INDUSTRY CANADA

Evaluation of the Canada Community Investment Plan

Final Report

September 28, 2001

PRICEWATERHOUSECOOPERS

Table of Contents

EXECUTIVE SUMMARY

Introduction

The Canada Community Investment Plan (CCIP) is an Industry Canada sponsored program designed to improve access to existing risk capital by growth-oriented small and medium-sized (SME) enterprises. Supporting the achievement of this objective, the CCIP employed three key strategies:

- 22 co-funded demonstration projects;
- investment skills development; and
- best practice and lessons learned dissemination.

To ascertain the results and impacts of the CCIP, a final "lessons learned" evaluation was conducted from March to July, 2001, in order to evaluate the CCIP's achievement of its objectives, the lessons learned as a result of the program, its overall relevance and possible alternatives.

Findings

Key findings from the evaluation, and relevant conclusions, are outlined below.

Objective Achievement

The examination of the CCIP's achievement of its objectives looks at the issue from a number of perspectives. Key questions asked throughout the evaluation, and their answers, are as follows.

Did the CCIP improve access to risk capital? The CCIP's demonstration projects have collectively sourced $168M in capital since their beginning in 1996 and 1997. These funds were sourced following Industry Canada's $20M investment in the CCIP initiative, including $8M worth of administrative support and $12M in funding to the projects. Of the $168M raised, $52.5M was sourced from venture capital firms, $57.3M from conventional lending sources, $28.5M from private (angel) investors and the remaining $29.7M (18%) came from other sources.

A number of the projects were able to source levels of capital beyond their initial projections, while others struggled with factors that made access to risk capital difficult. Such factors included the limited availability of venture capital firms and angel investors, or the availability of investment opportunities of interest to investors.

Conclusion: The CCIP has helped to increase access to risk capital.

Has investment readiness among SMEs improved? For those communities with a CCIP project, the level of investment readiness has improved among firms that were in a growth oriented mode and that were seeking additional support to achieve the next level of growth. The readiness of SMEs was particularly enhanced when projects worked one-on-one with business people to prepare them for the investment process. This included approaches such as intense mentoring and coaching. Further, the reach of the CCIP appeared greater in smaller communities than in larger ones, as it was more feasible to speak to and network with a larger proportion of the business and investment community.

A number of challenges were noted in attempting to improve investment readiness. Most particularly, CCIP projects found it difficult to prepare entrepreneurs for investment when they lacked essential business skills or when their business concept was not clearly defined. A number of projects found that they needed to either be extremely selective when choosing a potential SME for matching with an investor, or spend a significant amount of time with the SME in order to prepare them for the matching process.

Conclusion: Investment readiness among SMEs has improved for those firms that had a direct involvement with the CCIP.

Were community linkages and synergies capitalized upon during the CCIP program? The evaluation revealed that CCIP projects were, for the most part, successful in leveraging community linkages and synergies in order to capitalize on the most appropriate knowledge and resources available to achieve their objectives. Part of their success was born of the fact that CCIP project proposals were submitted by communities of interest; in other words, groups of people or organizations that had a vested interest in increasing access to risk capital within their community.

The use of a management board by projects was a crucial aspect of being able to network effectively. In many of the projects, the networks of individual board members were leveraged in order to extend contact into the community and achieve greater results. Their level of success was also enhanced when these members were seen as being very credible within the local business community.

What other outcomes have occurred? The evaluation revealed that the CCIP's activities increased the efficiency of the investment process. By increasing the investment readiness of entrepreneurs and investors, the CCIP has been able to increase the likelihood of completing investment deals. This had the positive effect of creating a more attractive investment climate.

Although the CCIP projects were designed in large part to provide matching services between SMEs and investors, the CCIP experience has shown that matching services alone will result in limited success if they are not accompanied by support and advice to SMEs.

Did the CCIP identify and disseminate best practices? The CCIP has worked actively to identify and disseminate and share best practices from its demonstration projects. Best practices were outlined in two documents: *The Winning Formula* and *The Winning Formula at Work*. The CCIP Secretariat also hosted a best practices conference, Bridging the Investment Gap, in June of 2001 in Montreal. The conference was attended by close to 170 participants and provided a forum for sharing ideas and strategies to assist in improving access to risk capital. Further, the CCIP Secretariat actively facilitated the sharing of best practices among demonstration projects through the use of conferences and teleconferences.

Conclusion: The CCIP has proven to be an effective means of identifying and disseminating best practices and critical success factors needed to improve access to risk capital.

Lessons Learned

One of the purposes of the CCIP evaluation was to collect information on lessons learned from the CCIP experience. The evaluation sought out lessons learned about access to risk capital, investment readiness, project sponsorship and administration, and some additional areas.

What was learned about improving access to risk capital? Through the CCIP experience it has been learned that investor behaviour has an impact on the ability to improve access to risk capital. It is necessary to continually nurture relationships with potential investors in order to build their level of interest and excitement in investment opportunities. Further, not all individuals who possess the personal wealth required to be considered serious investors necessarily wish to act as angels.

The CCIP projects have experimented with numerous strategies to support their work and have learned much in the process. For instance, some experimented with the use of the Internet as a means of matching SMEs and investors. What has been learned so far is that the approach has limited results if not accompanied by person-to-person contact and follow-up. More time is needed to understand the full implications of Internet-based matching strategies.

What was learned about improving investment readiness? The CCIP experience demonstrated that improving individual SME's level of investment readiness is sometimes a large and arduous task. Some entrepreneurs are difficult to coach to a point where they and their business idea can be presented to a potential investor. For other SMEs, a large and very focused effort is required of CCIP staff in order to bring them to a point of investment readiness. Most of the projects have been challenged by the often low level of knowledge possessed by businesses about investment, but also about more fundamental business and management issues. CCIP projects found that technology entrepreneurs can be over-optimistic about the potential of their business concept in the short-term with a lack of vision for where it may take them in the long-term. Some communities that lacked a substantial entrepreneurial culture, or where that culture was being nurtured into development, also felt that it was difficult to focus on the more advanced issues of financing and investment.

From the CCIP has emerged an understanding of what works best to assist SMEs and entrepreneurs. One-on-one mentoring provides one of the best means of assisting SMEs, although it is also one of the most labour intensive approaches. This type of assistance can extend from helping SMEs to prepare investment documents, to providing them with opportunities to role play investor presentations in front of CCIP project staff and volunteers (e.g. board members and successful entrepreneurs). Projects also found that by working closely with an educational institution, the reach of investment readiness initiatives could be extended.

What was learned about project sponsorship and administration? Projects learned that establishing a community-based initiative to support access to risk capital could take up to two years due to the extensive network building required. In addition, leveraging the required funding contribution required an aggressive and consistent effort. This effort eases if the project demonstrates its capabilities and value over time. It is also easier to generate interest in the project when project partners are credible and respected.

Projects' abilities to be successful also hinges on the skills and experience of the people that manage them. The best results were achieved in situations where projects were directed by individuals who possessed a mix of industry and investment skills. Project success was also greatly influenced by the ability of project administrators to pursue a common vision for the project. Further, the ability of implicated staff and volunteers to leverage their network of contacts was a critical success factor.

Conclusion: The success of initiatives that support access to risk capital is highly dependent upon the individuals involved in the effort.

Projects achieved mixed results when operating as a stand alone entity. In some instances, being part of a host organization meant that the project could exercise greater flexibility in order to achieve results because it could leverage the resources of its host organization. In other cases, projects found it valuable to exist as a stand alone organization because they had more autonomy.

Conclusion: No single model of investment facilitation intervention can be implemented across all communities.

Conclusion: A community-based approach, supported by a central coordinating body, proved to be a positive way of achieving results locally.

What other lessons have been learned following the CCIP experience? A critical element of the CCIP initiative was its flexibility in allowing local intermediaries the opportunity to devise their own strategies in response to the local business and investment community. This made it easier for projects to gain the trust of local business people and investors. The CCIP experience also demonstrated that a period of at least five years is required to establish an environment where access to risk capital will improve. Many projects found it difficult to influence their environment in the early part of the project. This was due to the significant level of effort required to set up a project, as well as the time needed to create an investment culture in the community.

