

Built to Exclude

Why Canada's enterprises need a different kind of financing



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Executive Summary

Canada's enterprise financing system is dominated by big publicly traded, deposit-funded banks. They control more than 93% of banking assets and provide nearly 80% of small and medium-sized enterprise (SME) lending outside Quebec.

While these banks are internationally respected for their strength and stability, they face structural constraints that create predictable boundaries around what they can finance. Regulatory requirements demand liquidity buffers and higher capital against riskier loans. Quarterly earnings pressure drives short-term optimization and return-on-equity targets eliminate lower-margin opportunities.

Collectively, these structural features define the lending envelope within which these banks operate. They are not arbitrary choices or failures of bank management, but flow directly from the institutional design of big, publicly traded, deposit-funded banks. The result is a series of core eligibility criteria that systematically exclude viable enterprises across the economy:

- **Minimum deal size** – Loans under \$250,000 are considered unprofitable due to fixed transaction costs.
- **Standardized terms** – Banks' rigid credit models cannot accommodate flexible repayment schedules or atypical terms needed by firms with seasonal revenue or uneven cash flow.
- **Conventional borrower profile** – Borrowers with thin credit files or limited experience cannot access financing, even when alternative risk indicators suggest viability.
- **Standard organizational structure** – Non-profits, cooperatives, charities and Indigenous-owned enterprises frequently fall outside banks' eligibility criteria.
- **Tangible collateral** – Banks place a strong emphasis on tangible collateral when issuing loans, disadvantaging borrowers without collateral and asset-light firms.
- **Familiar geography and sectors** – Rural and northern regions are perceived as higher risk and banks are reluctant to lend in sectors where they lack expertise.
- **Commercial return threshold** – Businesses with thin margins or public-purpose missions struggle to access credit, even when financially sound.



At the core, this is a failure of institutional design. The point is not that these banks should lend more recklessly, but that Canada needs institutions designed to serve the enterprises that big, publicly traded, deposit-funded banks cannot structurally reach.

The data on SME financing shows the scale of the problem in Canada. Between 2019-2024, only 11.5% of all outstanding business loans went to Canada's SMEs, compared with an average of 44% across OECD countries.

At the core, this is a failure of institutional design. The point is not that these banks should lend more recklessly, but that Canada needs institutions designed to serve the enterprises that big, publicly traded, deposit-funded banks cannot structurally reach.

Efforts have been made. The Business Development Bank targets SMEs and marginalized entrepreneurs. The federal government funds the Community Futures network, backstops SME lending through the Canada Small Business Financing Program, and operates targeted initiatives like the Women Entrepreneurship Strategy, Black Entrepreneurship Program, and Social Finance Fund. But these initiatives, while valuable, lack the scale, institutional permanence, and systemic integration required to fundamentally alter Canada's financing landscape.

Peer economies have built alternative financing institutions that operate alongside commercial banking as permanent, scaled infrastructure. Germany's Sparkassen network of public savings banks provides local enterprise financing. The U.S. and U.K. sustain robust Community Development Financial Institutions (CDFI) ecosystems that channel capital to underserved communities and enterprises. The U.S. and U.K. have also built regulatory frameworks scaled to the size and risk of credit unions.

The productivity, resilience, inclusive growth and economic sovereignty objectives Canada is trying to achieve are not independent of its financing system. They are shaped by it. Failing to capitalize Canadian enterprises undermines the country's capacity to have sovereign ownership of its own economy, which makes the economy less resilient, less democratic and less productive. Over time, it leaves Canada with an economy that is increasingly less dynamic, with more Canadians left outside a system that no longer works for them.

Canada can continue treating its financing monoculture as inevitable, or it can follow the lead of peer jurisdictions and intentionally build the institutional diversity required for a different outcome.

Introduction

A well-functioning financing system matches capital to productive uses across the economy. Because viable enterprises¹ vary widely, serving them requires lenders with a corresponding range of risk appetites, time horizons and return expectations. The question for any economy is whether its mix of financing institutions can adequately serve the enterprises that need capital.

In Canada, the enterprise financing system is dominated by a small number of big, publicly traded, deposit-funded banks.² While our financial system is internationally respected for its strength, stability and resiliency,³ the business model of these banks, shaped by liquidity requirements, capital regulation, collateral preferences and shareholder expectations, creates predictable boundaries around what they can finance.

