

BUILDING AN INNOVATIVE NATION ONE ENTREPRENEUR AT A TIME



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BUILDING AN INNOVATIVE NATION

ONE ENTREPRENEUR AT A TIME

The Business Development Bank of Canada (BDC/the Bank) is helping to build strong, resilient businesses. Its financing and expertise provide a secure foundation from which tens of thousands of firms have grown and thrived. But is it enough for the future?

The global economy is increasingly competitive and fraught with complexity, especially for small and medium-sized enterprises (SMEs). Canada's relatively small domestic market means it has few large anchor companies that purchase from SMEs and open doors to growth. Innovation is the key to success. Canada has all the fundamentals—a highly educated population, abundant natural resources and significant investments in research. It must rally all of these strengths and take meaningful steps toward a more prosperous future. Canada's entrepreneurs are the key to that future.

As a critical building block in Canada's business innovation eco-system, BDC punches well above its weight. It is no coincidence that the Bank has a large concentration of high-growth, high-potential firms in its portfolio. But it can and must do more to ensure that all of Canada's entrepreneurs realize their potential by giving them the very best tools to be more innovative in what they produce and how they produce it. The time is ripe for BDC to leverage its capacity and take a bold step forward as Canada's bank for innovative entrepreneurs.

The purpose of this submission is to examine the challenges facing Canadian entrepreneurs, and to provide BDC's assessment of how it can best meet their needs, today and in the future. It constitutes BDC's contribution to the 2010 review of the *Business Development Bank of Canada Act (BDC Act/the Act)*.

BDC

HAS PERFORMED WELL



BDC HAS FULFILLED ITS ROLE OVER THE PAST 15 YEARS

BDC is governed by the *Business Development Bank of Canada Act* (the *BDC Act/the Act*). Its mission: to create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs.

The Act dates back to 1995. At that time, the central issue for SMEs was access to financing. In response, BDC's mandate was modernized to play a complementary role in business financing, while operating on a commercial basis. BDC has fulfilled this role: over the last 15 years, it has produced significant results for its clients and has been a catalyst for wealth creation in Canada. As a fiscally responsible Crown corporation, it has paid \$180 million in dividends to the Federal Government.

Since 1995, BDC has extended \$33 billion in financing, subordinate financing and venture capital to over 60,000 Canadian businesses. BDC's current portfolio of approximately 29,000 clients employs over 650,000 people across Canada. They generate \$174 billion in annual revenue, equivalent to the GDP of Singapore. BDC's client satisfaction rate consistently exceeds 90%. BDC's portfolio has grown over the past 15 years, commensurate with the market's needs. Today, it stands at close to \$19 billion (compared to \$6.1 billion at the time of its last mandate review in 2001, and \$3.2 billion in 1995).

BDC serves entrepreneurs across the country via more than 100 business centres. Its 500 account managers, 45 subordinate financing professionals and 35 venture capital investment professionals reach thousands of entrepreneurs each day. To further extend this reach, BDC collaborates with an extensive network of commercial financial institutions, funds, co-investment partners, business associations, other Crown corporations and government departments.

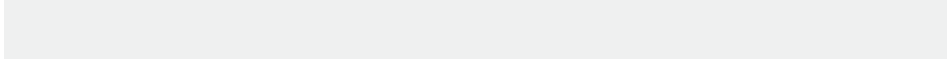
BDC's MISSION, VISION, AND MANDATE

BDC's mission is to help create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs.

Its vision is to accelerate the success of entrepreneurs.

BDC offers:

- Long-term financing in both good and challenging times
- Local credit decisions and tailored financing solutions
- Flexible terms and conditions
- Evergreen VC fund covering a broad spectrum of technologies and development stages
- Support for growth through subordinate financing with no ownership dilution
- Affordable and professional advice that enables the business to start-up and grow



Because of its unique complementary mandate, BDC looks beyond just the transaction. It takes a long-term view of business success by assessing the entrepreneur’s commitment to the business and by taking on more risk to support their projects. With its high risk tolerance and strong expertise in risk assessment, it complements the services offered by other financial institutions. Indeed, all BDC clients have an established banking relationship with another financial institution.