Relevance

The CCIP initiative has remained relevant due to the ongoing capital requirements of growth-stage businesses in Canada and the increasingly available capital. There was agreement from project intermediaries and clients, both SMEs and investors, that the CCIP initiative was valuable and that the need for its services and activities would remain into the future. In particular, there was, and continues to be, a need for services that assist SMEs to access capital in the $100,000 to $750,000 range. However, evaluation participants suggested that the ability to facilitate investment by angels in smaller and remote communities was quite limited.

Alternatives

There are a number of alternative options for continuing the facilitation services offered by CCIP projects. These include economic and business development agencies, brokers, private networks and Internet-based matchmaking tools. However, the challenge remains whether these delivery alternatives have sufficient desire or adequate resources to take on CCIP type services. A driver of alternative delivery is the ability to deliver services that are self-financing. Two of the CCIP projects show an ability to sustain their activities beyond Industry Canada's funding sunset. Other models have found it more difficult to raise funds from the local community to sustain CCIP-type activities, although most did aggressively pursue and find support during the CCIP project period.

1. INTRODUCTION

The purpose of this report is to present the findings of the final "lessons learned" evaluation of the Canada Community Investment Plan (CCIP).

1.1 Evaluation Objectives

The evaluation of the CCIP was conducted from April to July 2001, prior to the sunset of CCIP demonstration projects. Canada Community Investment Plan projects will continue to operate and sunset at various periods up until December 2002. Therefore, the evaluation focuses on objective achievement and lessons learned up until the time of the evaluation. It does not reflect outcomes that may occur in the remaining period of activity.

The primary objective of the CCIP is to cultivate and share best practices and the lessons learned by its 22 demonstration projects for the benefit of all communities looking to implement investment facilitation strategies for SMEs. The evaluation of the CCIP has supported this requirement by providing a summary of the achievements of the Plan and a summary of lessons learned.

The evaluation focuses on four key evaluation issues. These include:

- **Level of Success:** did the CCIP achieve what it set out to?
- **Lessons Learned:** what knowledge did the CCIP acquire about strategies to support its objectives?
- **Relevance:** is there still a need for the CCIP?
- **Alternatives:** are there other ways to deliver the program and still achieve the same objectives?

A complete list of evaluation questions is included in Appendix H - CCIP Lessons Learned Evaluation Questions.

1.2 How to Read This Document

This report is divided into eight sections. Section 2.0 provides a description of the approach that was used to conduct the evaluation. Section 3.0 provides a brief description of the context under which the CCIP program was created and operates. This section also includes a summary of the objectives of the CCIP program and its key activities. In section 4.0 key evaluation findings are discussed, including the extent to which program objectives have been achieved and the overall results of the program. Lessons learned from the CCIP experience, in particular through the activities of its demonstration projects, are presented in Section 5.0, followed by a discussion of the relevance of the CCIP in Section 6.0. Section 7.0 discusses any suggested alternatives to the CCIP program, as well as whether demonstration projects are reaching a point of sustainability. The final section of the report, section 8.0 summarizes the conclusions that can be drawn about the CCIP.

2. EVALUATION APPROACH

The evaluation was conducted using a multi-method approach, including:

- document and administrative data review;
- key informant interviews;
- an electronic questionnaire;
- a survey of *Steps to Growth Capital* users; and
- case studies.

How each of these methods was used is discussed in more detail below.

2.1 Document and Administrative Data Review

The document and administrative data review provided a solid understanding of the purpose of the CCIP program and the activities that it has undertaken. The information contained in these documents assisted in measuring planned versus actual outcomes. Canada Community Investment Plan documents also proved to be a rich source of information on lessons learned and best practices. Documents that were supplied by the CCIP Secretariat and reviewed included:

- the CCIP mission statement;
- the CCIP Mid-term Review;
- the CCIP Review of Control Framework;
- *Steps to Growth Capital materials;*
- *The Winning Formula: Facilitating Investment in Small Business Growth*;
- *The Winning Formula at Work: Investment Facilitation Techniques Developed by the CCIP Pilot Projects*;
- the CCIP web site;
- Treasury Board agreements;
- the CCIP Evaluation Framework;
- demonstration project quarterly reports;
- the Policies and Procedures for Community Demonstration Projects;
- site visit reports; and
- bi-annual conference reports and evaluations.

In addition, we reviewed a series of CCIP-related studies and papers on angel investing, equity financing and other investment topics.

2.2 Key Informant Interviews

A total of five in-person key informant interviews were conducted with Industry Canada representatives. These interviews focused on the overall CCIP program, including the achievement of objectives and results. The interview guide for these interviews is provided in Appendix I - Research Instruments Report.

2.3 Electronic Questionnaire

A questionnaire was sent to CCIP demonstration projects that were not selected as case studies for the evaluation. Project managers were encouraged to collect input from other project staff and project board members. Eleven of 15 projects returned completed questionnaires. They were analyzed in conjunction with findings from other sources. The questionnaire is included in Appendix I - Research Instruments Report.

2.4 Steps to Growth Capital Survey

A brief telephone survey was administered to 17 organizations and individuals that had requested *Steps to Growth Capital* materials (i.e. workbook), including some who had received a Facilitator's Guide. Five of the surveys were administered in French. A copy of the survey can be found in Appendix I - Research Instruments Report. The sample of participants was drawn from Industry Canada databases. The geographic areas represented in the survey included: Ontario (4); Quebec (7); Alberta (4); and British Columbia (2).

The following table provides a breakdown of survey respondents, by type.

Steps to Growth Capital Survey Participants Breakdown

Type of Respondent	Steps to Growth Capital (Workbook)	Steps to Growth Capital (Facilitator's Guide)
Educational institutions	0	2
Government organizations	1	1
Private sector	1	4
Others (including general public)	6	2
TOTAL	**8**	**9**

2.5 Case Studies

Seven demonstration projects were selected as case studies. The case studies permitted a detailed examination of the projects in order to evaluate their achievement of objectives, lessons learned, relevance and alternatives. Through the case studies, answers to the evaluation questions and lessons learned were obtained, in addition to information on "what went well" and "what could be improved".

The projects selected for the case studies included a mix of geographic regions (e.g., Atlantic, Quebec, Ontario and Western Canada) and a mix of population bases (e.g., small to large communities). These communities were chosen to optimize the ability to learn about what works and does not work in improving access to risk capital in different types of communities. The communities selected for study are listed in the table, on the following page.

CCIP Case Study Demonstration Projects

Project Community/ Host Organization	Region	Size of Community*	Site Visit Date
Halifax, NS (Greater Halifax Partnership)	Atlantic	113910	May 28, 29
Moncton, NB (Regional Investment Corporation Inc.)	Atlantic	59313	May 31, June 1
Thérèse de Blainville, QC (La Société de développement économique Thérèse-de Blainville	Quebec	29603**	May 22, 29, 30
Wendake (Village des Hurons), Quebec Native Commercial Credit Corporation	Quebec	***	May 18
North Bay, ON (BayWay Community Investment Corporation)	Ontario	54332	May 28, 29
London, ON (London Venture Group Inc.)	Ontario	325646	May 30, 31
Vancouver Island Advanced Technology Centre, BC	West	678,526 (includes Vancouver Island and coast)	May 23, 24

* Source: Statistics Canada 1996 Census Data
** Project targeted the economic development organizations (EDOs) in Thérèse de Blainville, and also EDOs across Quebec and Canada.
*** Project involved 41 native communities across Quebec.

The methods used to collect information for each of the cases included:

- *Document review:* various documents provided by the CCIP Secretariat and the project were reviewed, including: the contribution agreement, original and updated business plans; site reports, and quarterly reports.

- *Web site review:* wherever possible, the content and usability of the project's web site was examined to evaluate the type and level of access to information by SMEs and investors.

