



CANADIAN GLOBAL AFFAIRS INSTITUTE
INSTITUT CANADIEN DES AFFAIRES MONDIALES

Driving Canadian Defence Innovation Through the Minor Capital Portfolio

**By Dr. Alexander Salt and
Dr. David Perry**

May 2026

POLICY PERSPECTIVE

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Prepared for the Canadian Global Affairs Institute
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Introduction

The creation of the [Defence Investment Agency](#) (DIA) and publication of the [Defence Industrial Strategy](#) (DIS) present unique conditions to overhaul Canada's approach to delivering both defence and industrial capability at speed. A new, more centralized organization, with a new leadership structure, revised legal basis, and new authorities has the potential to drive dramatic change in Canada's approach to acquiring military capability. Similarly, the first ever Canadian defence industrial strategy offers better defined linkage between economic and capability considerations and guidance on building up Canadian defence industrial capacity.

As the promising DIA and DIS ecosystem evolves, opportunities remain to address some implementation gaps. The agency currently oversees a limited number of files and has initially taken on projects valued above \$100 million. This has led to caution that the organization's impact will be muted, as the Small and Medium Enterprises (SMEs), which make up the lion's share of the Canadian defence marketplace and are a key focus of the DIS, have relatively few direct avenues to access federal opportunities. SMEs can certainly continue to participate in the supply chains of prime contractors on larger projects and access the limited number of existing innovation, research, and development programs. However, for those who argue that this segment of the market is where much of the significant defence innovation unfolds, the lack of connectivity between SMEs and the new agency undermines the ability to link the Prime Minister's substantial defence budget increase to his articulated vision of the defence sector supporting economic growth.

At the same time, it remains unclear what new specific defence opportunities are available for Canada's defence industrial base. The Carney government's [2025 Budget](#) commits to a massive increase of \$81.8 billion over five years for defence, representing a significant short-term funding increase. Yet, this defence commitment in fact reflects a much larger, long-term trajectory. It underpins the Prime Minister's pledge that Canada will spend 3.5% of GDP on 'core' defence by 2035; and the extrapolated total net increase to defence associated with the Carney government's defence commitment exceeds \$300 billion over and above prior plans.

However, what specifically these funds will be directed towards is not yet clear. Across the Defence Team, ideas abound about where the funds *could* be directed, but as of spring 2026 any decisions about where the money *will* go have not been communicated publicly. Further, as a senior official noted the Canadian Armed Forces' (CAF) ambition exceeds its budget, even at a 3.5% of GDP funding level.¹ Stated differently, despite a massive financial injection, there is no clarity about what new things Canada is buying. The articulated list of sovereign capabilities in the DIS indicates where Canada would like to obtain some items, but it does not include a new list of projects to actually deliver those capabilities. At present, there are rumours circulating in Ottawa about an integrated set of national security, foreign and defence policies, or potentially a new standalone defence policy to provide guidance; but this has neither happened yet nor been officially announced. As a result, there is currently no agreed upon net new defence capability demand that

¹ Senior Canadian Defence Official, CADSI Outlooks. Ottawa: April, 2026.
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has received both policy and funding approval² aligned with Canada’s commitment to spend 3.5% of GDP on defence, nor is there clarity on when such information might become available. Absent this information, it is unclear how Canadian industry can actually start delivering on the objectives of the DIS.

A specific area where meaningful changes could address both issues—quickly opening up accessible opportunities while also creating avenues for innovation among the SMEs that make up the bulk of the Canadian defence industrial base—lies within the Department of National Defence’s (DND) minor capital portfolio. This is a collection of projects which currently have estimated costs under \$25 million. They move much faster from start to finish than the larger, headline garnering projects. They navigate through a simplified process, with quicker approvals. They are managed much more directly by capability end-users in the CAF. These projects also offer smaller companies a greater chance of success, as they do not demand the same level of production capacity or complex project management as larger programs, but they can help create these industrial competencies. These smaller projects therefore offer valuable entry points for new market participants to secure key initial sales in their home market, which can be an essential stepping stone to future success abroad.

Finally, while these projects align with broader defence policy direction, they have typically not been enumerated in formal documents and therefore have not depended on the publication of a new defence policy to proceed. While major projects require formal policy approval such as through the latest defence policy, [Our North, Strong and Free](#), the minor capital portfolio could be adjusted without waiting for perfect clarity on a new defence plan. This segment of the defence capability portfolio therefore presents an opportunity to pursue innovation and rapid capability delivery and a key means of connecting Canadian SMEs to government defence purchases quickly.