BDC RESPONDS TO THE PUBLIC POLICY IMPERATIVE



BDC’s commitment to creditworthy business projects during the recession prevented job losses and business failures. The Bank was instrumental in bolstering the Government’s response to the recent financial crisis and contributed to Canada’s ability to emerge from the crisis in better shape than most other countries (Conference Board of Canada).

During the crisis, BDC worked closely with other financial institutions, providing close to \$10 billion in liquidity to Canadian businesses to help them weather the storm and seize opportunities. Client referrals from financial institutions rose by 65%, demonstrating both the need for BDC’s complementary role and how commercial financial institutions leveraged BDC’s balance sheet for the benefit of thousands of Canadian businesses.

The role the Bank played during the financial crisis is an illustration of why, in carrying out its mission, BDC has been recognized as an “innovator and a path breaker”—one that “continues to meet the complex needs of Canadian small and medium-sized businesses” (Industry Canada).



BDC BENEFITS ENTREPRENEURS AND THE CANADIAN ECONOMY

BDC has been instrumental in business creation in Canada. The percentage of start-up businesses in its loan portfolio is double that found in the total Canadian business population. Moreover, the long-term prospects of BDC's financing clients tend to be better than their non-clients (Statistics Canada).

By combining its financing with consulting, BDC support results in impressive business growth. Since 1995, BDC has delivered over 25,000 consulting mandates to SMEs, supplying them with valuable services that, due to cost, would typically only be accessible to larger enterprises. BDC clients who used both financing and consulting services had 59% higher revenue growth in their fifth year after receiving the combined support as compared to non-clients (Statistics Canada).

BDC boasts an important contribution to business innovation. It invested \$1.2 billion in venture capital in burgeoning technology firms since 2000 while the industry was, and still is, experiencing difficult fundraising and investment conditions. Last year, it also provided \$260 million in financing to help over 1,000 firms improve their productivity with new equipment and information and communication technology (ICT).

BDC BUILDS SUCCESS

- BDC clients who used both financing and consulting services had 59% higher revenue growth in their fifth year after receiving the combined support as compared to non-clients
- The long-term prospects of BDC's financing clients tend to be better than non-clients

Since receiving its new mandate in 1995, BDC has also addressed the financing needs of Canadian exporters. Its 5,600 exporting clients now generate over \$21 billion in export sales. In these efforts, BDC collaborates with many partners, including Export Development Canada (EDC) and Foreign Affairs and International Trade Canada (DFAIT). In addition, it has established strong working relationships with development banks around the world which can be leveraged to support Canadian business activities in foreign markets. For example, BDC is an active member of ADFIAP¹ and other such associations.

While focusing on SMEs, BDC also provides a range of services to larger firms. Acting as a steadfast partner to businesses in developing markets and industries in distress or transition, BDC works with businesses in all stages of development throughout the entire economic cycle.

If there is one lesson learned from the events of 2008 and 2009, it is the unpredictability of the future. While BDC has performed well in the past, how should it be equipped for the future? The remainder of this submission addresses what Canadian businesses need going forward and what adjustments to BDC's governing legislation are needed to support SME growth and prosperity.

BDC CLIENTS SAY...

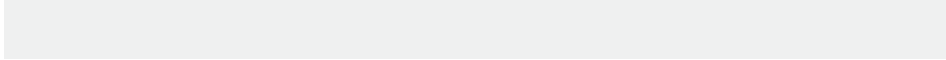
“We diversified our wilderness lodge business by buying an air charter company with BDC financing. That’s helped to keep us strong during tough times in our industry. BDC is sensitive to the needs of businesses like ours and goes the extra mile.”

— *Curt and Juanita Enns,
owners of Kississing Lake
Lodge/Wings over Kississing,
Steinbach, Manitoba*

¹ Association of Development Financing Institutions in Asia and the Pacific

THE WORLD HAS **CHANGED**





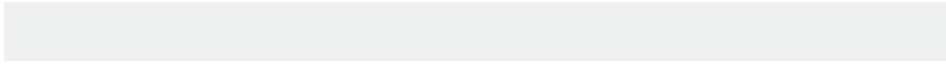
When BDC's mandate was last modernized, the World Trade Organization had just been inaugurated. NAFTA² was little more than a year old. The euro did not exist. The worldwide web was in its infancy. Cell phones were a luxury used by few.