- *Key informant interviews:* interviews were conducted with the project directors and selected project staff, and investors and other intermediaries (e.g. project sponsors) as identified by the project and randomly selected by the evaluation team. In some communities (where a group meeting or focus group was not feasible), interviews were conducted with board members and representatives from SMEs. Interviews were conducted in-person during the site visit or by telephone if this was not possible.

- *Site visits:* a site visit was conducted in each of the seven case study communities. The site visits provided a more holistic view of the activities of the project in relation to its host community. The site visits also provided an opportunity to collect information in-person.

- *Focus groups:* where possible, focus groups were conducted with SMEs and board members and/or intermediaries (e.g. economic and regional development organizations, the Business

Development Bank of Canada) in each of the case study communities. The focus groups provided an opportunity for greater probing on key evaluation issues and helped to better identify the lessons learned by participants and users of the project. Lists of potential participants were provided by the case study projects and six to 12 participants were randomly recruited for each focus group. For the focus group with SMEs, an attempt to ensure a balance between clients with and without extensive familiarity with the CCIP project was sought. Findings from the focus groups were integrated into the case study and summary reports.

A breakdown of the number of individuals consulted, either through interviews or focus groups, is presented in the following table. A total of 97 individuals were consulted in the seven case studies.

Case Study Participant Breakdown

Type	Halifax	London	Moncton	North Bay	Ste-Therese-de -Blainville	Victoria	Wendake
Project Staff	1	4	1	4	3	3	1
Board Members	1	7	4	3	0	3	0
Investors	2	4	3	4	4	3	0
SMEs	0	7	2	3	5	9	1
Intermediaries	3	3	1	3	0	0	5
TOTAL	**7**	**25**	**11**	**17**	**12**	**18**	**7**

3. CONTEXT AND CCIP PROGRAM PROFILE

The CCIP is an Industry Canada sponsored program designed to improve access to risk capital by growth-oriented SMEs. The CCIP provides communities outside main financial centres with the information and tools they need to start and operate an investment facilitation service for their fast-growth small and medium-sized enterprises.

One of the key approaches used to support improving access to risk capital has been through the use of demonstration projects. Twenty-two projects were selected by the CCIP following a competitive process. These projects have implemented diverse strategies aimed at facilitating access to risk capital by local SMEs. Demonstration projects were hosted by the following communities:

- Burlington, Ontario;
- Canmore, Alberta;
- Fredericton, New Brunswick;
- Halifax, Nova Scotia;
- Kitchener-Waterloo, Ontario;
- London, Ontario;
- Medicine Hat, Alberta;
- Moncton, New Brunswick;
- Mount Pearl, Newfoundland;
- Niagara, Ontario;
- North Bay, Ontario;
- Okanagan, British Columbia;
- Saint-Hyacinthe, Quebec;
- Sarnia-Lambton, Ontario;
- Sault Ste. Marie, Ontario;
- Shawinigan, Quebec;
- Sherbrooke, Quebec;
- Swift Current, Saskatchewan;
- Thérèse-de-Blainville, Quebec;
- Victoria, British Columbia;
- Wendake, Quebec; and
- Whitehorse, Yukon.

3.1 Plan Objectives

The CCIP's overall objective is to improve growth-oriented SMEs' access to risk capital. Supporting the achievement of this objective are three sub-objectives:

- to identify best practices that facilitate access to growth capital for SMEs;
- to implement an investment skills development initiative for SMEs to enhance their ability to grow and manage their growth; and
- to disseminate effective strategies, new ideas and experiences in equity financing.

3.2 Plan Milestones and Activities

Over the course of the CCIP program, it has used three major strategies to support the achievement of its objectives:

1) **The identification of 22 demonstration projects.** Industry Canada held a national call for demonstration projects that could demonstrate best practices to facilitate access to growth capital for SMEs. These projects were left with the flexibility to develop and manage their own business plans based on the needs and characteristics of their communities. Industry Canada provided to each project two-thirds of its total expected funding, up to a maximum of $600,000. This funding was provided over a five-year period. The remaining third was to be generated by the project.

2) **The implementation of an investment skills development initiative.** The CCIP implemented an investment skills development initiative for SMEs aimed at demystifying risk capital and improving their ability to manage growth. The *Steps to Growth Capital* materials support this initiative. These materials address the need for knowledge of the investment process and the development of the management and financial skills needed by SMEs to become investor ready. Industry Canada has made available these materials in hard copy, on diskette and on-line through the *Steps to Growth Capital* web site. Also available with these materials is a facilitation guide for organizations that wish to hold workshops in their communities. The CCIP has also produced tools such as self-administered tests, workbooks and lists of other skills development materials that are available.

3) **The dissemination of strategies, new ideas and experiences in equity financing.** The CCIP, through its 22 demonstration projects, identified best practices and lessons learned. It diffused these best practices through publications, conferences and meetings.

The CCIP packaged its lessons learned and best practices into two documents made available to all demonstration projects and to Canadian communities at large. The materials developed include:

- *The Winning Formula: Facilitating Investment in Small Business Growth* – The Winning Formula is a "how-to" guide developed by the CCIP that is based on the experiences of the 22 demonstration projects. The guide provides a work plan aimed at community leaders so that they can evaluate the benefits of setting up a facilitation strategy in their own community. The CCIP has made this document available on the CCIP web site in addition to other formats including a hard copy document.

- *The Winning Formula at Work: Investment Facilitation Techniques Developed by the Canada Community Investment Plan Pilot Projects* – This document is intended to complement the information contained in the *Winning Formula* document. The *Winning Formula at Work* provides access to techniques and strategies that have been used in some of the demonstration communities with success. It enables other communities that may be examining how to facilitate investment to benefit from the experiences of the CCIP projects and to identify strategies that may suit their own communities.

The CCIP sponsored a conference in June of 2001 in Montreal under the title of "Bridging the Investment Gap." The conference attracted close to 170 participants and provided the CCIP with a forum for sharing the results of its activities with an audience of government, academic and industry (both business and investment) representatives. Specific groups in attendance included:

- provincial and municipal economic development organizations;
- regional development agencies, including the Business Development Bank of Canada;
- government representatives from federal departments including Industry Canada, the National Research Council and the Department of Finance;
- representatives from Quebec's Société de développement des collectivités du Québec network;
- venture capital firms; and
- a variety of other interested organizations and individuals including banks and academic representatives.

A review of the Conference's participant list showed that the gathering attracted participation from 37 of the 81 applicant communities that submitted a proposal to the CCIP in either 1996 or 1997.[1]

In addition, the CCIP has provided formal and informal opportunities for its projects to share information on successes, best practices, and lessons léarned. These include regular conference calls with project staff, semi-annual conferences for demonstration projects, regular e-mail communication, and information sharing through the CCIP web site. These activities received positive feedback from CCIP project managers who indicated that such liaison activities, as coordinated by the CCIP Secretariat, were valuable in increasing their level of knowledge and adjusting their strategies to those that would work best. These activities also resulted in cross-project communication and cooperation.

[1]The 37 participant applicant communities includes the 22 communities that were in receipt of CCIP project funding.

4. OBJECTIVES ACHIEVEMENT AND PLAN OUTCOMES

This section of the report discusses the extent to which the CCIP has, to date, achieved its stated objectives. How success is defined is critical to this discussion. The CCIP began by using the number of deals facilitated between SMEs and investors, as its key success measure. However, discussions with demonstration projects, including site visits by CCIP Secretariat staff, resulted in an increased emphasis on activity-based success measures. Examples include the numbers of events hosted, numbers of tools developed/used, and actions taken to enhance access to risk capital and investment readiness.

For the purposes of this evaluation, the level of success is examined at both the community and the overall CCIP level. The three key aspects of success applicable at both levels are:

- improving access to risk capital;
- increasing SMEs' level of investment readiness; and
- fostering community linkages and synergies.

The key element of success applicable at the overall program level is the identification of "best practices" to support facilitating access to risk capital.