Transforming Canada’s Minor Capital Portfolio

Early-stage SMEs, including dual-use technology startups in the defence sector, often face a “valley of death” between research and development, prototyping, and scaling. These firms are key drivers of innovation in areas such as AI, autonomy, advanced sensors, and cyber capabilities, all of which are central to modern defence. However, [research on Canada’s defence industrial landscape](#) shows that existing innovation programs, including IDEaS and traditional procurement systems, remain ill-suited to SME participation. Lengthy timelines, rigid requirements, and slow, or low probability, contracting processes limit the ability of SMEs to transition promising technologies into operational capability. As a result, Canada risks falling behind allies and adversaries in leveraging SMEs as a strategic defence resource. The DIS acknowledges this challenge, emphasizing the need for faster adoption pathways and more responsive procurement mechanisms. Similarly, the [draft legislation](#) to revise the *Defence Production Act* proposes granting the minister responsible for the DIA the authority to sole-source contracts for defence supplies produced through research or innovation programs.

² These are two key factors that determine if a project is ‘real’ or not in Ottawa.
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Addressing this gap requires a shift toward more agile, rapid procurement approaches that better align with SME development cycles. Overall, shorter contracting timelines, iterative testing opportunities, and streamlined acquisition pathways would allow SMEs to develop technologies at strategically relevant speeds while also enabling more direct feedback from end users. Crucially, SMEs often require smaller, lower-value initial contracts to validate technologies, build performance records, and scale over time. SMEs often lack the financial, technical, and administrative capacity to process and deliver larger, more complex contracts, especially during early stages of a project. Embedding fast, modular contracting mechanisms into defence procurement can help Canada better harness its innovation base while accelerating capability development.

Within this context, the minor capital portfolio represents a particularly well-suited instrument to operationalize more agile procurement approaches oriented around innovation. Currently, the total minor capital portfolio across defence spends less than \$500 million annually, with delegated financial authorities set at \$1 million for commanders of the Royal Canadian Navy, Royal Canadian Air Force, and Canadian Army, and \$25 million for the Assistant Deputy Minister (Materiel). Essentially, the current authorities and spending levels indicate that a framework for relatively rapid acquisition already exists. However, the framework remains under-scaled relative to Canada's defence innovation needs; existing authorities are set too low to realize the ambition outlined in the DIS; it does not have an explicit innovation focus; and it does not explicitly incentivize buying in Canada.

The minor capital program portfolio could be leveraged to directly spur innovation and direct investment in the Canadian defence industry by meaningfully increasing the annual spend on minor capital portfolio areas, raising the minor capital project thresholds significantly, to align them just below the DIA's project thresholds, and expanding all relevant financial authorities within defence. If paired with both contracting authorities within Defence as well as the contracting resources to fully utilize them, along with strong incentives for engaging Canadian firms, this could create a positive path for capability introduction and industrial innovation and growth.

Operationalizing the full potential of the minor capital portfolio in this way will require more changes than simply increasing spending thresholds or reallocating funds. It must be part of a wider set of reforms that continue to modernize Canadian procurement. Presently, there exists a fundamental misalignment between the DND/CAF's expenditure authorities and its ability to finalize contracts, with much of the latter still dependent on external processes and other parts of government, such as Public Services and Procurement Canada. This fragmentation disrupts what could otherwise be a relatively streamlined acquisition pathway and has historically led to delays and complexity that disproportionately affect smaller, time-sensitive projects. Aligning contract authority with financial authority will therefore be essential to ensure that increasing spending limits do not simply lead to scaling of existing bottlenecks.

Institutional capacity and the traditionally risk averse culture of the federal government will also shape the success of any modernization effort. Expanding financial authorities without a parallel increase in contracting personnel and internal expertise will quickly strain an already limited workforce, undermining the speed and responsiveness these reforms aim to achieve. More



fundamentally, longstanding concerns around control of the process and a persistent “trust deficit” within sections of the federal government continue to shape how authority is delegated and exercised. Such dynamics also reinforce risk aversion that continues to constrain any efforts to accelerate technological innovation in the CAF. An increase in the minor capital portfolio must therefore be accompanied by a fundamental transformation in how risk is managed, with a greater emphasis placed on speed and capability delivery across more distributed hierarchies.