Since that time, the business landscape has undergone a massive transformation. Emerging economies now account for an increasing share of global economic growth. These new powerhouses, led by China and India, are expected to drive 70% of the world's growth in the near term. Chinese and Indian businesses have become fierce competitors. Not only are they low-cost providers of goods, they have become hotbeds of innovation.

Intense global competition has forced companies in every continent to innovate, developing new products, new ways of delivering services and driving new financing needs. Digitization and connectivity have accelerated global competition but have also opened doors for smaller firms that are innovative and agile enough to seize the potential to connect to clients and suppliers. The capital market has also become more sophisticated. To compete and remain relevant, businesses must now seek out and integrate into global supply chains to reduce costs and/or get closer to customers and suppliers.

The pace of change will only accelerate as the world population increases and technological convergence transforms models of business, development, employment and the global financial system.

2 The North American Free Trade Agreement



INNOVATION AT THE FIRM LEVEL IS KEY TO CANADA'S FUTURE PROSPERITY



Where does Canada stand in this ever-changing environment? The Canadian economy outperformed the U.S. in the recession and is continuing to do so in recovery. Canada's strengths remain impressive: strong fiscal situation, stable financial sector, bountiful resources, agricultural capacity, strong trading partners and an educated workforce.

Yet, the World Economic Forum, in its latest release, reports that Canada's competitiveness ranking slipped to 10th place. While the organization cites a "stable" performance by Canada over the past year, it states that there is room for improvement in key areas such as private-sector innovation, and research and development spending. Access to financing was also cited as one of the more problematic factors for doing business in Canada.

BDC strongly believes that the key to improving Canada's competitiveness lies at the firm level, and in the decisions made or not made by the entrepreneur. Canada's future prosperity will be built one company at a time. BDC's role is to enable increasingly multicultural entrepreneurs to invest to innovate, connect or stay connected to global markets, while maintaining their strategic vantage point in North America.

BDC CAN PLAY A MORE EFFECTIVE ROLE WITH A MODERNIZED STATUTE



BDC has a pan-Canadian footprint, a vast network of partners and an intimate understanding of the issues faced by entrepreneurs. BDC financing and expertise provide the foundation for SME innovation and growth, and will continue to play a key role within Canada's innovation



eco-system. The *BDC Act* currently allows BDC to explore certain avenues for meeting the changing needs of SMEs: e.g., encouraging and supporting greater ICT investment by SMEs; accelerating commercialization of technology; and leveraging BDC's network of investors and innovation partners for the benefit of its clients.

Many countries are actively supporting their businesses through a variety of mechanisms, government procurement policies, defence R&D contracts, national innovation strategies and/or through their development of financial institutions and banks. Development banks are successful economic cornerstones in many countries including Germany, Korea and Japan. By complementing the short-term focus of private sector financial institutions with a longer-term approach, they accompany their entrepreneurs through growth, development and expansion with a range of financing products and support.

Canadian companies need a level playing field and BDC has a decisive role to play in responding to that need today and in years to come.

To remain responsive and continue partnering with Canadian entrepreneurs, BDC needs to demonstrate renewed agility and innovativeness. The *BDC Act* should be modernized, notably in three key areas:

- the financial instruments the Bank can deploy;
- the non-financial services it can offer; and
- the support it can provide to businesses expanding beyond the domestic market.

The *BDC Act* would retain BDC's distinct attributes:

- its complementary financing role; and
- its particular focus on SMEs.

The exercise of BDC powers would continue to be monitored by the Federal Government through the Bank's annual 5-year Corporate Plan and other governance mechanisms.

BDC CLIENTS SAY...

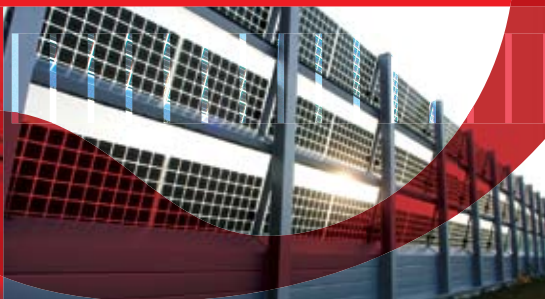
“From our base on Vancouver Island, our team combs the world to bring beautiful and unique homewares to Canadian retailers. I have been a client for both BDC Financing and Consulting. The customer service is fantastic. You just feel like you matter, that someone cares and is interested enough to come and see what you're doing.”