4.1 Access to Risk Capital

Finding: The CCIP has sourced at least $168M in private sector investment in the demonstration communities.

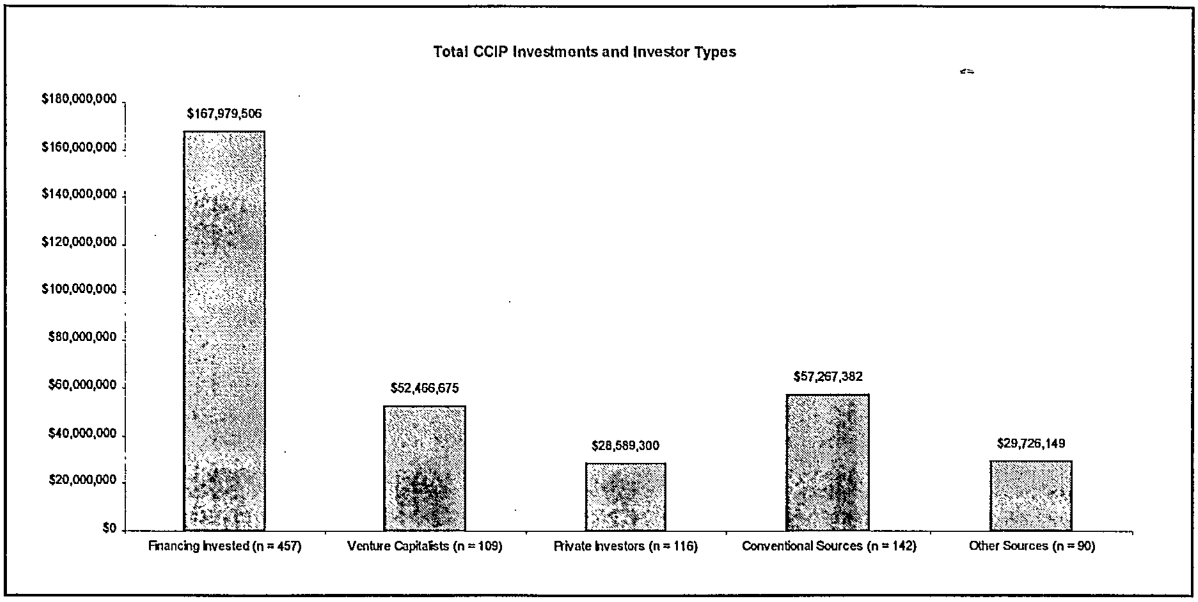
The mid-term evaluation of the CCIP, completed in March 2000, demonstrated that $8 million in administrative support had sourced $130M in private sector investment in the demonstration communities. At the time of the lessons learned evaluation in the Spring of 2001, the CCIP's reporting system showed that the number grew to $168M.[2] The exhibit, on the following page, shows the total amount of CCIP sourced funds by investment source.[3]

---

[2]It is important to note that this figure is based upon the available data from CCIP databases as reported by the demonstration projects. Given the challenge of reporting exact amounts sourced as a result solely of CCIP activities in the communities, this number may not reflect the precise value of sourced funds.

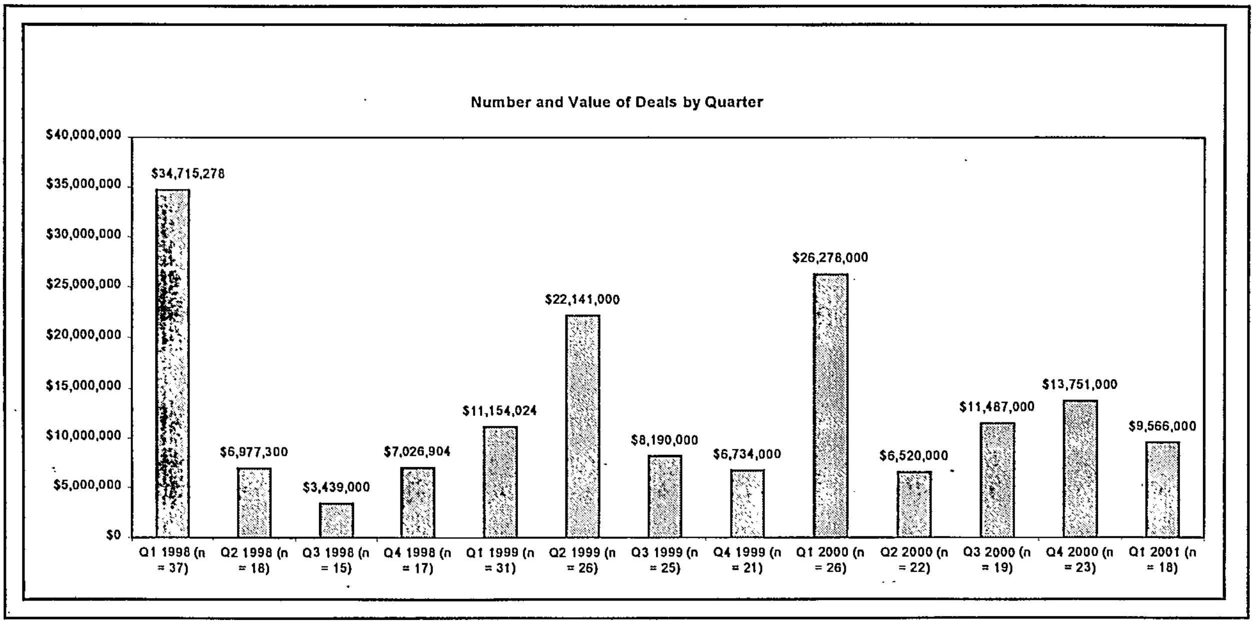
[3]Definitions for each of the Investor types are as follows:

- Venture Capitalists: entities investing risk-capital on behalf of fund investors, in companies in return for an ownership stake, that have an element of risk but offer potential above average returns.
- Private Investors: risk-capital investors making investments for their own account in return for an ownership stake in the firm; they are usually professional, retired and individual investors, with business experience and money, interested in investing between $25,000 and $300,000 in a business venture (also known as "angels").
- Conventional Sources: debt financing from financial institutions such as banks, co-operatives, and government loan sources.
- Other: government grants and other miscellaneous sources of financing.



From the above graph it can be seen that of the $168M sourced, $52.5M (31%) came from venture capital firms, $57.3M (34%) from conventional lending sources, $28.5M (17%) was sourced from private (angel) investors and the remaining $29.7M (18%) came from other sources.

The graph, below, illustrates how the deal flow has varied over the life of the CCIP. The results of the analysis of deal flow illustrate how much risk capital investing can fluctuate over time. The graphic supports the statements by evaluation participants that investors will only invest when the "right" opportunity presents itself, rather than just any opportunity.



A key evaluation issue for the CCIP is the extent to which the demonstration projects had an incremental impact on the level of equity financing available to growth-stage SMEs in their respective communities. Given the challenge involved in collecting the hard data needed to answer such a question in a quantitative manner, the evaluation relies instead on qualitative observations about the impact of the CCIP on available financing.

Finding: The success of each of the 22 demonstration projects in improving access to risk capital varied significantly.

Some communities greatly exceeded their original goals, such as Victoria ($9.6M in 23 deals), Niagara ($30 M in 21 deals) and London ($22M in 24 deals). Others experienced either moderate success or very limited results in improving access to risk capital, such as Wendake, North Bay, Moncton, Swift Current and Sarnia.

Finding: A risk capital culture is developing as one investment success leads to another.

The results of the evaluation demonstrate that it takes a number of years to develop a risk capital culture in a community. For many of the communities, the topic of risk capital was not even one of discussion prior to the CCIP. The results of the evaluation indicate that demonstration projects have played a role in raising awareness of the subject of risk capital in their communities, through activities such as: presentations at local events; workshops; the circulation of communications materials; and the generation of media coverage on the subject of venture capital and angel investing. As a result of these activities even communities that have had limited success in facilitating deals have reported that investors are now more willing to invest in local entrepreneurs (versus other investment opportunities).