This paper argues that **big-bank dominance of enterprise financing in Canada is an institutional design failure that has led to the undercapitalization of viable enterprises.**

Other economies have taken a different path, building and sustaining alternative financing infrastructure that complements commercial banking at meaningful scale. Canada has some of these pieces but not at the scale or permanence required to alter the underlying structure of the system.

Not all excluded enterprises deserve financing and alternative institutions are not risk-free. But dominance by a single institutional type creates predictable gaps. Addressing this structural weakness in Canada's financing system represents an opportunity to boost productivity, grow the economy, build community wealth, strengthen economic sovereignty and ensure that prosperity is more broadly shared. Failing to diverge from our current path risks further concentration of assets⁴ and rising barriers to wealth-building and enterprise ownership. Over time, it would leave Canada with an economy that is increasingly less dynamic and less democratic, with more Canadians left on the outside of a system that no longer works for them.



The big-bank dominance of enterprise financing in Canada is an institutional design failure that has led to the undercapitalization of viable enterprises.

¹ **Note:** For the purposes of this paper, enterprises encompass revenue-generating entities across for-profit, non-profit and cooperative legal structures.

² **Note:** Deposit-funded banks are a subset of banks distinguished by their primary funding source: deposits from households and businesses, which are typically insured by government.

³ [IMF Executive Board Concludes 2025 Financial System Stability Assessment with Canada](#)

⁴ [The New Robber Barons](#)

The structural constraints of publicly traded, deposit-funded banking

Deposit-funded banks are important institutions. They turn short-term savings into long-term loans for businesses and homeowners, making it possible for the economy to invest in the future while keeping money accessible when depositors need it.

These banks operate largely on deposited funds they are obligated to return at any time. This means that if losses occur, it can spark a bank run where depositors attempt to pull their money out all at once, outstripping the bank's immediate cash reserves.

In recognition of this vulnerability, Canadian banks are highly regulated to prevent both individual bank failures and the systemic collapse that would devastate households and businesses who depend on stable access to credit and payments. These regulations protect depositors and financial stability, but they also create predictable boundaries around the lending banks can provide.

Structural limitations that shape bank lending include:

- **Maturity mismatch and liquidity requirements** - Banks fund long-term loans with short-term deposits that customers can withdraw anytime, creating a fundamental mismatch between the duration of their assets and liabilities. To manage the risk that too many depositors withdraw at once, banks must maintain liquidity buffers, which can limit the funds available for enterprise financing.
- **Capital regulation and collateral bias** - Regulators require banks to hold more capital against loans deemed riskier, making those loans more costly to originate and hold on the balance sheet. Banks mitigate this capital cost by demanding collateral they can liquidate to recover losses, creating a structural preference for asset-backed lending. This preference excludes borrowers who do not have access to collateral.
- **Demand for hard information** - Banks process loan applications at scale using standardized underwriting models that require verifiable, quantitative financial data (e.g. tax returns, audited statements, credit scores). This operational structure creates a systematic bias toward borrowers who can produce conventional financial documentation, regardless of their actual business viability.
- **Limited upside associated with debt** - When a bank makes a loan, the best-case scenario is getting paid back with interest. No matter how successful the borrower becomes, the bank gets the same fixed return. But if the borrower defaults, the bank suffers losses (ranging from partial to full). This asymmetric payoff structure, with a capped upside, but full downside, creates a fundamental risk aversion where banks systematically avoid uncertainty. This is not to suggest that banks should act as equity investors, but to illustrate why their business model is inherently incompatible with particular types of ventures.

While these limitations apply to all regulated deposit-funded banks, big publicly traded banks face additional pressures that further restrict their lending:

- **Quarterly reporting** - As a requirement of being publicly traded, banks must report financial performance quarterly. While these reporting mandates are essential for market transparency and regulatory oversight, they mean that banks face immediate stock price reactions to performance, creating pressure to optimize for short-term metrics. This reporting cadence discourages lending strategies that involve patient relationship-building, longer underwriting timelines, or investments in borrower development that might take years to pay off, even in circumstances where those approaches would generate superior risk-adjusted returns over a full credit cycle.
- **Profit expectations** - Publicly traded banks must generate competitive returns on equity (ROE) to satisfy investor expectations and maintain their stock valuations, typically targeting ROE in the mid-to-high teens. This return hurdle creates a floor below which lending opportunities are rejected regardless of credit quality, meaning that viable businesses that expect lower returns, or borrowers who require more servicing relative to loan size, become systemically excluded.

