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Project Insights Report

Pathways to Financing: Journeys of Successful Black Entrepreneurs

PARTNERS
Diversity Institute

LOCATIONS
Across Canada

PUBLISHED
August 2026

CONTRIBUTORS
Report author: The Diversity Institute

Executive Summary

Black entrepreneurs still face barriers, particularly in access to financing. Despite these barriers, some Black entrepreneurs have succeeded, but little is known about the pathways to financing.

Building on other research and projects to support Black entrepreneurs, including BACEL and Capital Skills, this short report examines the pathways to financing taken by some well-known Black entrepreneurs in Canada. Examining these pathways will help inform strategies to provide training and supports for Black entrepreneurs and also to provide culturally relevant case studies.

KEY INSIGHTS

1. In Canada, Black people are 4.3% of the population but only 2.4% of all business owners.

2. Due to systemic barriers, Black entrepreneurs usually fail to successfully attract venture capital investments, and many face challenges even accessing traditional financing. In the rare instances that Black entrepreneurs succeed, it is through personal financing and bootstrapping.

3. More research is needed to better understand the barriers and enablers for Black-owned businesses, the structural issues related to sectors and size, the role of anti-Black racism and the implications for skills development programs.

The Issue

Small and medium-sized enterprises (SMEs) are central to the Canadian economy, driving job creation, innovation and economic growth. For Black Canadians, who make up 4.3% of Canada's population, entrepreneurship represents an opportunity for economic independence, community development and generational wealth accumulation. As of 2020, Statistics Canada showed that the number of Black business owners had increased to 144,980, from 66,880 in 2018. While the increase is notable, the proportion of Black entrepreneurs remains lower than the proportion of the Black population in Canada, at only 2.4% of all business owners. Despite the increasing number of Black entrepreneurs, they still face numerous challenges, especially barriers that limit access to financing. Lack of financing limits the growth of Black-owned businesses at each stage of their development and limits the participation of Black entrepreneurs in Canada's business ecosystem. There are also few case studies celebrating excellence and success of Black entrepreneurs, which shapes aspirations and pathways to entrepreneurship.

What We Investigated

Despite substantial challenges, there are increasing numbers of prominent Black entrepreneurs in Canada who are contributing to Canada's economy through job creation, trade, investment, productivity and innovation. Many of these entrepreneurs have been able to secure financing from a variety of sources that enabled them to grow their businesses. This exploratory research examined the trajectory of 17 prominent Black entrepreneurs to gain insights into their journeys and the issues that they faced and overcame. A brief overview of existing research is also provided to add context.

What We're Learning

Inadequate access to financial capital is a common constraint for Black-owned businesses. Limited access to capital is in part due to challenges associated with utilizing various forms of financing, including bank loans, personal savings, and outside equity. Black entrepreneurs tend to have lower credit scores, which contributes significantly to the financing disparities between Black-owned businesses and other businesses. Research suggests that the structural differences, including size and sectors, loan criteria including credit scores, social capital and networks, all play a role, as well as anti-Black racism and bias embedded in systems.

Most research about Black entrepreneurs focuses on the start-up phase. Black-owned startups are approximately three times less likely than their white counterparts to report having their loan requests approved by financial institutions. Due to employment and income disparities, Black entrepreneurs tend to exhibit lower average wealth levels, which negatively affects their financial ability to accrue personal savings and further limits their ability to self-fund their ventures or use personal assets as collateral for loans. However, there is little data available about the success of the financing programs targeting Black entrepreneurs that are offered by major Canadian financial institutions. High economic costs associated with pursuing business ventures may cause downwards economic mobility for Black business owners in the event of business failure and closure.

Among the 17 case studies examined, we found a range of strategies employed by entrepreneurs, many of whom reported facing obstacles with traditional financial institutions. Some were in industries – music and sport – known to be high risk and highly dependent on the viability of a personal brand. Some of the companies were in culturally specific businesses or consumer services like hairdressing that are not understood to be profitable (even though health and beauty has better profits, lower failure rates and more export potential than tech). Many of these entrepreneurs bootstrapped their own businesses, relying on personal assets, family and friends, even mortgaging their homes to grow businesses now with over $5m in revenue. Only two of the entrepreneurs studied reported receiving significant VC investments – both in the tech space.

Once their businesses achieve success, some Black entrepreneurs reinvest their profits in other businesses, resulting in a cycle of business growth.

Why It Matters

Understanding the journey of Black entrepreneurs is essential to ensuring that the entrepreneurship ecosystem works for them. There are an increasing number of initiatives that are designed to address the disparity in financing between Black and other entrepreneurs. To date, however, there is little data available on levels of participation or the impact of these programs. While these programs are promising, the core lending policies of many banks have not changed.

One of the challenges of the financial supports that are currently available to Black entrepreneurs is the alignment with their structures, sectors and needs. Most Black-owned businesses lack capacity to take on debt and may not meet the criteria for traditional loan financing. While there are Black entrepreneurs with businesses generating over $500,000 per year, a sweet spot for many financial institutions, most Black-owned businesses are considerably smaller. In addition, more than half of all businesses in Canada start with less than $5000 investments, and these microloans and grants are difficult to access.

State of Skills:
Working with Black Communities

Black peoples in Canada experience widespread systemic anti-Black racism in education systems and the labour market. More needs to be done to name and address anti-Black racism in the skills ecosystem, including efforts to change employer behaviour to make workplaces more inclusive.

Read Thematic Report

What's Next

Growing economic uncertainty and the risk of a recession mean that ensuring Black entrepreneurs can access the financing they need is more important than ever. Black-owned businesses tend to be smaller and more fragile than their white counterparts, making them more likely to be affected by negative economic conditions. While recent growth in the number of Black entrepreneurs is encouraging, it is imperative to improve evaluation of existing programs to develop evidence-based strategies that not only increase the rate of Black individuals entering entrepreneurship but ensure that Canada has an ecosystem that promotes viable development and expansion. More research on investment readiness, skills, and capacity is needed that takes into account stage of development, sector differences, as well as identity and lived experience.

Have questions about our work? Do you need access to a report in English or French? Please contact communications@fsc-ccf.ca.

How to Cite This Report

Diversity Institute. (2026) Project Insights Report: Pathways to Financing: Journeys of Successful Black Entrepreneurs. Toronto: Future Skills Centre. https://fsc-ccf.ca/research/financing-black-entrepreneurs/

Funded by the Government of Canada's Future Skills Program | Canada

Pathways to Financing: Journeys of Successful Black Entrepreneurs is funded by the Government of Canada's Future Skills Program. The opinions and interpretations in this publication are those of the author and do not necessarily reflect those of the Government of Canada.

The Future Skills Centre acknowledges that the Anishinaabe, Mississaugas and Haudenosaunee share a special relationship to the 'Dish With One Spoon Territory,' where our office is located, bound to share and protect the land. As a pan-Canadian initiative, FSC operates on the traditional territory of many Indigenous nations across Turtle Island, the name given to the North American continent by some Indigenous peoples. We are grateful for the opportunity to work in this territory and commit ourselves to learning about our shared history and doing our part towards reconciliation.