Finding: Creative and flexible approaches are critical to matching community needs.

Some high potential and innovative approaches have been developed by demonstration projects. The Niagara Enterprise Agency (NEA), through the support of a separate Industry Canada initiative (i.e. the Small Business Infrastructure Initiatives Pilots), is already working with the communities of Kingston and Sault Ste. Marie to test whether its program approach can be used effectively in these two communities. This is an existing example of how an approach used by a CCIP demonstration project is being diffused in other communities.

Another example of a creative model includes the one being used in Halifax. Halifax, which started with an approach similar to that of most other demonstration projects, has now created a life sciences investment model focused on Dalhousie University's research community. The model addresses the identified need to foster growth within the life sciences sector by examining potential research and innovation activities at the University to identify projects where investments could be made and then seeking out investment to support these.

4.2 Investment Readiness

The emphasis on improving investment readiness as a criteria for success increased throughout the life of the CCIP program. The need to have a risk capital culture in place was noted above. It is also true that an entrepreneurial culture must exist, accompanied by investment sophistication to satisfy the needs and comfort level of investors. In recognition of this need, improving entrepreneurs' investment readiness has been a key focus for most of the demonstration projects.

Finding: Progress in increasing investment readiness varied greatly among projects.

Some projects, largely those located in smaller communities, have reported substantial increases in local entrepreneurs' investment readiness. They have accomplished this in a number of ways, including through mentoring, seminars, workshops, and publications.

A few communities have had only a marginal impact on investment readiness, such as Halifax, which is focused on a very small group of (potential) entrepreneurs, and Wendake, where the project has focused on cultural sensitization and therefore spent very little time with SMEs to prepare them for investment. Many communities reported a moderate impact, especially where the primary focus was on one-on-one coaching with selected clients. The investment readiness of these specific entrepreneurs was considerably enhanced. Small and medium-sized business people who participated in focus group supported this point. Those that have had contact with the CCIP project in their community agreed that they are now more aware of sources of investment and what they need to do to meet investors' needs.

Demonstration projects in larger communities, such as Victoria, London and Waterloo, were also expected to have less of an incremental impact on investment readiness than those in smaller communities due to the greater presence of external influences in these cities. There has been a general increase in awareness of equity financing in Canada since the inception of the CCIP, though most of the coverage of these topics has been centred in larger communities.

Finding: The CCIP has played a role in increasing the level of sophistication of the business community.

Most CCIP projects recognized in their early stages that their communities contained gaps in service and knowledge related to entrepreneurship and risk capital. Through public events, many projects have since reported that they have been able to address these gaps (though the magnitude of their impact cannot be quantified). Those projects that acknowledged that the level of general business sophistication has not yet advanced substantially, such as Sarnia, Wendake and Moncton, did feel that the awareness of the need to become more sophisticated has increased.

Finding: Improving investment readiness requires continuous intervention.

Due to the fact that new SMEs continually emerge it must be recognized that improving investment readiness is not a static exercise. However, community capacity can increase over time to the point where entrepreneurs can acquire needed skills from a variety of sources (such as with Toronto, Montreal and Ottawa).

> The [project] has had an impact on investor's interests . . . the visibility has improved for investors. It also opens doors for entrepreneurs - they don't know where to start". (Investor)

Finding: Investors have benefitted from efforts to improve investment readiness.

The investors interviewed for this evaluation reported that the CCIP has had a positive influence on entrepreneurs with whom they have been matched. Specifically, entrepreneurs that have been assisted and coached by the CCIP demonstration projects are now better prepared to answer investors' questions and concerns.

The capacity and sophistication of the investors themselves also appears to have been enhanced as a result of CCIP projects' interventions. This appears to be an unanticipated result of the program. While investors may know that they would like to invest in "an opportunity", they often do not know exactly what type of deal they are looking for (e.g., what industry, growth stage, deal amount, etc.). Some CCIP projects have actively worked with investors to help them determine these preferences. This information is then included in investor profiles, which are used to match investors with the right types of entrepreneurs and deals.

Finding: The potential impact of the skills development and tool kit component of the CCIP was underachieved.

The CCIP experienced difficulties during the development of its skills development materials (namely the *Steps to Growth Capital* workbooks and guides). The Steps products required a number of revisions in order to reduce their level of complexity and improve their appropriateness for an SME audience. The result was a low level of interest, and use, of the Steps products by the CCIP projects and SMEs in general.

Although the Steps material contained a workshop facilitation component, its use was limited. This is attributed to its complexity and length, and a lack of infrastructure to support its diffusion training in its use (e.g. train-the-trainer sessions).

Academics and educators interviewed for the evaluation indicated that the Steps material was pertinent and useful. This group suggested that the workbook is one of the most complete documents on risk capital available. They felt that entrepreneurs need to be knowledgeable about all of its content, and that all of the Steps modules are equally important. They did acknowledge, however, that the usefulness of the document is strongly tied to the intent of the user. Those with a specific need for the knowledge it provides are more likely to be satisfied with its content.

The *Steps to Growth Capital* web site has seen a doubling of the number of visits between the years 1999 and 2000. In 1999 there were 25,572 visits and in the year 2000 there were 64,406 visits. While it is impossible to determine what types of individuals accessed the site and why, this increased access can likely be attributed to greater interest in learning about equity financing and becoming more investor ready.

The evaluation revealed a number of possible improvements for the Steps materials. These include the following:

- the length of the document should be reduced, as most entrepreneurs will not take the time to read all of the information;
- the material should include more case studies that reflect various industries and stages of business development;

- the material would also be strengthened by the inclusion of an "introduction to business" chapter. This would assist those entrepreneurs who are lacking a strong business or finance background to better understand the key concepts contained in the existing material;
- on-line classes or training sessions could also add value to the Steps web site and alleviate concerns about the lack of infrastructure to support personal training sessions; and
- a process for updating the Steps materials beyond the sunset of the CCIP should be identified.

It is worth noting that prior to the conduct of this evaluation, the CCIP had itself identified gaps and areas of improvement. As a result, the CCIP recently relaunched the Steps web site. The site presents revised documents and information that address a number of the issues raised above.

4.3 Community Linkages and Synergies

Given that individuals and organizations already active within each of the communities initiated the demonstration projects, it might be expected that projects began with a reasonable level of community awareness of both the need and the means to access risk capital. The CCIP expected that by allowing communities to define their own approaches, they could further enhance community linkages and synergies related to accessing risk capital. This goal was reflected in the requirement that each community find local partners or sponsors to provide at least one-third of their funding for the demonstration project.

Finding: Most projects have successfully fostered community linkages and synergies.

All the demonstration projects have networked extensively within their communities. This includes networking with: various levels of government (municipal, provincial, other federal programs, Aboriginal); conventional financing organizations; business professionals (e.g., lawyers, accountants); other community intermediaries, and investors and entrepreneurs. This networking has resulted in a general increase in awareness of the need for, and role of, equity investment and risk capital. The professional communities and banks have reportedly become quite involved in referring clients to the demonstration projects.

Successful strategies have included ongoing communication and participation in relevant community functions, networking events, and the generation of media coverage about project efforts. Other efforts have focused on particular sub-groups of interested parties, such as investors. For example, the Niagara project was able to increase the total "size of the investment pie" by linking investors with one another to create the Niagara Growth Fund, which allows investors to pool their risks. The Halifax project is leveraging its network to foster the creation of a Life Sciences Research Village that will help to expand the life sciences sector and, by default, its requirement for financial support through investment. The Thérèse-de-Blainville project has successfully linked with 66 of approximately 120 Centres local (CLD) de développement across Quebec and the project offers immense potential to reach communities across Canada and the globe.

Finding: A project's Board of Directors can greatly enhance networking efforts.

Those boards that are representative of their community, and that include skilled and knowledgeable leaders, serve to enhance a project's credibility and reputation among investors and entrepreneurs. Such boards also tend to be successful in attracting the interest of other intermediaries including project partners and funders. Further, many projects have leveraged Board members' existing networks to establish their own relationships with relevant individuals and organizations.

