

Modernizing the Canada Small Business Financing Program to Support Innovation and Economic Diversification

Word Count: 1500

Author

Mark McCleary

m2mcclea@uwaterloo.ca

Master of Public Service

University of Waterloo

Professor

Dr. Alexander Lanoszka

alexander.lanoszka@uwaterloo.ca

Associate Professor of International Relations

University of Waterloo

Introduction

The Canada Small Business Financing Program (CSBFP) is a federal loan guarantee arrangement intended to help small businesses access capital. It is Canada's only permanent loan guarantee program available to every sector (apart from farming) and in every province and territory.¹ The CSBFP dates to 1999, when it replaced a previous loan guarantee scheme created in 1961.² In 2024-2025, it guaranteed 6,409 loans with a total value of just under \$1.9 billion.³

Though the CSBFP is effective, the program's clientele has become increasingly concentrated in the accommodation and food services and retail sectors, especially in the last decade, with limited uptake from other industries. Consequently, the CSBFP has found a niche in these areas but is missing potential elsewhere. A program with the CSBFP's reach and track record would be more beneficial for Canada if it could help businesses in more industries.

This paper argues that, in a world economy made more volatile by the United States' recent trade actions, the CSBFP can support economic diversification and resilience through targeted amendments to its rules. Through reasoned improvements, the CSBFP can create opportunities for tariff-resilient businesses that are more professional service and knowledge-oriented, such as digital infrastructure and clean technology services.

With the CSBFP, the government can build on past success. Strengthening program design and management is core to effective public service delivery, and more flexible financing options would help diversify Canadian markets and support the creation of better-paying jobs. Budget 2025 describes Canada as "powered by a skilled and diverse workforce, home to leading researchers, entrepreneurs, and innovators."⁴ By giving entrepreneurs the means to invest in a wider range of enterprises, a reformed CSBFP can help foster a modern, innovation-driven service economy that is more resilient to U.S. trade pressures.

¹ Innovation, Science and Economic Development Canada (ISED), Canada Small Business Financing Program: Comprehensive Review Report 2019–2024, (Ottawa: Government of Canada, 2025), 1, accessed December 29, 2025, <https://ised-isde.canada.ca/site/canada-small-business-financing-program/sites/default/files/documents/csbfp-review-2019-24-e.pdf>

² ISED, *Evaluation of the Canada Small Business Financing Program* (Ottawa: Government of Canada, June 2024), 3, accessed January 1, 2026, <https://ised-isde.canada.ca/site/audits-evaluations/sites/default/files/documents/csbfp-eval-2024a-e.pdf>

³ ISED, Canada Small Business Financing Program: Overview and Highlights 2024-25 (Government of Canada), accessed January 1, 2026, <https://ised-isde.canada.ca/site/canada-small-business-financing-program/en/overview-and-highlights-2024-25>

⁴ Department of Finance Canada, Canada Strong: Budget 2025, (Ottawa: Government of Canada, November 4, 2025), 1, accessed January 5, 2026 <https://budget.canada.ca/2025/report-rapport/pdf/budget-2025.pdf>.

CSBFP Overview

The CSBFP works by guaranteeing 85% of an eligible loan made to a small business borrower by a financial institution.⁵ Between 1999-2000 and 2024-2025, the CSBFP guaranteed 208,003 loans totalling \$28,763,520,957.⁶ Of that, 28,216 loans ended in default, costing \$1,701,497,700.⁷ Over 75% of financing requests would have been denied without the program and 70% of the total value of loans issued went to businesses in their first year.⁸

To be eligible, a borrower must have gross annual revenues of \$10 million or less.⁹ The program will guarantee a maximum of \$1.15 million.¹⁰ Of that sum, \$1 million can be guaranteed as “term loans,” which work as follows:

- a) \$1 million can be used to acquire or improve real property.¹¹
- b) \$500,000 of that \$1 million can be spent on equipment or leasehold improvements.¹²
- c) Of that \$500,000, \$150,000 can be spent on “intangible assets” and “working capital costs.”¹³
 - Working capital costs are day-to-day business expenses such as inventory, website development, professional fees, research and development (R&D), payroll, and rent.¹⁴
 - Intangible assets are “non-monetary assets without physical substance.” Examples include franchise fees, incorporation costs, permits and licenses, goodwill if part of a going concern purchase, and capitalized R&D.¹⁵

⁵ ISED, “Canada Small Business Financing Program Guidelines,” Government of Canada, accessed January 1, 2025, <https://ised-isde.canada.ca/site/canada-small-business-financing-program/en/find-loan-your-small-business/canada-small-business-financing-program-guidelines#3.1>

⁶ ISED, “Canada Small Business Financing Program (CSBFP) Historical Loans and Claims Data,” Open Government Portal, Government of Canada, accessed January 1, 2026, <https://open.canada.ca/data/en/dataset/3f718801-099d-4037-bb0a-1d41ba8aca8b/resource/5c3ac52b-becf-4da5-b431-ab018fd8d094>

⁷ Ibid.