Together, these structural features define the lending envelope within which banks operate. They are not arbitrary choices or failures of bank management, but flow directly from the institutional design of big, publicly traded, deposit-funded banks. For example, in the U.S., community banks (i.e. banks that are place-based and retail-focused) lend twice as much to small businesses as the big four American banks, despite holding less than a third of their total assets.⁵ Understanding the implications of these limitations is essential to identifying which financing needs these banks can reliably serve and which require alternative institutional structures.

When one model dominates the market, its **institutional blind spots** become the **entire system's blind spots**.



⁵ [The Banks We Deserve](#)

How big bank dominance translates to systemic exclusion

Canada's financing ecosystem is unusually concentrated. Although there are more than 75 banks in Canada,⁶ just six publicly traded chartered banks (BMO, Scotiabank, CIBC, National Bank of Canada, RBC and TD) account for more than 93% of Canadian banking assets.⁷

While entrepreneurs can access financing from a range of private credit providers, banks remain the dominant financier, providing nearly 70% of all debt financing to small and medium-sized enterprises (SMEs) across Canada.⁸ Excluding Quebec, where credit unions have a stronger foothold, they provide nearly 80% of SME lending.⁹

In a diverse financing ecosystem, different institutional types would serve different enterprise profiles. Some would be optimized for scale and efficiency, others for relationship lending or patient capital. But when one model dominates the market, its institutional blind spots become the entire system's blind spots. The result is a series of core eligibility criteria that systematically exclude viable enterprises across the economy:

- **Minimum deal size** – Loans under \$250,000 are considered unappealing, given that transaction costs (origination, underwriting and monitoring) are fixed regardless of loan size. In Canada, recent reports indicate that loans to borrowers seeking under \$1M have been declining, whereas authorization of loans over \$5M has been increasing.¹⁰
- **Standardized terms** – Banks' rigid credit models rarely accommodate variability in financing terms (e.g. flexible repayment schedules, atypical amortization periods, etc.). This can be challenging for firms with seasonal revenues, uneven cash flow or long payback horizons.
- **Conventional borrower profile** – Borrowers with thin credit files, limited experience or weak personal credit struggle to access financing, despite the existence of emerging risk assessment frameworks that consider alternative indicators (e.g. cash flow).
- **Standard organizational structure** – Non-profit organizations, cooperatives, charities and enterprises owned by Indigenous communities frequently fall outside the explicit criteria or the perceived eligibility pathways of mainstream lenders.
- **Tangible collateral** – Canadian banks place a strong emphasis on tangible collateral when issuing loans. OECD research indicates that 63.4% of Canadian SMEs are required to provide collateral to access debt financing, as compared to the OECD average of 51.5%.¹¹ This approach disadvantages borrowers without access to collateral as well as asset-light or service-based firms that rely on intellectual property, contracts, or social capital rather than physical assets.
- **Familiar geography and sectors** – Lenders perceive rural and northern regions as higher risk due to smaller markets and lower asset liquidity. Statistics Canada research indicates that 70% of urban firms access financing via domestic chartered banks, versus only 45% of

⁶ [Canadian Bankers Association](#)

⁷ [The International Exposure of the Canadian Banking System](#)

⁸ [Survey on Financing and Growth of Small and Medium Enterprises](#)

⁹ [Survey on Financing and Growth of Small and Medium Enterprises](#)

¹⁰ [Biannual Survey of Suppliers of Business Financing](#)

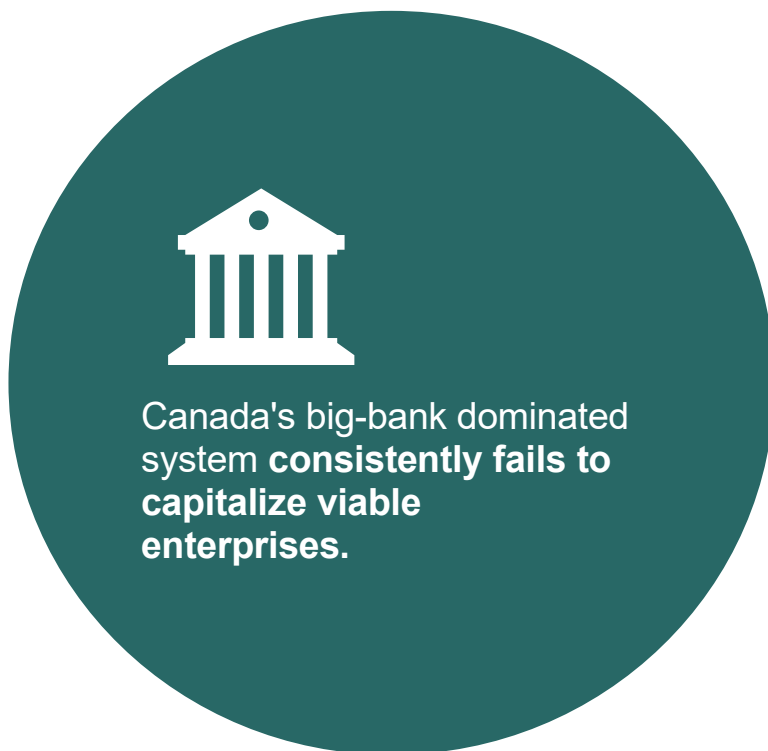
¹¹ [Financing SMES and Entrepreneurs: An OECD Scoreboard](#)

