

# Optimizing the impact of Canada's Small Business Financing Program

**Policy Memo:** Entrepreneurship through Acquisition  
**To:** Nathalie Poirier-Mizon, Director, Small Business  
**From:** Social Capital Partners and Venture for Canada  
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## Executive Summary:

As Innovation, Science, and Economic Development Canada (ISED) works to finalize its mandated 5-year review of the Canadian Small Business Financing Program (CSBFP), please accept this joint stakeholder submission from Social Capital Partners and Venture for Canada.

The CSBFP is a powerful tool in supporting the health of Canada's small business community. However, we believe that its impact could be further enhanced by amendments that allow for increased Entrepreneurship through Acquisition (ETA). ETA is a model whereby existing or aspiring entrepreneurs purchase and grow existing small businesses. It plays an important role in facilitating a transition to a new generation of entrepreneurs, keeping wealth in Canadian communities and unleashing local, private sector innovation.

## Problem Statement:

Canada is currently undergoing the biggest wave of business succession in the country's history. According to the Canadian Federation of Independent Business, 76% of business owners are planning to retire in the next decade – with business assets worth over \$2 trillion.<sup>1</sup> Currently, fewer than 10% of owners have a formal succession plan in place.<sup>2</sup>

At the same time, Canada is facing a sharp decline in business formation and entrepreneurship. There are 100,000 fewer entrepreneurs today than there were 20 years ago, even though our population has grown by more than 10 million.<sup>3</sup>

Without intervention, these twin trends are poised to weaken the vibrancy of Canada's economy and damage local economies for the indefinite future.

## Policy Proposal:

Entrepreneurship through Acquisition is an important strategy for ensuring that existing businesses are not shuttered as owners retire, but instead, are acquired and revitalized by a new generation of entrepreneurs. Comparable jurisdictions, like the United States, take an active role in offering small business loans with terms that encourage ETA.

While the CSBFP does offer loans that can be used for acquisition via asset purchase, unlike the United States' SBA 7A program, it does not consider the purchasing of shares in a business to be an eligible expense. A considerable share of the SBA 7A loan program goes towards ETA. On average, 10% of all 7A loans and 20% of all loan dollars go towards loans that result in a 'change in ownership.' In 2023, there were 5,000 such loans worth \$5.5 billion.<sup>4</sup>



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Acquisition via share purchase can provide benefits to both the buyer and seller. For the seller, it is often advantageous because it allows for simplicity in tax filings, as well as more favourable treatment under capital gains tax rules. For the buyer, it provides a seamless transfer of ownership, allowing the business to continue to operate as it did before, under the same entity, without needing to renegotiate or transfer agreements or contracts. In some cases, acquisition via assets is the preferred approach, but we believe that allowing both options would greatly increase the frequency with which the CSBFP facilitates ETA.

We believe that key changes could significantly enhance the CSBFP as a powerful tool for strengthening local economies. Specifically, we are recommending that the *Canadian Small Business Financing Program Act* be amended to:

1. Include share purchases as an eligible expense in contexts wherein the purchase leads to a change in ownership (i.e., 51% or more of the available shares);
2. Remove granular caps and requirements from legislation and move them into regulation, so the CSBFP can be adjusted with more regularity in response to changing economic trends (e.g., maximum eligibility requirements for loan size, loss-share ratio, and limitations on liability); and,

3. Increase the maximum loan amount to \$5M and commensurately increase the portions of the loan that can be allocated to equipment and leasehold improvements, and intangible assets and working capital.

## Expected Outcomes:

- *Business continuity* – Acquired businesses are more likely to remain operational, relative to new businesses.
- *Rural economic development* – Research from BDC reveals rural entrepreneurs face significant challenges in finding local buyers for their businesses.<sup>5</sup> Considering the outsized impact of business closures in rural and remote areas, promoting Entrepreneurship through Acquisition (ETA) could serve as a crucial strategy to mitigate this risk.
- *Diverse, competitive marketplaces* – Certain sectors in the Canadian economy are rapidly consolidating, harming consumers, workers and the small business ecosystem in many communities. Making ETA a more viable option could help to counteract these trends.
- *Job Preservation* - Small businesses in Canada are estimated to account for nearly 70% of the labour force.<sup>6</sup> Ensuring that small businesses remain operational is an important strategy in preserving jobs.

## Conclusion:

Entrepreneurship through Acquisition provides a practical solution to the impending wave of small business closures, ensuring the continuity of Canada's small businesses, creating new pathways to entrepreneurship and ownership, and fostering diverse local economies. By implementing key adjustments to its loan terms, the CSBFP is well positioned to seize this important opportunity to build long-term economic growth and resiliency.