⁸ ISED, *CSBFP Comprehensive Review Report 2019–2024*, 2.

⁹ Innovation, Science and Economic Development Canada, “Helping small businesses get loans – Canada Small Business Financing Program,” *Government of Canada*, accessed January 1, 2026, <https://ised-isde.canada.ca/site/canada-small-business-financing-program/en/find-loan-your-small-business/helping-small-businesses-get-loans>

¹⁰ Ibid.

¹¹ Innovation, Science and Economic Development Canada, *CSBFP Historical Loans and Claims Data*.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

The CSBFP allows another kind of loan called a “line of credit,” which provides up to \$150,000. This type of loan can be spent on working capital costs.¹⁶

Policy Context: Evolution of the CSBFP

Though the CSBFP is successful, it has become specialized in two sectors. One is the accommodation and food services sector, which has always formed the biggest share of total loan value, which stands to reason. Profit margins in the restaurant business are tight, with industry estimates putting full-service restaurant profit margins at 2.2% and quick-service at 3.7%.¹⁷ For accommodation, hotels have long been known as a risky proposition¹⁸ in need of specialist financing.¹⁹ The other sector beneficiary is retail trade, where businesses have few tangible assets to borrow against and high inventory turnover impacted by customer returns.²⁰

These sectors thus account for most CSBFP-backed borrowers, but their predominance has become more pronounced. Retail has remained stable, starting at 15.3% of total loan value in 1999-2000 and 15% in 2024-2025.²¹ It has seen modest fluctuation over the years, ranging from a low of 10.4% to a high of 16.8%.²² No other sector has achieved this level of stability above 5%.²³

It is a different story in accommodation and food services. It has always had the biggest share of CSBFP-backed loans, and this has grown over time. Starting at 21.5% in 1999-2000, it steadily increased until reaching an all-time high of 49.7% in 2022-2023, which declined slightly to 47.8% in 2024-2025.²⁴ No other sector stands at more than 6%.²⁵

Analysis: The Issue with the CSBFP

This trend does not reflect policy obsolescence but rather shifts in market conditions as sectors evolve. Approximately 60 percent of funds guaranteed by Canada’s only permanent, nationwide small-business loan guarantee program are concentrated in two

¹⁶ Ibid.

¹⁷ Restaurants Canada, *Economic Analysis of Small Business and Restaurants in Canada: On the Precipice – Help is Needed* (Ottawa: Restaurants Canada, June 2024), 15, January 1, 2026, https://www.restaurantscanada.org/wp-content/uploads/2024/06/RC-EI_PREMIUMS-REPORT-2024-EN-FINAL.pdf

¹⁸ HVS Canada, *Canadian Monthly Lodging Outlook – November 2012* (Toronto: HVS Canada, November 2012), 2, accessed January 1, 2026, <https://www.hotelnewsresource.com/pdf11/HVS0110121.pdf>

¹⁹ Blake, Cassels & Graydon LLP (“Blakes”), “Hotel Finance,” accessed January 1, 2026, <https://www.blakes.com/expertise/practices/financial-services/hotel-finance/>

²⁰ GlassRatner, “Retail Fears: The Challenges and Opportunities for Canadian Retail Financing,” *GlassRatner*, October 16, 2018, accessed January 1, 2026 <https://glassratner.ca/articles/retail-fears/>.

²¹ Innovation, Science and Economic Development Canada, *CSBFP Historical Loans and Claims Data*.

²² Ibid.

²³ Ibid.

²⁴ Ibid.

²⁵ Ibid.

lower-wage sectors.²⁶ Within that share, a substantial portion of loan value is directed to accommodation and food services, a sector that, on average, exhibits lower rates of innovation activity compared with other industry groups, as documented in the government's *SME Profile: Innovation in Canada*.²⁷ This sectoral concentration raises the question of whether the CSBFP can broaden its relevance to support more diverse and innovation-oriented small businesses, which can contribute more strongly to economic resilience.

CSBFP regulations direct most expenditures toward real property, leasehold improvements, and equipment, which works for CSBFP's two most popular sectors. Restaurants need physical locations through leasehold improvements or property acquisition, as well as equipment like ovens, fryers, and fridges. Retailers need storefronts and equipment for inventory and point-of-sale. The CSBFP should, therefore, remain accessible to these industries.