rural firms.¹² This is often simply a reflection of an information and knowledge gap, but it results in a reluctance to lend in sectors or regions where a bank does not have expertise.

- **Commercial return threshold** – Businesses and organizations pursuing community, environmental, or low-margin goals struggle to access commercial credit, even when financially sound. Lenders see thin margins as insufficient cushion against default, unfamiliar business models as hard to underwrite, and public-purpose missions as potential conflicts with sufficient revenue generation. The absence of patient or mission-aligned capital forces many of these enterprises to operate below optimal scale or depend on grants.

It would be easy to read these factors as evidence that banks are simply pricing risk correctly. That is, that excluded enterprises are excluded because they're genuinely riskier. But there's a difference between an enterprise that's inherently risky and one that simply doesn't fit within the operational model of big, publicly traded, deposit-funded banks. Canada's exclusionary financing environment reflects the limits of our dominant lenders, not the limits of our enterprises.

The enterprises left behind



On top of the exclusion factors referenced in the previous section, which are relevant to big, publicly traded, deposit-funded banks everywhere, the big Canadian banks also all operate under the same business model, diversified universal banking. Diversified universal banks combine retail banking, commercial lending, investment banking and trading operations, creating internal competition for capital allocation. SME lending must compete against higher-margin activities such as wealth management, capital markets operations and government-backed mortgage lending.

In Canada, the Big Six are generating a growing share of revenue from non-interest income,¹³ while their lending portfolios are increasingly anchored by low-risk residential mortgages, including

government-insured mortgages.¹⁴ Together, these revenue streams reduce the banks' economic incentive to deploy capital and underwriting capacity toward higher-risk, higher-cost enterprise lending.¹⁵

¹² [SME Profile: Rural enterprises in Canada](#)

¹³ [Canadians paying billions of dollars in "excess" bank fees](#)

¹⁴ [Canada's banking regulator wants big banks to take 'smart' risks](#)

¹⁵ [Remove barriers to financial sector productivity](#)

While not every business opportunity warrants funding, Canada's big-bank dominated system consistently fails to capitalize viable enterprises, that is, businesses that do or could generate sufficient cash flow to service debt at reasonable terms. This exclusion spans the following categories:



Small and medium-sized businesses - Despite employing 64% of Canada’s workforce and accounting for 48% of GDP¹⁶, Canadian SMEs capture only a small fraction of commercial credit. Between 2019-2024, only 11.3% of outstanding commercial lending in 2021 was directed to SMEs, significantly below the OECD median of 44%.¹⁷

Figure 1

Median percentage of outstanding loans to SMEs (2019- 2024)