Part of the minor capital portfolio could be explicitly designated for use in innovation orientated acquisition projects. Here, the portfolio could operate as part of a controlled environment to develop and mature new technologies rather than deliver fully supported, long-life capabilities. In the past, quickly approved and delivered projects had not always accounted for their longer-term sustainment and personnel costs, which led to downstream financial and program integrity issues. However, a more clearly defined innovation stream would allow projects to be evaluated less on their lifecycle costs and more so their ability to deliver new technology and demonstrate operational advantage. Under this context, the minor capital portfolio could serve as a streamlined acquisition mechanism focused on advancing technological capabilities for the CAF.

There are already examples within the CAF that point to the viability of such an approach. For example, [CANSOFCOM](#) has demonstrated innovative success by focusing its capital program on similar projects, and potentially similar models could be stood up by the various innovation units of the Royal Canadian Navy, Royal Canadian Air Force, and Canadian Army. If these organizations were emboldened along the way with increased funding and appropriately aligned authorities, they would be well positioned to acquire and integrate the necessary emerging technological capabilities at speed, while also fostering the institutional competence for future efforts. Together, these efforts would help build a more adaptive and innovation orientated risk tolerant culture within the CAF, while also strengthening sovereign domestic defence capabilities.

Recommendations

For too long, Canada’s defence system has been characterized by highly centralized financial and contracting authorities that have slowed procurement and limited the ability of lower-level organizations to act quickly. A more effective framework would help address these longstanding structural constraints and better support the CAF’s modernization efforts. Accordingly, the potential benefits of reorienting minor capital spending can be enhanced with a few additional changes.

First, grow the pot of money significantly. Currently, the L1 minor capital budgets are relatively modest, at around \$100 million or so for each of the main capability sponsors. If the government intends to move at speeds not seen previously, ramp up investment, and see substantive SME revenue growth, the overall allocation of minor capital funding should be roughly doubled to \$1 billion annually. This funding increase could be used to improve delivery capacity for force development, project management, and contracting; increase overall opportunities; as well as introduce a dedicated innovation focus.



Second, the financial thresholds delineating minor and major projects should be aligned to fall just below the cost thresholds used by the DIA. Currently, the DIA remit is for projects worth \$100 million and up, so the defence minor capital project threshold should be set to \$99 million at present. It has been suggested that the DIA's scope of work will be expanded to include projects valued at less than \$100 million—if this is the case, the defence minor capital threshold should be reset just below whatever amount is chosen for the DIA's expanded scope of work.

Third, delegated financial authorities for minor capital projects should be raised significantly. The current \$25 million limit for Assistant Deputy Minister (Materiel) should be aligned with the minor capital definition. If that becomes \$99 million, Assistant Deputy Minister (Materiel) should be given commensurate financial authority. The authorities delegated to other L1s should also be raised meaningfully to \$25 million.

Fourth, more sensible financial authorities within defence must be paired with corresponding contracting authorities to ensure they are effective and aligned with the dollar thresholds outlined above. The full set of resources needed to utilize these authorities, particularly well-trained contracting capacity, should also be provided.

Fifth, measures should be put in place to incentivise minor projects to be directed toward Canadian firms in alignment with the intent of the DIS. This could include ring fencing some of the \$1 billion allocation of minor capital funding for Canadian qualifying firms and providing higher financial authorities and exemptions from competitive contracting for engagements with Canadian firms. Financial authorities for all L1s could be set at \$50 million, for instance, for projects with Canadian firms to incentive the CAF to buy Canadian.



About the Authors

***Dr. Alexander Salt** has a PhD from the University of Calgary's Centre for Military, Security and Strategic Studies and an MA in Political Studies from the University of Manitoba. His dissertation explores to what extent has the battlefield experience of the U.S. military influenced post-war organizational innovation. His research has been awarded the Social Sciences and Humanities Research Council of Canada's Joseph-Armand Bombardier Doctoral Award, as well as a General Lemuel C. Shepherd, Jr. Memorial Dissertation Fellowship. He has published research relating to international security and defence policy with Strategic Studies Quarterly, Journal of Military and Strategic Studies, Canadian Foreign Policy Journal, and The Canadian Network for Research on Terrorism, Security, and Society. Previously, he was a Visiting Political Science Instructor with Macalester College and has also held positions with the Centre for Defence and Security Studies, as well as the Consulate General of Canada in Dallas, Texas, and the Consulate General of Canada in Minneapolis, Minnesota.*

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