- *Irene Gillespie, owner, Indaba Trading Ltd., Parksville, British Columbia (former client)*

BDC's

PROPOSED CHANGES
TO ITS STATUTE

—in·no·va·tion
thing new. 2. S



The following proposed changes are cost neutral to the Government of Canada. BDC will continue to invest its profits in Canadian entrepreneurs who, together, represent Canada's economic backbone and engine of growth.

1. SMEs NEED ACCESS TO A BROADER RANGE OF FINANCIAL TOOLS

Access to financing remains the cornerstone of growth and innovation for SMEs. Yet, structural deficiencies remain—exporters, innovators and young firms all experience lower approval rates and loan amounts than the general SME population.

While BDC will continue to play its part in addressing these structural deficiencies, there is a growing need for BDC to complement the financing tools set out in the *BDC Act* (“loans, investments and guarantees”) with other forms of financial support.

The recent financial crisis proved that both direct and indirect (supporting or refinancing other direct providers) types of financial support were needed to address the challenges at hand. Indirect financial support can be delivered via different vehicles, such as a trust. It can also be delivered via not-for-profit organizations that have extensive reach into the SME community. These organizations want BDC to support target groups of entrepreneurs and businesses.

However, BDC is limited in its ability to provide financing via trusts or not-for-profit organizations for the benefit of SMEs because the Act requires that these organizations have an amount invested in the project in order to show that they have “a continuing commitment to the enterprise.” The trust or not-for-profit organization would not meet this requirement.

BDC CLIENTS SAY...

The Recochem Group is one of BDC's oldest clients, having received a start-up loan 50 years ago as a small family-run business. It now has over 650 employees with plants across Canada and around the world. Recochem is a producer, formulator, contract packager and wholesaler of industrial and consumer chemical products.

“We value our long-term relationship with BDC, and have looked to BDC to partner with us in our efforts to develop new innovative production facilities to service new markets.”

— *Jim Campbell, EVP, Finance and COO, Recochem Group, Montreal, Quebec*

BDC's involvement with the Canadian Youth Business Foundation (CYBF) is an example. BDC provides small loans to young Canadian entrepreneurs to finance business start-ups through a partnership with CYBF. But BDC cannot provide financing directly to the organization—it must provide loans to the entrepreneurs individually. It would be much more efficient to leverage CYBF's resources to reach this niche market. For the same reason, BDC is also impeded in its ability to provide financing directly to many of Canada's technology incubators which are not-for-profit organizations.

Another example of indirect financial support is securitization.³ The *BDC Act* does not grant the Bank the authority to play this indirect role as part of its ongoing operations. It can only do so on a case-by-case basis pursuant to a special directive from the responsible Minister. BDC counterparts around the world are active in securitization. Notably, the Japan Finance Corporation and Germany's KfW (KfW Mittelstandsbank) are involved in securitization as part of their core business.

While securitization has not been part of BDC's core business, BDC was given a special mandate as part of the Federal Government's Economic Action Plan by the Minister of Industry to manage the Canadian Secured Credit Facility (CSCF) in response to the financial crisis. Its involvement in the facility provided \$3.7 billion to alleviate pressures in the auto and equipment industries and proved to be an effective way to support a sector in crisis.

BDC should also be able to offer a broader range of financing instruments that may be available to larger firms but that SMEs have difficulty accessing. For instance, SMEs have difficulty participating in new domestic infrastructure projects because they are unable to access indemnities or bonding services from financial institutions.

³ Securitization is a form of debt financing that relies on the pooling of illiquid assets (e.g. loans or leases) to mitigate underlying risks.


BDC AND THE FINANCIAL CRISIS: CSCF

“The creation of the CSCF has helped to stimulate investor interest in the Canadian automotive ABS market and has contributed to Ford Credit's successful execution of recent retail and lease transactions.”

— *Charles Bilyeu, President, Ford Credit Canada Ltd., in a letter to BDC, July 24, 2009*

“The creation and implementation of the CSCF program was a key factor in re-establishing investor confidence... [BDC's] efforts which concluded with an approval to purchase securities issued by Fleet Leasing Receivables Trust proved to be the catalyst which jump started the market for our ABS.”