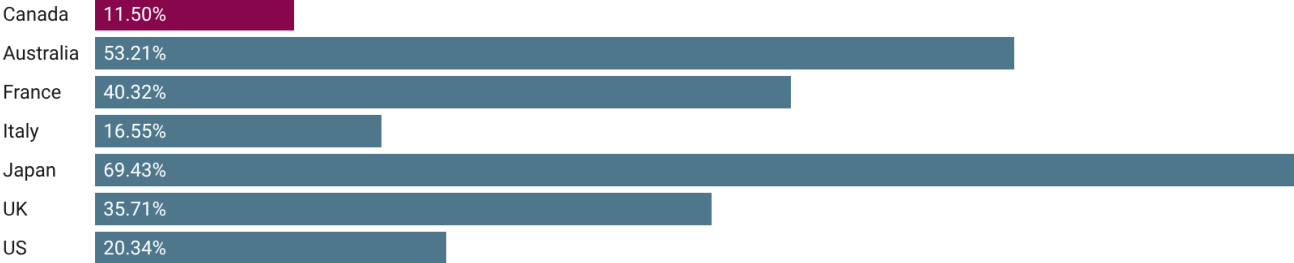


Chart: Social Capital Partners • Source: OECD • Created with Datawrapper

Note: The OECD uses different metrics across jurisdictions to estimate SME lending share. For Canada, the figure is based on the proportion of loans under \$1M; for most other countries, it reflects loans to enterprises with 250 employees or fewer. While this limits direct comparability, the OECD considers these indicators to be broadly comparable. Regardless of methodological variation, the magnitude of Canada's gap suggests a structural issue rather than a measurement artifact.

While lending to small businesses is increasing in other developed nations, Canada is heading in the opposite direction. Between 2016 and 2022, the share of loans going to Canadian SMEs actually shrank, even as it grew across the rest of the OECD.¹⁸



Non-profit and purpose-led businesses – Mission-driven enterprises face particular hurdles in accessing financing. Data from Statistics Canada indicate that cooperatives and social enterprises face lower approval rates for term-loan requests than the general SME population.¹⁹ International research indicates that, as a result of perceived risk, banks are imposing increasing hurdles on non-profit organizations seeking financing.²⁰ As a result, many purpose-led ventures are unable to secure the flexible or patient capital they require and are forced to rely on grants or operate below optimal scale. While 40% of all SMEs report financing as a barrier, that figure jumps to over 75% among non-profit social enterprises.²¹

¹⁶ [Key Small Business Statistics 2023](#)
¹⁷ [Financing SMES and Entrepreneurs: An OECD Scoreboard](#)
¹⁸ [Financing SMES and Entrepreneurs: An OECD Scoreboard](#)
¹⁹ [Survey on Financing and Growth of Small and Medium Enterprises](#)
²⁰ [Bank De-Risking of Non-Profit Clients](#)
²¹ [Survey on Financing and Growth of Small and Medium Enterprises](#)



Community infrastructure - There is a persistent gap in accessible funding for community-level projects (e.g. local infrastructure, community facilities, affordable housing). For example, recent reporting indicates that more than 60% of Ontario hospitals have had to take on debt financing from banks at rates as high as prime plus 5.7%.²² Banks often view these community infrastructure projects as too small, reputationally risky and/or unconventional. For example, despite insolvency rates for affordable housing of just 0.35%²³ (well below the all-industry average of 1.3%²⁴), non-profit housing providers have resorted to issuing community bonds (debt raised from supportive local investors) to finance projects, explicitly bypassing traditional banks. This limited perspective compromises the potential for vital community infrastructure.



Marginalized business owners - In 2023, majority Black-owned businesses were 26% less likely to have loan requests fully approved than the average SME, while businesses owned by persons with disabilities were 31% less likely to receive full approval.²⁵ This aligns with patterns observed elsewhere – a recent study in the U.S. found Black and Latino founders were less than half as likely as white founders to be fully approved for bank credit, even when the firms were categorized as presenting a low credit risk.²⁶ A recent Statistics Canada study found that new immigrants were twice as likely to be “credit invisible” than Canadian-born families.²⁷ These disparities are partly driven by factors such as thinner credit histories, systemic bias, a lack of banking relationships and insufficient collateral linked to historical wealth gaps. Consequently, many marginalized entrepreneurs remain undercapitalized, despite having viable business plans, reproducing and accelerating cycles of systemic inequities.



Business modernization - Established SMEs looking to make capital investments often face financing hurdles. Banks’ conservative credit models favour lending for safe, short-term gains (like real estate purchases or proven expansion projects) over financing for productivity improvements that may have longer payback. For instance, a family manufacturing business aiming to invest in automation, or a retail business upgrading its IT systems, might not see an immediate revenue jump that fits banks’ risk-return criteria. The consequences of this underinvestment are visible at the national level. In 2024, Canadian businesses were investing only 41 cents in machinery and equipment for every dollar invested by their U.S. counterparts, a gap that has continued to widen.²⁸



Transition and acquisition – A massive wave of business owner retirements is on the horizon, yet the financing system is ill-equipped to support the transition of these businesses to new owners. Three quarters of Canadian small business owners plan to exit their business within the next decade (mostly to retire), but only about 10% have a formal succession plan.²⁹ While banks are happy to

²² [Why Ontario hospitals are turning to banks loans to stay afloat](#)

²³ [CMHC 2024 Annual Report](#)

