri-food**
Protect Ontario Account Investment Fund	Ontario	Equity/loans	**Direct to firm**	Exact ranges not yet published	Up to $4 billion committed in the Ontario 2026 budget	Mature	**Priority sectors; AI, advanced manufacturing, strategic industries**
Protect Ontario Financing Program	Ontario	Working capital loans	**Direct to firm**	Minimum $250,000; maximum not stated — determined case-by-case at province's discretion; term loan for working capital only. Requires $2 million in annual revenue and over 10 full-time employees.	Envelope not yet published	Mature	**Firms affected by U.S. 232 tariffs**
Northern Ontario Heritage Fund Corporation	Ontario (Crown agency)	Grants	**Direct to firm**	Invest North-Grow: Up to $1 million loan (50% of eligible costs), Invest North-Locate: Up to $5 million	Not publicly stated	Early growth to mature	**Northern Ontario Focus - manufacturing, tourism, technology, mining, agri-food**
Regional Development Program - Advanced Manufacturing and Innovation Competitiveness (AMIC) Stream	Ontario (Ministry of Economic Development, Job Creation, and Trade)	Loans, grants	**Direct to firm via advisors**	Loan up to $5 million (max 15% of eligible project costs); grant up to $1.5M for strategic projects or $500,000 for small rural firms	$130 million over 3 years across all three Regional Development Program streams	Scale up to mature	**Advanced manufacturing capital projects**
Regional Development Program - Eastern Stream	Ontario (Ministry of Economic Development, Job Creation, and Trade)	Interest-free loan, grants	**Direct to firm**	Business: Up to $5 million loan, grant up to $500,000 (rural), or $1.5 million (strategic foreign direct investment). Community: Grant up to $1.5 million.	$130 million over 3 years across all three Regional Development Program streams	Growth-stage (Business must have been operating for 3+ years, and have over 10 employees.)	**Broad, excludes retail, primary production, construction, restaurants, consulting, electricity generation. Eastern Ontario focus.**
Regional Development Program - Southwestern Stream	Ontario (Ministry of Economic Development, Job Creation, and Trade)	Interest-free loan, grants	**Direct to firm**	Business: Up to $5 million loan, grant up to $500,000 (rural), or $1.5 million (strategic foreign direct investment). Community: Grant up to $1.5 million.	$130 million over 3 years across all three Regional Development Program streams	Growth-stage (Business must have been operating for 3+ years, and have over 10 employees.)	**Broad, excludes retail, primary production, construction, restaurants, consulting, electricity generation. Southwestern Ontario focus.**
Venture Ontario Fund	Ontario (Crown agency)	Equity (fund-of-funds)	**Via VC managers**	Downstream portfolio companies regularly receive $1 million+ rounds; Venture Ontario does not invest directly in firms	$500 million + AUM total; $300 million provincial commitment in past two years; 2025 Budget added $90 million ($50 million for defence/AI/cyber + $40 million for life sciences, bringing life sciences to $80M total)	Scale up	**Defence, AI, cyber and life sciences**
Life Sciences Scale-Up Fund	Ontario (Ministry of Economic Development, Job Creation, and Trade)	Conditional grant (non-repayable)	**Direct to firm**	Up to $2.5 million (maximum 33% of eligible project costs)	$24 million total program envelope	Firms must have a working prototype or commenced small-scale commercial production and initiated regulatory approvals	**Life sciences, human health sciences**
Indigenous Opportunities Financing Program	Ontario (administered by the Building Ontario Fund)	Loan guarantee	**Via private lenders**	Not published	$3 billion total guarantee authority	Mature / Large Project	**Indigenous eligibility criteria, mining, critical minerals, resource development, energy, pipelines**

Appendix B: Government Procurement as Demand-side Financing Lever

First customers matter as much as first investors.

Public procurement is frequently proposed as a mechanism for supporting growth firms. Government purchasing provides early revenue, validates technology, and signals quality to private investors. The scale is significant: the federal government spends roughly $37 billion a year in goods and services.[149] Ontario is delivering a capital plan of more than $210 billion.[150] Procurement faces distinct challenges as a capital access tool, however, and its effectiveness depends heavily on design choices and institutional context.

As John Ruffolo told the Standing Senate Committee on Banking, Commerce and the Economy on April 23, 2026: “If we want to build globally competitive firms, governments must act as customers, not just funders. Strategic procurement done transparently and competitively creates revenue certainty, reference customers and scale. Grants do not. Executed properly, procurement is a very effective form of non-dilutive capital.”[151]

BARRIERS IN CANADIAN PROCUREMENT

Canada’s procurement programs have consistently failed to reach growth firms. Federal purchasing typically follows a “waterfall” model requiring vendors to submit extensive documentation, compliance matrices, project plans, and corporate histories before technical merit is considered.[152] Large incumbents, often foreign, maintain dedicated bid teams for this purpose; Canadian startups typically do not. Administrative capacity, not innovation or product fit, determines who gets in the door.

Canada’s procurement framework also operates under constraints that limit flexibility. Trade agreements — CUSMA, CETA, and interprovincial agreements — restrict preferential treatment for domestic or small firms beyond narrow thresholds. Procurement officers face legal and career risks when selecting unproven vendors over established suppliers, creating institutional bias toward incumbents. Government is also not the optimal early customer for many growth firms: public sector requirements (security clearances, bilingual documentation, accessibility standards, specialized compliance) can pull product development away from commercial market needs, and a government contract validates delivery capability without necessarily signalling product-market fit for private sector buyers.