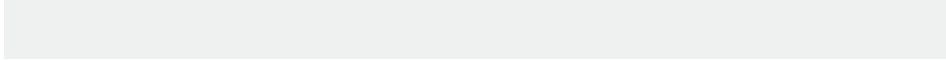
— *Mark Johnson, Senior VP and Treasurer, PHH Vehicle Management Services Inc. in a letter to the Minister of Industry, February 19, 2010*



BDC is unable to provide a solution because these products fall outside the scope of “loans, investments and guarantees” which puts Canadian SMEs at a disadvantage relative to their counterparts in other countries. KfW, the China Development Bank, the Industrial Development Bank of India and the Development Bank of Japan all provide financing for infrastructure projects.

As has been the case in the past, new approaches to financing will emerge in the future due to the changing business environment. A diminishing presence of bricks and mortar manufacturers in favour of innovative service companies and “knowledge-based” enterprises is continuing and will drive the need for new instruments. Climate change may also result in financial innovations such as trading of carbon credits. Discussions on “green” investing and the policy mechanisms to bridge the financing gap began in January 2010 at the World Economic Forum held in Davos. In addition, regulatory trends, such as the Basel Committee’s capital standards for banks, and their possible impact on the availability of capital, may change the financing landscape.

The last crisis clearly demonstrated that the market can contract rapidly. Having an institution like BDC to quickly play a counter-cyclical role is essential to reducing volatility. Because the *BDC Act* currently is restrictive, the Bank’s ability to innovate and introduce new financing tools is limited.



For BDC to remain agile and help Canadian firms now and in the future, the *BDC Act* should:

- be amended to allow BDC to serve its ultimate clients, the entrepreneurs, through a broader range of conduits (such as trusts and not-for-profit organizations); and
- be broad enough to allow for a wider range of financial tools.

2. SMEs NEED ACCESS TO A WIDER RANGE OF NON-FINANCIAL SERVICES



Financing support is not the only “oil in the engine” needed to compete and win. Ready access to non-financial resources (expertise, advice, time, etc.) is also critical to the success of SMEs. For instance, a recent survey of BDC clients found that 41% simply lack the time to innovate. Whereas large firms generally have the internal resources or wherewithal to get the expertise and advice to succeed in a competitive environment, most Canadian entrepreneurs operate on a small scale and wear many hats. Scale limits their access to resources, which in turn limits their ability to build a strong foundation for growth.

SMEs are looking for access to affordable resources. While BDC’s consulting services are effective in building capacity within smaller firms, more could be done if BDC’s statute was not limited to “the provision of business planning services, management counselling and training and information.” In the area of technology adoption, for instance, BDC should be able to facilitate access to a fuller range of technical, advisory and financial services by organizing group arrangements for the benefit of entrepreneurs.

SMEs NEED SUPPORT AND GUIDANCE TO PENETRATE FOREIGN MARKETS

Other development banks have successfully introduced a variety of innovative, non-financial services to secure a spot for their clients on the world stage. India's Small Industries Development Bank (SIDBI) leverages a relationship with Intel to drive IT integration in Indian businesses. Korea's Small Business Corporation offers a BIZ-Match program to match international firms with a Korean manufacturer.

For BDC to adequately fulfill its role as a development bank and to build the competitive capacity of the SMEs it serves, the *BDC Act* should provide greater flexibility by:

- extending the range of non-financial products and services BDC can offer.

3. SMEs NEED SUPPORT TO EXPAND BEYOND THE DOMESTIC MARKET

Given the relatively small scale of Canada's domestic market and the growth of China, India and Brazil, SMEs, like larger enterprises, must sell, source and invest in North America and abroad. In the venture capital space, this is imperative. Young technology companies must be born global in order to develop and implement effective, go-to-market strategies.

Companies of all sizes are pursuing opportunities to invest in the U.S. and abroad to lower production costs, improve productivity and get closer to customers. Far from displacing Canadian jobs, foreign investment benefits Canada through improved R&D, productivity and innovation.