²⁴ [Annual Business Insolvency Rates by NAICS Economic Sectors](#)

²⁵ [Survey on Financing and Growth of Small and Medium Enterprises](#)

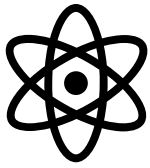
²⁶ [Credit Survey Finds White-owned Small Businesses Were Twice as Likely to be Fully Approved for Financing as Black and Latino Owned Firms](#)

²⁷ [Immigrant credit visibility: Access to credit over time in Canada](#)

²⁸ [Canada’s Investment Crisis: Shrinking Capital Undermines Competitiveness and Wages](#)

²⁹ [Over \\$2 trillion in business are at stake as majority of small business plan to exit over the next decade](#)

lend³⁰ to PE firms acquiring small businesses, they are reluctant to lend for transitions to employee ownership trusts, co-ops, social enterprises, not-for-profits or community ownership, perceiving them as complex and risky.



Intangible economy - Firms in knowledge-based or intangible-asset sectors (tech startups, creative industries, service businesses relying on intellectual property or human capital) are often poorly served by Canada's collateral-driven lending system. Banks strongly prefer loans secured by tangible assets like real estate or equipment, making it difficult for companies whose value resides in software, data, patents, contracts or expertise to qualify for credit. This financing gap has contributed to Canada's chronic underinvestment in intangible assets. Since the mid-2000s, investment in intellectual property products has steadily declined relative to U.S. levels. By 2024, the average Canadian worker benefited from only 32 cents of new investment in IP products for every dollar invested for the average U.S. worker.³¹ At the same time, Canadian innovators increasingly orient their intellectual property toward foreign markets. In 2022, Canadians filed 82% of their patent applications abroad (20,998 of 25,562) and 95% of their industrial design applications abroad (14,629 of 15,352).³²



Microfinancing - Traditional banks consider very small loans unprofitable. Given that half of Canadian entrepreneurs start their business with less than \$5,000³³, this leaves nascent entrepreneurs (e.g. a newcomer starting a home-based business, or a self-employed tradesperson) with few options. In 2024, 22% of white business owners and 33% of business owners of colour had to put business expenses on their personal credit cards.³⁴

Across these categories, the pattern is consistent. Enterprises that require patient capital, relationship-based underwriting, flexible terms or mission-aligned financing struggle to access bank credit, regardless of viability. For example, a seasonal tourism business may be perfectly capable of repaying a loan structured with flexible terms, yet appear high-risk under a standardized underwriting model designed for level monthly payments. A non-profit housing provider with a 40-year track record and government-backed revenue may be financially sound, yet fall outside a bank's explicit lending criteria. A service business built on contracts and expertise may generate reliable cash flow, yet fail a collateral screen designed for asset-heavy manufacturers. These businesses warrant financing, but big banks are not structured to provide it.

³⁰ [An update on private equity M&A in Canada](#)

³¹ [Canada's Investment Crisis: Shrinking Capital Undermines Competitiveness and Wages](#)

³² [A look at Canada's footprint in the world of IP](#)

³³ [2021 Entrepreneur Census Summary](#)

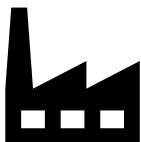
³⁴ [Small Business Financing Report](#)

The systemic undercapitalization of businesses trying to get off the ground or grow generates **cascading economic and social consequences for the Canadian economy.**



The compounding costs of exclusion

The systemic undercapitalization documented above generates cascading economic and social consequences for the Canadian economy. While isolating the precise contribution of financing constraints from other factors is methodologically difficult, the weight of evidence suggests that constrained capital access reduces innovation and firm creation, weakens local economies and community infrastructure, compounds inequality and concentrates economic power.



Lower innovation, productivity and competitiveness - Insufficient access to capital has been shown to hinder SMEs in innovating³⁵ and OECD research confirms that growth-oriented SMEs in Canada lag behind their peers when it comes to scaling up.³⁶ This is problematic because growing firms contribute disproportionately to new jobs, new products, competitive pressure and the introduction of new technologies.³⁷ Research also indicates that access to

financial products and credit contributes to firm creation and viability,³⁸ which is important in that higher rates of firm creation are linked to stronger productivity growth.³⁹

³⁵ [Financing constraints and SME growth: the suppression effect of cost-saving management innovations](#)

³⁶ [Scaling up is hard to do: Financing Canadian Small Firms](#)