Successful CCIP projects have paid careful attention to the composition and role of their boards. In terms of composition, the evaluation suggests that the most effective boards have representatives from a variety of professional backgrounds (i.e., lawyers, accountants, consultants, bankers, etc.) with expertise in a number of different business domains. Not every board member needs to have a keen understanding of risk financing, though it is certainly beneficial if at least one member does possess this knowledge. Moreover, effective CCIP board members are committed to the success of the project (perhaps having a "symbiotic relationship" with it), are seen as credible within the local business and investor communities, provide true vision, and hold CCIP staff accountable for achieving stated objectives.

Finding: Increasing a community's profile with neighbouring cities and/or communities contributes to success.

New economy principles such as globalization and the value of horizontal networks need to be considered by those involved in any type of financing service. By linking with neighbouring communities, demonstration projects have been able to increase the potential size of deal flow. For example, the Victoria project has established strong relationships with Vancouver-based investors who do not normally consider Victoria-based entrepreneurs. Moncton expanded its reach by reaching agreements with neighbouring Miramichi and St. John to offer consulting and mentoring services. Further, the Niagara and Thérèse-de-Blainville projects have fostered international linkages, showing the potential reach of a sound strategy.

4.4 Other Community Level Outcomes

There were several other findings related specifically to the demonstration projects that do not fall under the categories presented above. These findings are discussed below.

Finding: The efficiency of the investment process has increased.

By increasing the investment readiness of both entrepreneurs and investors, the CCIP increases the probability of successfully completing deals. Increasing investment process efficiency has the positive effect of creating a more attractive investment climate. This may result in investors being more likely to invest again in the future.

> "The biggest contribution the [project] has made is helping me become investor ready. I didn't know how to 'jump for angels'" (Entrepreneur)

Finding: The need for the skills enhancement and community linkage components of the CCIP was underestimated.

While skill enhancement and liaison with the community was always viewed as important, it appears that entrepreneurs' readiness, and communities' capacity, were over-estimated at the outset of the CCIP. Several projects reported that they should not have been expected to facilitate significant deal flow until they had a chance to address more fundamental needs within their communities. An important example of this was the Mission Capital project (Wendake), which identified the need to enhance entrepreneurial skills in native communities before members of these communities could realize the potential to access risk capital. The CCIP Secretariat acknowledged the importance of such activities following a site visit.

Finding: Providing advise is a critical part of the investment process.

> "There is a need, not to make the deals, but to help businesses become investor ready." (CCIP Project Manager)

Several evaluation participants noted that investment matching services, offered on their own, provide only limited value if not accompanied by well grounded advice and guidance. The investment readiness and community networking activities of the CCIP proved to be some of the most valuable forms of support provided to SMEs and investors. They added significant benefits that enhanced investor confidence and trust which are critical components of deal-making, and served to increase the efficiency of CCIP matching services.

> "There needs to be a vehicle to let [entrepreneurs] know if it is even a good investment, and then help them with a game plan." (Entrepreneur)

This type of advisory support also allowed demonstration projects to advise entrepreneurs on how to approach investors (with documents, through presentations and one-on-one), or when not to pursue equity investment. The value of such advice was demonstrated by the high level of satisfaction reported by SME focus group participants that had received CCIP assistance but had as yet been unsuccessful in sourcing equity capital. In the words of one interviewee, the CCIP model means that "no one goes away empty-handed."

4.5 Identifying Best Practices

The overall objective of the CCIP was to identify strategies and approaches that proved successful in improving access to risk capital among growth-oriented entrepreneurs. This was the primary responsibility of the CCIP Secretariat within Industry Canada. Findings related to this objective are discussed below.

Finding: The CCIP Secretariat actively managed and shared best practices from the demonstration projects.

Key activities in support of sharing best practices include the documentation of best practices in *The Winning Formula* and *The Winning Formula at Work.* These have been made available to all Canadian communities (and other interested parties) in both paper and electronic formats.

As noted earlier, the CCIP Secretariat also organized and hosted a national best practices conference, semi-annual conferences for demonstration projects, and regular monthly teleconferences. Informal communication between projects was also encouraged and supported throughout the demonstration period.

5. LESSONS LEARNED

The following section presents the lessons learned that were identified throughout the course of the evaluation. These were identified through interviews with Industry Canada staff, case studies and through feedback from CCIP managers in communities where case studies were not conducted. In addition, the observations of the evaluation team have also been used to understand what worked and what did not. The source of each lesson is provided in brackets at the end of the lesson. What has been learned has been divided according to four broad themes:

- access to risk capital;
- investment readiness;
- project sponsorship and administration; and
- other lessons learned.

5.1 Access to Risk Capital

The following section presents the lessons learned for improving access to risk capital. This section has been divided into sub-sections that group the lessons learned under the following topics:

- investor behaviour;
- strategies for improving access to risk capital; and
- general observations about accessing risk capital.

5.1.1 Investor Behaviour

Angel investors need to be nurtured continually to build long-term relationships. To build a solid network of angel investors, relationships need to be nurtured on an on-going basis. A higher level of contact generates more enthusiasm for possible investment and reduces skepticism. The objective is to keep building "excitement" in the community by more frequent contact and more "exciting news", such as the successful deals that have taken place and the positive impact on the community. (London)

It is challenging to find investors in large centres that are interested in investing under $1M in non-urban communities or in "risky businesses". Because of the work involved in establishing an investment under $1M, large investors (e.g. venture capital firms) are not always interested in investing in non-urban centres. There is too much hands-on management that is needed with equity financing, which makes it more difficult for the investors if they are not in close proximity. In addition, angel investors, or investors looking to invest smaller amounts, are not always willing to accept a high level of risk. (North Bay, Moncton)

> "Investors have to bring more than money, they have to bring management services, expertise and experience in the business world." (Investor)

Not all investors wish to mentor a new business. Some potential angel type investors are not interested in mentoring a start-up or being part of its management structure. This can limit the number of individuals who are willing to invest in riskier opportunities because they do not want to have the direct involvement that is typically required in order to ensure the success of the investment. (Moncton)

A lack of knowledge of the investment sector, and lack of "chemistry", can both inhibit investing. Project staff and investors themselves noted that "if they do not understand the sectors, they do not understand its potential." Even investors who are not in proximity to the opportunity may invest outside their home community if they are knowledgeable about the sector and see the investment as having the potential for good returns. However, the lynchpin in such an investment is the reputation and credibility of the people promoting it. Further, the existence of "chemistry" between an entrepreneur and an investor is critical, otherwise the investor may view the project as being too risky. (Moncton, Thérèse-de-Blainville, Halifax)

> "One of the more important outcomes is that it [the project] brought the investment community together and built an awareness of angel investors and what they are". (Project staff)

Identifying angel investors is difficult. While it was expected that there would be challenges in identifying angel investors as well as other serious and sophisticated investors in communities, a number of projects learned firsthand how difficult it was to identify these people. In fact, for some communities, only a very small number of investors were identified, and even within these numbers, fewer could be characterized as angel investors. (Halifax, Moncton, North Bay, London, Moncton)

5.1.2 Strategies for Improving Access to Risk Capital

Refrain from being judgmental about the quality of entrepreneurs' business ideas. It is important to give entrepreneurs the tools and understanding they need to approach investors. The marketplace will dictate if there is a market for their product/service or not. This approach helps to avoid bias or conflict of interest, and provides investors with an opportunity to discover ideas with hidden potential. (Victoria)

Ensure business plans are focused. While investors want to know that entrepreneurs have prepared business plans, they typically do not have the time or inclination to read through several full-length business plans in an effort to discover investment opportunities. From a strategic perspective, shorter, strategy-based documents, such as Denzil Doyle's Business Opportunity Document, are more useful because they provide only the most essential elements for investors to quickly assess business and investment potential. If the investor is intrigued by a particular idea, then a more detailed business plan can be provided. (Victoria, Okanagan, Moncton)