The Standing Senate Committee on Foreign Affairs and International Trade recently proposed a workplan to improve Canada's competitiveness which stated that SMEs continue to "lack adequate resources in order to penetrate foreign markets, such as China, India and Russia and thereby benefit from the growth of their economies."

It recommended that "the Government of Canada should ensure that SMEs continue to receive the support and guidance they need to enter these markets."

- *Standing Senate Committee on Foreign Affairs and International Trade: A Workplan for Canada in the New Global Economy: Responding to the Rise of Russia, India and China, June 2010*



Accessing foreign markets can be a daunting challenge for SMEs. Emerging markets are higher risk and more complex. In general, commercial financial institutions have limited appetite for offshore risk related to investing in plants, warehouses and other facilities in other countries. For smaller firms seeking to create critical linkages to suppliers and global distribution networks, such financial support is even more limited. Yet, they cannot afford to miss out on the investment potential in emerging markets.

While BDC has been instrumental in facilitating some Canadian businesses' access to foreign markets, the *BDC Act* limits the Bank's reach to persons engaged "in an enterprise in Canada." This statutory limitation affects BDC on two fronts. First, from a term lender point of view, the limitation impedes BDC from financing the establishment of a Canadian subsidiary by its clients in the U.S. or outside North America. It also prevents BDC from financing a Canadian company's acquisition of a foreign competitor. BDC has had to finance these transactions via the Canadian company, with the effect of overleveraging the Canadian company's balance sheet and stifling its future growth. Second, from a venture capital investor point of view, it limits BDC's ability to establish global networks and strategic partnerships for the benefit of its clients and the Canadian VC industry as a whole.

In addition, the restriction in the statute limits BDC's ability to finance innovative, growth-oriented foreign companies that could establish in Canada (directly or through joint ventures) and create jobs and wealth for the country. This, in turn, reduces opportunities for technology transfer and job creation in knowledge industries in Canada.



Finland's development bank (Finnvera) offers an Internationalization Loan to finance the business operations of a Finnish SME abroad. The loan may be used when a subsidiary or an affiliated company abroad needs funding for investment, development or growth. The loan can also be used to acquire or increase a holding, or to increase the share capital in a subsidiary or affiliated company abroad.

Today's fast-paced, global reality calls for agility and flexibility. These are qualities that entrepreneurs demand of themselves, and no less must be expected from the institutions, like BDC, that serve them. As such, BDC should have the flexibility to follow its clients in their development plans as long as the investments are creditworthy and for the benefit of Canada. SME clients expect this support and view it as a natural evolution of the relationship they have established with BDC.

The urgency of addressing SME access to foreign markets requires a collective effort. For Canada to move from a trading nation to "a nation of traders," an array of mechanisms must be mobilized so they can seize global opportunities. BDC's unique value proposition is its proximity to entrepreneurs and its ability to combine financing with consulting. Its more than 100 business centres across Canada, coupled with its 500 account managers on the ground, provide entrepreneurs with financial support and intimate, face-to-face business development expertise, while continuing to collaborate with other partners such as EDC and DFAIT.

For BDC to accompany the growth opportunities of SMEs and for it to contribute to the competitiveness of Canada in today's global reality, the *BDC Act* should provide greater flexibility by:

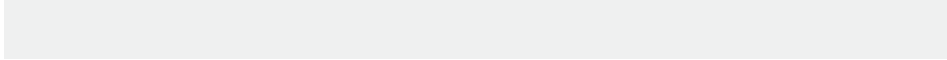
- amending the provision which stipulates that the recipient of BDC financial support must be engaged in an enterprise in Canada, so as to migrate from a geographic criterion to one that denotes a benefit to Canada.

BDC CLIENTS SAY...

Solmax International Inc. is a manufacturer of geomembranes – synthetic mats that go underground to prevent fluids seeping into the soil and contaminating water supplies.

"We've been a BDC client since 1996 so it was natural that we turned to BDC for financing our new plant in Malaysia... BDC informed us that their activities are limited to Canadian borrowers. It was important to Solmax that the Malaysian entity operates separately."