Unfortunately, current rules do not allow other sectors to benefit as much from the CSBFP. By mandating that expenditures on working capital and/or intangible assets be drawn from the \$500,000 maximum for equipment, the program makes an overly broad assumption about business needs. For example, a firm that needs \$200,000 in equipment and \$100,000 in professional services can manage, but one that needs \$400,000 in equipment and \$150,000 in R&D cannot. This creates a distortion which excludes otherwise viable firms.

Policy Recommendation

To make the CSBFP more practical for knowledge-based, professional service-oriented, tariff-resilient businesses, the government should:

1. Increase the amount a borrower can spend on working capital and/or intangible assets within a term loan to \$250,000.
2. Decouple the limit on working capital and/or intangible assets from the equipment category. In other words, allow a business to borrow up to \$500,000 for equipment *and* up to \$250,000 for working capital and/or intangible assets.

The digital infrastructure industry could benefit here, specifically IT service managers, cybersecurity specialists, data hosting services, and data analytics firms. These businesses have equipment needs like servers and storage hardware, redundant power and cooling systems, and testing and monitoring hardware. For working capital costs

²⁶ Statistics Canada, "Employees with low pay, 2024" *Quality of Employment in Canada* (August 18, 2025), accessed January 1, 2026, <https://www150.statcan.gc.ca/n1/pub/14-28-0001/2025001/article/00002-eng.htm>

²⁷ ISED, *Profile of Innovation in Small and Medium-Sized Enterprises in Canada* (Government of Canada, November 2025), accessed January 13, 2026, <https://ised-isde.canada.ca/site/sme-research-statistics/en/research-reports/sme-profile-innovation-canada>.

and/or intangible asset needs, expenses include capitalized software development, systems architecture and design, and licensing and platform integration fees. The program's current design leaves few options for firms in this area with substantial needs in both equipment and working capital and/or intangible assets.

Consider also clean technology services, with firms like environmental monitoring and analytics companies, energy efficiency specialists, and environmental engineering and compliance consultancies. These services have major needs in equipment, working capital, and intangible assets such as sensors and monitoring devices, data collection hardware, methodology development and validation, regulatory and standards compliance, and data processing. Expenses as complex and specialized as these make the CSBFP's current structure impractical for this sector.

This proposal does not turn the CSBFP into a venture capital proxy. Rather, it seeks to help Canadians invest more in modern service businesses that can better withstand protectionist headwinds and cyclical downturns. A \$100,000 increase in the amount available for working capital and/or intangible assets gives borrowers more runway to build their enterprise, while decoupling it from the equipment category provides flexibility, meaning borrowers need not choose between financing one part of their business while neglecting the other.

Implementation would be simple. Types of loans and maximum amounts governed by the *Canada Small Business Financing Regulations*,²⁸ which lays out program rules under the authority of the CSBFP's enabling statute.²⁹ Accordingly, changes of this nature can be made through the Governor-in-Council. In terms of stakeholder reaction, note that this proposal does not make it harder for anyone to get a guaranteed loan. It simply makes the CSBFP more practical for a greater variety of businesses.

Conclusion

The government already recognizes the value of this approach. Budget 2021 noted financing challenges faced by “innovative, entrepreneurial start-ups that are built on intellectual property and other intangibles that could be the next world-changing ideas.”³⁰ Budget 2021's proposals became the 2022 program amendments that

²⁸ Canada Small Business Financing Regulations, SOR/99-141, Government of Canada — Justice Laws Website, accessed January 4, 2026, <https://laws-lois.justice.gc.ca/eng/regulations/SOR-99-141/index.html>

²⁹ *Canada Small Business Financing Act*, S.C. 1998, c. 10.2, Government of Canada — Justice Laws Website, accessed January 4, 2026 <https://laws-lois.justice.gc.ca/eng/acts/c-10.2/index.html>

³⁰ Department of Finance Canada, *Budget 2021: A Recovery Plan for Jobs, Growth and Resilience* (Ottawa: Government of Canada, April 19, 2021), 134, accessed January 4, 2026, <https://budget.canada.ca/2021/pdf/budget-2021-en.pdf>

introduced the working capital and intangible asset categories.³¹ CFBFP's most recent statutory review noted that these changes made it more relevant to modern small businesses, but that it must continue to evolve.³²

In 2026's volatile economic climate, Canada should broaden the CSBFP's utility so that more firms can take advantage of this world-class program. With such measures, the government can help Canadians invest more in the businesses that will create the G7's strongest economy.

³¹ ISED. "2022 Changes to the Canada Small Business Financing Program." *Canada Small Business Financing Program Bulletins*. Government of Canada. Accessed January 4, 2026, <https://ised-isde.canada.ca/site/canada-small-business-financing-program/en/documentation-centre/bulletins/2022-changes-canada-small-business-financing-program>

³² ISED, *CSBFP Comprehensive Review Report 2019-2024*, 3.