Consider the possible limitations to using locally-based web sites as a facilitation mechanism for matching SMEs to investors. The deal flow rate in small communities is too small to benefit from the use a web site as a matching mechanism. In addition, the need for anonymity of angel investors and the concern by SMEs that their "ideas" are being broadcast adds to the difficulty in using such a tool. In larger communities where there is a higher number of SMEs and investors and more anonymity, a web site to facilitate matching of SMEs with investors has greater potential. (North Bay, London, Thérèse-de-Blainville)

The use of a web site to facilitate the matching of SMEs to investors should not eliminate in-person contact. A web-based tool provides a good vehicle for matching entrepreneurs with potential investors. However, even such a tool requires the intervention of a "human face" if it is to have results. It is important for a third party to screen a request with an investor/investee so that assurance can be made that they have common interests and are compatible. (Thérèse-de-Blainville)

5.1.3 General Observations about Accessing Risk Capital

Lack of critical mass in smaller communities limits the level of deal flow that can be achieved. While there is some need for CCIP projects in smaller communities, it is very difficult to maintain momentum when a critical mass of entrepreneurs is not available to support its existence. In a smaller community where "everyone knows everyone", the need may not be in matching the SMEs to investors, as much as mobilizing the investment community and in making SMEs more investor ready. As one interviewee said, "Angel investing in rural areas is a myth." (North Bay, Canmore, Okanagan, Sarnia, Swift Current)

Angel investors are most likely to consistently accept risk in the high technology sector over other sectors. Early-stage companies face numerous obstacles to success. Angel investors generally only accept a high level of risk if they feel there is sufficient opportunity to make a worthwhile return. The experience of one community was that high-technology was considered the only investment sector with sufficient promise to provide a balance between risk and investment. (Victoria)

The barriers faced in building links between the Aboriginal and investment communities are well entrenched and difficult to overcome. Where native communities are involved, factors such as the Indian Act (in particular article 89), cultural differences and misconceptions about the attitudes and potential of aboriginal business, create barriers that stand in the way of investment. These barriers all combine to increase the overall challenge in bringing "demand and supply" together. (Wendake)

Communities with an established business infrastructure tend to have better results. Communities with a strong infrastructure, such as professional and business services, economic development organizations, business support services, and locally established financial institutions, tend to have better results because there are already business supports and resources in place that can be enhanced with the addition of a CCIP project. (CCIP Secretariat)

Focus on a target. Some projects have found it more effective and successful to focus on a specific type of client, a specific industry or a specific sector, because it allows for greater impact. This is because the project's energies can be used to address the needs of the target group or industry, rather than trying to be all things to all people. (Victoria, Halifax, Canmore, Waterloo, Halifax)

> "Don't be all things to all people. You can't be credible if you do." (Investor)

It is more difficult to identify a good idea and good management skills than it is to identify an investor. The Halifax project was using networking as its key means of identifying investment opportunities and potential investors. It continued to run up against the challenge of finding companies or entrepreneurs with management skills that investors would have confidence in.

> "The biggest concern for investors that we encounter is the belief that the companies lack management skills." (Project staff)

5.2 Investment Readiness

The following section presents the lessons learned identified for enhancing investment readiness of SMEs/entrepreneurs and potential investors. This section has been divided into sub-sections that group the lessons learned as follows:

- SME/entrepreneur behaviour;
- strategies for enhancing investor readiness; and
- general observations about enhancing investment readiness.

5.2.1 SME/Entrepreneur Behaviours

Some entrepreneurs are not "coachable", with resources being better focused on those that demonstrate strong commitment. There are some entrepreneurs that do not listen to the advice that is provided, no matter by whom or how it is communicated. With limited resources to mentor entrepreneurs to a state of investor readiness, it is better to focus on those that are serious and willing to accept advice. (London)

Where the levels of investment readiness are low, a great deal of effort is required to bring an entrepreneur to a state of investment readiness. A lot of time may need to be spent working with entrepreneurs just to ensure that they can articulate a clear business concept and an accompanying business plan. Said one interviewee, "We spend a lot of time educating business." Some companies do not need investors, they need management consulting services. (Moncton)

> "We are not mentoring, it is actually heavy lifting" (Demonstration Project Staff)

SMEs need to be made aware of what's ahead of them in trying to become investor-ready. Often the level of investment knowledge is limited, so SMEs need to know at the start what the process is, how long it will take and what the chances are of actually obtaining financing. This helps manage their expectations and their commitment to the process, and prepares them so that they "don't run out of money before they are even investor ready". (North Bay, London)

> "You need someone independent to give you the straight goods" (Entrepreneur)

Technology entrepreneurs can be over-optimistic about their business' potential in the short-term and under-optimistic in the long-term. Projects dealing with technology entrepreneurs may need to help them set realistic expectations and objectives that will enable them to have productive discussions and negotiations with potential investors. (Victoria)

More training may be needed within the Aboriginal economic development community. A greater depth of knowledge and training may be needed by those working to develop Aboriginal entrepreneurs, especially if these entrepreneurs are going to expand their business ideas into growth and innovative sectors, and subsequently reach a state of investment readiness where they can begin to contemplate accessing venture and risk capital. (Wendake)

5.2.2 Strategies for Enhancing Investor Readiness

Education of the aboriginal community will not lead to results unless parallel education occurs among non-natives. The development of investor-investee relationships is a two way process. Given that the investment opportunities within the Aboriginal community are limited (e.g. limited number of angel investors), non-aboriginal sources of risk capital would have to be sought out. To break down barriers between these two groups, the non-aboriginal community needs to be better educated about native opportunities. In addition, "success stories" need to be identified to help break down barriers. (Wendake)

Facilitating dry run business plan presentations provides a good forum for preparing the entrepreneur for the real thing. Having entrepreneurs do a dry run presentation of their business case in front of a committee is a good way to "polish" the presentation and to give the entrepreneur practice in delivering their case to investors. This type of approach prepares the entrepreneur for the types of questions that they may get from a real investor. Without a dry run, the entrepreneur may lose an opportunity because they were not prepared to present their case thoroughly. The Moncton project learned through its first investor forums that additional SME coaching would have helped improve the strength of the presentations that were made at that event. (Waterloo, Niagara, London, Moncton)

A CCIP project needs to walk a fine line between broker and consultant, or it risks losing the support of the business community. It is critical that projects are not seen as being in competition with services offered in the community. The project needs to provide hands-on assistance to entrepreneurs, but cannot provide the same services that are already available in the community. There are also legal issues that need to be considered if certain fees are charged. One of the ways to manage this is to inform the business community of the project and its goals through public forums. (London)

While training seminars are useful in enhancing investment skills, one-on-one mentoring provides the best means for helping SMEs with different needs to achieve their objectives. What SMEs need is mentoring through the entire process of obtaining equity financing. A seminar, while useful in providing knowledge in a specific area of equity financing, does not, in itself, bring the SME to a state of investment readiness as mentoring does. (North Bay)

Helping entrepreneurs make appropriate decisions about the type of funding and growth they are seeking is more important than matching them with an investor. Even though the overriding theme of the CCIP project is improving access to risk capital, this may not always be the appropriate strategy for an entrepreneur. More traditional financing options may be preferable, or a change in strategic direction may be required. While CCIP projects should be cautious about providing direct recommendations, asking entrepreneurs to consider all of their options can prove extremely valuable. (Victoria)

It can be beneficial to work closely with academic institutions that are present in the community. The expertise of the faculty and the students in universities and colleges should be leveraged. CCIP/academic relationships can be used for research and for holding educational sessions to help SMEs become more investor ready. (Halifax, Victoria, Fredericton, London)

5.2.3 General Observations about Investment Readiness

The advice component of the CCIP project adds tangible value to investor matching efforts. As was noted in section 4.1.2, investors agree that entrepreneurs are better prepared after working with CCIP project staff. The likelihood that an investor will make a deal with an entrepreneur increases if the entrepreneurs are prepared. Further, the skills entrepreneurs learn by working with a CCIP project to become investor ready enable them to successfully source later rounds of financing. Helping entrepreneurs make appropriate decisions is more important in the long-term than simply matching them with an investor. (Victoria, Sault Ste-Marie, Niagara, Thérèse-de Blainville)

> "Our focus is on the entrepreneur side. The focus is to package and present the opportunity." (Project Staff)

Being responsible for a large geographic territory makes it difficult to affect the level of investment readiness, especially when one-on-one contact is needed. A project that has a mandate to serve an entire province has to focus much of its energies on liaison and networking initiatives. Despite the large number of people that are met, it may be difficult to establish any substantial close relationships with entrepreneurs or to identify sources of angel investors. A community's level of openness and interest has to increase if the project is to reach individual entrepreneurs. (Wendake)

5.3 Project Sponsorship and Administration

The following section presents the lessons learned in obtaining project sponsors and in the administration of an investment facilitation project, such as the CCIP. This section has been divided into sub-sections that group the lessons learned under the following topic areas:

- project funding and partnerships;
- project administration; and
- general observations.