— *Marc-André Gervais,
President, Solmax
International Inc.,
Varenes, Quebec*



4. ENSHRINING THE REQUIREMENT FOR FINANCIAL SUSTAINABILITY WHILE MAINTAINING BDC'S FLEXIBILITY

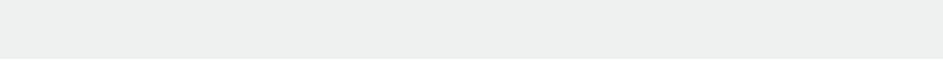



BDC is one of the few development banks in the world that is able to achieve a balance between its public policy and commercial mandates. It continues to meet its commercial mandate in terms of financial returns. BDC's financial performance is supported by its strong risk assessment expertise and the quality of its governance mechanisms.

When BDC received its new mandate in 1995, legislators could not have predicted the growth of the portfolio (from approximately \$3 billion to \$19 billion today) nor the breadth and depth of the scope of activities undertaken over the last 15 years. The volatility that characterizes today's environment suggests an even greater unpredictability of events for the next ten years. Extraordinary events (such as the recent global financial crisis) and regional emergencies, such as the SARS alert (in which BDC played a critical role in supporting businesses by offering thousands of loan payment postponements), are sober reminders of what the future may hold. Therefore, the Government must continue to have the flexibility to respond quickly to sudden developments via its development bank.

Currently, BDC's ability to respond quickly is limited because it has reached its paid-in capital⁴ limit of \$3 billion (established at \$1.5 billion in its legislation 15 years ago and increased by way of the 2009 Federal Budget). While setting this limit was deemed to be a prudent measure in 1995 when the Bank had a relatively small portfolio (\$3 billion versus \$19 billion today) and untested commercial mandate, it is not as pertinent today given the evolution of BDC's role.

⁴ The paid-in capital is the contributed surplus plus any proceeds that have been prescribed as equity. The paid-in capital as at March 31, 2010 had reached \$2.772 billion.




While BDC is not requesting additional capital at this time, it is proposing that its ceiling be removed to allow for future investments by the Federal Government. Without this amendment, the Government does not have sufficient flexibility to rapidly invest in BDC and BDC would not be able to quickly undertake any future actions in support of Canadian businesses that would require a capital injection.

In addition, a requirement for BDC to remain financially sustainable as a whole should be enshrined in the Act, thereby safeguarding the Government's future investments in the Bank.

For BDC to remain responsive to market needs over the next 10 years, the *BDC Act* should be amended to:

- add the requirement for the financial sustainability of BDC; and
- remove the paid-in capital limit.

5. MODERNIZING BDC's GOVERNANCE STRUCTURE



BDC has an independent Board of Directors which ensures that the Bank is governed by the highest standard of corporate governance practices. The *BDC Act* should be modernized to align with best practices in the areas of governance and other administrative matters. For example, the *BDC Act* should give the Board the ability to delegate powers to its committees.

CONCLUSION

The challenges facing Canada’s entrepreneurs today are enormous, but so are the opportunities. The future belongs to Canada’s innovative entrepreneurs. BDC understands their daunting challenges.

For Canadian entrepreneurs to succeed, they require agility and innovation from the organizations created to support them. BDC must continue to evolve as it has since its inception, with flexibilities that position it as an enabler. The foregoing proposals entail critical changes to the *BDC Act* to allow BDC to remain agile in a complex and unpredictable environment over the next ten years—not for its own sake but in support of Canadian businesses and for the benefit of Canada.

If the 1995 *BDC Act* remains unchanged, Canadian entrepreneurs may not reach their full potential as quickly as their peers in other countries benefitting from strong, modern development banks. While other countries increase the amount and type of support they offer to their SMEs, Canadian firms would lose traction as the headwinds get increasingly stronger. Given the stakes, Canada needs to position its entrepreneurs as the key to unlocking its future prosperity.

BDC’s approach to business development makes it a unique and cost effective lever for the Federal Government to increase Canada’s competitiveness. BDC has proven its relevance to the Canadian economy over the last 15 years. It is poised to do more in support of Canadian businesses and the Federal Government’s priorities.

Key Sections of the *BDC Act* to which changes are proposed:

- Section 4: Purpose of BDC
- Section 5-13: Governance
- Sections 14-16: Scope of Financial Services; Expansion beyond domestic market
- Section 17: Scope of Non-Financial Services
- Section 21: Special Mandate
- Section 22: Ancillary Powers
- Section 23: Paid-in Capital