³⁷ [Strengthening SMEs and Entrepreneurship for Productivity and Inclusive Growth](#)

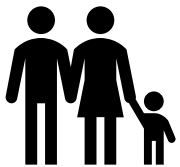
³⁸ [The effects of financial inclusion and the business environment in spurring the creation of early-stage firms and supporting established firms](#)

³⁹ [Entrepreneurship and Economic Growth: The Proof is in the Productivity](#)



Declining entrepreneurship and community resilience - When businesses lack adequate access to enterprise financing, fewer survive economic shocks and entrepreneurship suffers.⁴⁰ Research indicates that, in Canada, restricted access to capital has contributed to rising fear of failure among new entrepreneurs⁴¹ and recent data from the Canadian Federation of Independent Businesses identifies access to financing as one of the biggest barriers to entrepreneurship.⁴² After Italy, Canada ranks as the second-worst place in the G7 to be an entrepreneur,⁴³ and fewer than half of Canadians believe it is easy to start a business.

These trends have serious implications for community resilience. Communities with higher proportions of SMEs have stronger per-capita growth,⁴⁴ faster employment growth,⁴⁵ lower poverty rates⁴⁶ and improved public health outcomes.⁴⁷ SMEs play an essential role in building resilient local economies capable of adapting to and recovering from shocks.⁴⁸ At a time of heightened economic uncertainty, the need for diverse, resilient local economies has never been greater.



Entrenching inequity and reduced economic mobility - When it is difficult to access capital, the barriers to entrepreneurship harden and opportunities for upward mobility diminish. Seventy per cent of SME owners rely on personal assets to finance their businesses, meaning that, for those without wealth, entrepreneurship and business ownership are effectively out of reach.⁴⁹ This dynamic reinforces persistent inequities. Only 16.8% of SMEs in Canada are women-owned, compared with 39% in the United States⁵⁰, only 1.3% of Black adults are entrepreneurs, compared to 2.3% for all Canadian adults,⁵¹ and in 2022, although Indigenous Peoples represented 5% of Canada's population, they accounted for only 1.7% of majority-owned private businesses.⁵² As access to ownership and enterprise formation narrows, so do the pathways to intergenerational wealth-building, which deepens existing opportunity gaps.

Building institutional diversity in enterprise financing

Recent policy initiatives signal recognition that Canada's enterprise financing system is leaving viable businesses behind. The Office of the Superintendent of Financial Institutions (OSFI) is re-assessing risk weightings to encourage more bank lending, and the Competition Bureau has launched a market study on SME financing. Both are welcome steps, but are insufficient to address

⁴⁰ [Entrepreneurship and Economic Growth: The Proof Is In The Productivity](#)

⁴¹ [SME and Entrepreneurship Policy in Canada](#)

⁴² [Canada's Entrepreneurial Drought, Canadian Federation of Independent Businesses](#)

⁴³ [GEM 2024/2025 Global Report](#)

⁴⁴ [Why Care about Independent, Locally Owned Businesses](#)

⁴⁵ [Why Care about Independent, Locally Owned Businesses](#)

⁴⁶ [Why Care about Independent, Locally Owned Businesses](#)

⁴⁷ [Why Care about Independent, Locally Owned Businesses](#)

⁴⁸ [Building urban resilience through sustainability-oriented small-and-medium-sized enterprises](#)

⁴⁹ [Caary Capital Opens Its Doors to the 70% of SME Owners Putting Their Personal and Family Finances at Risk to Fund Their Business](#)

⁵⁰ [Women Entrepreneurship Strategy: Progress Report 2023](#)

⁵¹ [The untapped potential of Black entrepreneurship in Canada](#)