Bibliography

Blake, Cassels & Graydon LLP (“Blakes”). “Hotel Finance.” Accessed January 1, 2026. <https://www.blakes.com/expertise/practices/financial-services/hotel-finance/>

Canada. Department of Finance. *Budget 2021: A Recovery Plan for Jobs, Growth and Resilience.* Ottawa: Government of Canada, April 19, 2021. Accessed January 4, 2026. <https://budget.canada.ca/2021/pdf/budget-2021-en.pdf>

———. *Canada Strong: Budget2025,* Ottawa: Government of Canada, November 4, 2025. Accessed January 4, 2026. <https://budget.canada.ca/2025/report-rapport/pdf/budget-2025.pdf>

Canada. Innovation, Science and Economic Development Canada. 2022 Changes to the Canada Small Business Financing Program. Canada Small Business Financing Program Bulletins. Government of Canada. Accessed January 4, 2026. <https://ised-isde.canada.ca/site/canada-small-business-financing-program/en/documentation-centre/bulletins/2022-changes-canada-small-business-financing-program>

———. *Canada Small Business Financing Program (CSBFP) Historical Loans and Claims Data.* Open Government Portal. Government of Canada. Accessed January 1, 2026. <https://open.canada.ca/data/en/dataset/3f718801-099d-4037-bb0a-1d41ba8aca8b/resource/5c3ac52b-becf-4da5-b431-ab018fd8d094>

———. *SME Profile: Innovation in Canada.* Government of Canada, November 2025. Accessed January, 13, 2026, <https://ised-isde.canada.ca/site/sme-research-statistics/en/research-reports/sme-profile-innovation-canada>.

———. *Canada Small Business Financing Program: Comprehensive Review Report 2019–2024.* Ottawa: Government of Canada, 2025. Accessed December 29, 2025. <https://ised-isde.canada.ca/site/canada-small-business-financing-program/sites/default/files/documents/csbfp-review-2019-24-e.pdf>

———. *Canada Small Business Financing Program: Evaluation of the Canada Small Business Financing Program.* Ottawa: Government of Canada, June 2024. Accessed January 1, 2026. <https://ised-isde.canada.ca/site/audits-evaluations/sites/default/files/documents/csbfppeval-2024a-e.pdf>

———. *Canada Small Business Financing Program: Guidelines.* Government of Canada. Accessed January 1, 2025. <https://ised-isde.canada.ca/site/canada-small-business-financing-program/en/find-loan-your-small-business/canada-small-business-financing-program-guidelines#3.1>

———. *Canada Small Business Financing Program: Helping Small Businesses Get Loans.* Government of Canada. Accessed January 1, 2026. <https://ised->

isde.canada.ca/site/canada-small-business-financing-program/en/find-loan-your-small-business/helping-small-businesses-get-loans

———. *Canada Small Business Financing Program: Overview and Highlights 2024–25*. Government of Canada. Accessed January 1, 2026. <https://ised-isde.canada.ca/site/canada-small-business-financing-program/en/overview-and-highlights-2024-25>

Canada. Justice Laws Website. Canada Small Business Financing Act, S.C. 1998, c. 10.2. Accessed January 4, 2026. <https://laws-lois.justice.gc.ca/eng/acts/c-10.2/index.html>

———. *Canada Small Business Financing Regulations, SOR/99-141*. Accessed January 4, 2026. <https://laws-lois.justice.gc.ca/eng/regulations/SOR-99-141/index.html>

GlassRatner. “Retail Fears: The Challenges and Opportunities for Canadian Retail Financing.” GlassRatner.ca. October 16, 2018. Accessed January 1, 2026. <https://glassratner.ca/articles/retail-fears/>

HVS Canada. *Canadian Monthly Lodging Outlook – November 2012*. Toronto: HVS Canada, November 2012. Accessed January 1, 2026. <https://www.hotelnewsresource.com/pdf11/HVS0110121.pdf>

Restaurants Canada. *Economic Analysis of Small Business and Restaurants in Canada: On the Precipice – Help is Needed*. Ottawa: Restaurants Canada, June 2024. Accessed January 1, 2026. https://www.restaurantscanada.org/wp-content/uploads/2024/06/RC-EI_PREMIUMS-REPORT-2024-EN-FINAL.pdf

Statistics Canada. “Employees with Low Pay, 2024.” Quality of Employment in Canada. August 18, 2025. Accessed January 1, 2026. <https://www150.statcan.gc.ca/n1/pub/14-28-0001/2025001/article/00002-eng.htm>