Innovative Solutions Canada (ISC), launched in December 2017, required 21 departments and agencies to spend 1 percent of procurement budgets on Canadian innovators — a mandated $113.8 million annually.[153] The program consistently underperformed. Successful prototype developers had to re-enter standard procurement processes to become ongoing suppliers, and the Council of Canadian Innovators has publicly described “significant flaws and frustrations” with the program.[154]

RECENT POLICY FRAMEWORKS

Recent federal and provincial initiatives may improve the environment.

The federal Buy Canadian Procurement Policy Framework, which prioritizes Canadian suppliers in strategic procurements and requires Canadian materials in construction and defence, came into force December 16, 2025. It includes a Small and Medium Business Procurement Program with $79.9 million over five years, though eligibility criteria have not been published.[155] Ontario’s Buy Ontario Procurement Directive came into effect April 13, 2026, requiring public sector organizations to prioritize Ontario and then Canadian suppliers whenever feasible.[156] Both frameworks are oriented toward established suppliers, domestic content requirements, and fleet purchases. Whether they reach growth firms depends on design choices still being finalized.

INTERNATIONAL MODEL: GRANTS-TO-PROCUREMENT PIPELINE

The United States Small Business Innovation Research (SBIR) program is often cited as a procurement success, but it operates primarily as a grants-to-equity pipeline rather than traditional procurement. SBIR Phases I and II fund research and prototyping through competitive awards ($150,000–$300,000 for Phase I feasibility studies, $1–$2 million for Phase II development) with no delivery obligation — companies retain intellectual property and face no commercialization restrictions.

Phase III is the procurement bridge. When a firm successfully completes Phases I and II, agencies can procure the developed solution directly without new competition, treating the competitive requirement as satisfied through the earlier phases. Phase III awards are funded from regular procurement budgets with no size cap; firms retain full intellectual property rights with 20-year government non-disclosure protection. The 2026 Small Business Innovation and Economic Security Act reauthorized SBIR through 2031 and strengthened agency uptake of Phase III.

POTENTIAL POLICY REFORMS

If pursuing procurement as a complementary mechanism, design choices would need to address the structural barriers outlined above. The federal government could build a follow-on procurement mechanism into its SMB Procurement Program. When a growth firm successfully delivers on an initial Buy Canadian contract, the purchasing department could have authority to make subsequent awards without running a new competitive tender, adapting the SBIR Phase III model to Canadian procurement rules.

Ontario could build the equivalent into its Buy Ontario framework, giving scale-ups a route into the province's $210 billion capital plan. Further reforms could include simplified bidding for smaller contracts (reducing the administrative burden that favours incumbents) and accelerated payment terms that ease working capital pressure on growth firms.

LIMITATIONS AS A CAPITAL ACCESS TOOL

Procurement can provide early revenue and customer validation for firms developing products where government is a natural buyer — cybersecurity, health IT, infrastructure technology — but it is less suited to firms whose commercial success depends on consumer markets or private enterprise adoption. Payments typically arrive 60 to 90 days after delivery, and procurement does not address the scaling challenges that prevent Canadian growth firms from accessing debt and equity financing.

Given the implementation challenges and limited direct impact on capital access, procurement is best treated as a complementary tool, not a substitute for reforms that address regulatory capital penalties, tax disincentives, and institutional investment restrictions. The reforms outlined in this report — reducing OSFI risk weights, reforming capital gains taxation, removing the 30 percent pension fund rule — are more direct solutions to the capital access problem facing Canadian startups and scale-ups.

Appendix C: Nova Scotia Innovation Equity Tax Credit

Credits can attract capital—but only if investors can use them.

The Nova Scotia Innovation Equity Tax Credit (IETC) provides a non-refundable tax credit to individual and corporate investors who make equity investments in eligible Nova Scotia companies engaged in innovative activities.[157] The program targets early-stage capital gaps but has design limitations that reduce its effectiveness.

The credit equals 35 percent of eligible investments made in approved corporations, rising to 45 percent for investments in oceans technology and life sciences sectors. Individual investors can invest up to $250,000 annually and claim maximum credits of $87,500 at the standard rate or $112,500 at the enhanced rate.[158] Corporate investors can invest up to $500,000 annually at a 15 percent credit rate, claiming maximum credits of $75,000. Unused credits can be carried forward seven years or carried back three years.

The program has three structural constraints. First, the non-refundable structure limits appeal to investors without sufficient Nova Scotia tax liabilities to absorb the credit. Second, investors must hold shares for four years or repay the full credit, adding illiquidity in a sector where earlier exits and recapitalizations are common.[159] Third, corporations face administrative requirements including pre-investment registration, annual returns for four years after registration expires, and notarized shareholder registers.

The program could inform federal or provincial approaches to mobilizing angel capital. British Columbia operates a similar tax credit for venture investments.[160] Quebec's tax credit for investments in labour-sponsored funds provides a comparable mechanism, though that model has had significant limitations.[161] Effectiveness depends on design choices around refundability, holding periods, and administrative burden. Programs that provide upfront incentives without addressing capital recycling may mobilize initial investment but fail to keep capital circulating domestically when successful companies reach the scale-up stage.

Whether the IETC model warrants federal adoption or expansion to other provinces requires analysis of uptake rates, capital mobilization, and whether administrative requirements deter the patient capital the program seeks to attract.

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