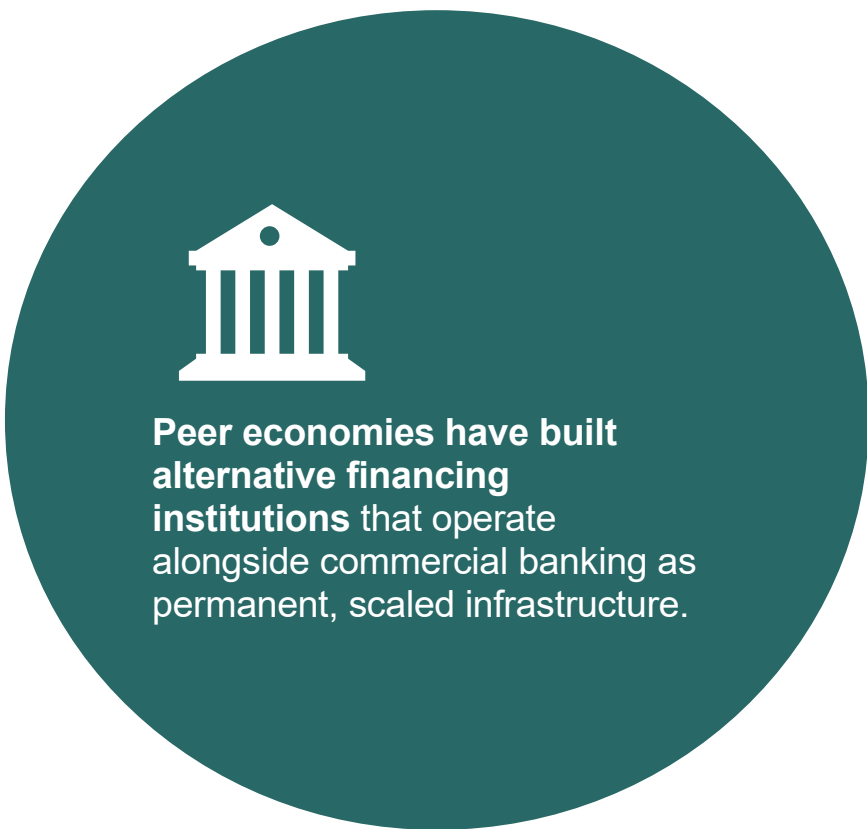
⁵² [Indigenous-owned business in Canada: confronting challenges, forecasting growth](#)

the scale of the issue. Prudential regulation, while an important tool, cannot override institutional design. And competition policy alone won't generate institutional diversity.

Similarly, technology-driven improvements in small business lending are making it cheaper and faster for banks to serve SMEs. These are meaningful advances. But they operate within the existing institutional structure, applying the same risk models, collateral requirements and return thresholds more efficiently.

The point is not that banks should lend more recklessly, but that Canada needs institutions designed to serve the enterprises banks cannot structurally reach. Some of this infrastructure already exists. Notably, Indigenous leaders and organizations have built sophisticated and sustained financial infrastructure across Canada. The impact of this work offers important precedent for what might be possible if government were to do more to intentionally scale and support a parallel ecosystem of alternative financing institutions. That is, community development finance institutions, public banks, community banks, mission-driven credit unions and other non-bank intermediaries that can provide patient capital, flexible terms, relationship-based underwriting and mission-aligned financing.

The federal government has already made some investments in alternative financing infrastructure. The Business Development Bank of Canada (BDC) targets SMEs and marginalized entrepreneurs through dedicated loan programs. However, BDC held just \$46.9 billion in assets as of 2023,⁵³ a fraction of the Big Six banks' combined balance sheet, and while more flexible than commercial banks, still excludes non-profits entirely and relies on creditworthiness assessment that leaves many viable enterprises unserved. The federal government also funds the Community Futures network of nearly 270 non-profit offices in rural and remote communities, backstops SME lending through the Canada Small Business Financing Program and operates targeted initiatives like the Women Entrepreneurship Strategy, Black Entrepreneurship Program and the Social Finance Fund. But these initiatives, while valuable, lack the scale, institutional permanence and systemic integration required to fundamentally alter Canada's financing landscape.



⁵³ [BDC 2024 Financial Report](#)

Research indicates that institutional diversity is an important source of systemic stability and resilience.⁵⁴ Peer economies have acted on this finding and built alternative financing institutions that operate alongside commercial banking as permanent, scaled infrastructure. Germany's Sparkassen network of public savings banks provides local enterprise financing. The U.S. and U.K. sustain robust Community Development Financing Institution, or CDFI, ecosystems that channel capital to underserved communities and enterprises. The U.S. and U.K., have also built regulatory frameworks scaled to the size and risk of credit unions. These countries actively work to cultivate durable institutions designed to fill gaps that big, deposit-funded, publicly traded banks cannot structurally serve.

The productivity, resilience, inclusive growth and economic sovereignty objectives Canada is trying to achieve are not independent of its financing system; they are shaped by it. Canada can continue treating its financing monoculture as inevitable, or it can follow the lead of peer jurisdictions and intentionally build the institutional diversity required for a different outcome. Upcoming research will look more closely at international financing infrastructure models and explore opportunities suited to the Canadian context.

⁵⁴ [Measuring corporate diversity in financial services](#)