5.3.1 Project Funding and Partnerships

Charging fees screens out entrepreneurs who are not serious. Potentially they can help projects adhere self-sufficiency. Until a project is viewed as credible and able to prove its value in the community, it is difficult to expect it to charge user or finder's fees. If it were to rely on this type of funding, it would require high volume of entrepreneurs and deals made. Once the project has this credibility and volume, then user fees not only help the project move to self-sufficiency, but they "weed out" the less serious entrepreneurs. (London)

Funding CCIP type initiatives needs to be approached aggressively and consistently. One of the roles of the project's board is to use its business contacts to obtain sponsors. It is not good enough to ask volunteer board members to do this. Projects must set out an aggressive approach, such as identifying a large number (e.g. 50) of personal businesses contacts, and set sponsorship targets. (London)

It takes up to two years to launch a CCIP project. There is considerable effort required in order to establish an identity, make contacts, develop investor profiles, source and build a critical mass of business opportunities, and get entrepreneurs investor ready. During this start-up phase it can be difficult to obtain community funding. If a program like the CCIP were to be repeated in other communities greater than two-thirds funding would enhance efforts during this critical early phase. (Victoria, Halifax)

Funding contributions are more easily leveraged if the organization sponsoring the CCIP project is viewed as credible within the community. The experience and credibility of the sponsoring organization can be used to generate outside support for a CCIP type of initiative. Confidence in the abilities of the sponsor, especially its staff, can serve to incite partnership in a project's activities and to generate both financial and in-kind contributions. (Wendake)

It is easier to generate interest and project partnership when other partners are credible. Partners are more likely to support the project if the other partners coming to the table are respected. The confidence partners have with other partners engaged in the project sparks their interest and involvement. (Wendake)

5.3.2 Project Administration

The dedicated resources needed to operate a CCIP project should not be underestimated. A CCIP-type project needs to have a full-time project manager and an administrative assistant from the start. There are too many administrative tasks that need to happen at the beginning that can divert the management's attention from the activities that are needed to achieve the goals of the project (e.g. networking, mobilizing investors, mentoring SMEs, etc.) (London)

> "Having an organization <u>devoted</u> to details of getting a company to the level needed [for investment] is really needed". (Intermediary)

A mix of industry and investment skills and knowledge are essential for the project manager. The project manager should bring to the project a mix of skills including industry and investment and general business knowledge. The project manager should have an entrepreneurial and creative mind to think beyond the mandate of the project. (Halifax, North Bay)

In a specialized sector, such as life sciences, a team of highly skilled professionals who possesses the right mix of expertise and skills to facilitate the identification of opportunities and subsequent investor interest is required. Highly skilled professionals are needed on projects where the focus is in very specialized sectors. Having "the right people" will ensure that they can "speak the right language" to the business people (e.g. researchers) and investors. These staff members should have graduate degrees and possess specific expertise. (Halifax)

> "You need the right people with the right background." (Intermediary)

It is critical that project administrators share a common vision and that the objectives of the project remain in focus. Project staff and board members, and other partners, have to understand their role on the project and how they contribute to achieving its goals. Without this common vision much time can be wasted on activities that do not directly support the objectives of the project. In order to maintain a consistent vision for a project with high administrator turnover, there should be succession planning and orientation as new members join the project team and the board so that there is "evolution not revolution". In addition, the larger the board, the more difficult it is to have a core group of individuals driven by the same vision. (London, North Bay)

Board "secrecy agreements" can help to alleviate conflict of interest concerns. Having a board comprised of volunteer members from the private sector is important for an initiative of this type. However, the conflict of interest concerns that arise from this type of structure (e.g. concerns that board members could use information gathered from SMEs and investors for personal gain) need to be addressed at the outset of the project. As such, for at least one project, getting board members to sign secrecy/confidentiality agreements proved to be a means of alleviating conflict of interest concerns. (North Bay)

> "One of the biggest hurdles for an investor is having a businessman be involved [on the project board] because of conflict of interest. They need to overcome this hurdle". (Investor)

The composition and mix of project board members affects the project's ability to leverage interest and support. It is important that the board be composed by a mix of individuals from both the private and public sectors, including the sponsor organizations and professionals such as accountants, lawyers, and bankers. Each board member should provide a specific point of view and skill set in order to maximize value to the project. In addition, board members can prove invaluable in creating and sustaining a positive network within the business and investor communities. (North Bay, London, Victoria, Niagara)

Networking skills (and an existing network within the community) are critical to success. The project staff and the board must be well connected within and outside the community. The success of an initiative of this type depends on the linkages and synergies that are created within and outside the community. (Mount Pearl, Sarnia, North Bay)

Oversight by a responsible board and program administrators ensures accountability. Having a volunteer board can make it challenging to have strong accountability for the project. A suggested strategy to resolve this could be to provide an honorarium. Administrators should be accountable for the project and be able to make decisions to change the scope of the project if the results are not what was expected at the outset. Administrators should monitor activities against community requirements and adjust them accordingly; examine where the potential exists and apply energies against that potential; and work with what already exists in the community. According to one interviewee, the project "can be turned into something positive if you act quickly." (Halifax, London)

5.3.3 General Observations

Being a part of a host organization that provides additional services increases a project's flexibility. According to some projects, rather than forming a new organisation, existing community infrastructure should be enhanced through the addition of a CCIP project. By working with an existing organization, or set of organizations, the project can gain quicker access to a larger pool of resources than it might be able to if it were to create a new and stand-alone entity. This then allows the CCIP project staff to concentrate their efforts on objective-specific tasks. Being part of an existing organisation can also provide ready access to experienced personnel who can bring fresh insight to the project's issues and opportunities. (Victoria, North Bay)

Organizational autonomy increases flexibility. Being a 'stand-alone' organization can give the project flexibility to adapt to the needs of clients. It may also be better positioned to refine the project to better achieve its objectives. It can also then contribute more to achieving self-sufficiency.(Sault Ste. Marie)

Investor forums should be scheduled as needed, not as "regularly" scheduled events. Having a set schedule for investor forums can be difficult to maintain because the entrepreneurs in the "pipeline" may not be at the stage where they are ready to present their business case to potential investors. While these types of forums have proven to be very successful, they should be held when demand is present and need not be regularly scheduled events. (London)

A well thought out communications plan is necessary to support a project. There needs to be a strong message that the project is a facilitator of risk capital, not a provider of it. There also has to be more awareness of the project built in the community through communication mechanisms such as: advertising in local newspapers; formal and informal networking; presentations to local organizations (Chamber of Commerce, Rotary Clubs, etc.); co-sponsorship of community events; and presentations to professional service consultants. Getting the word out in the community will build interest in the project. (North Bay)

Success stories must be communicated in order to build credibility and to build on successes. In order to obtain the local community support and funding, a project has to generate a consistent flow of successful deals and let the community know about them. This helps build credibility in the business community and also supports the sharing and learning of ideas and knowledge so that other SMEs/entrepreneurs are aware of the potential achievements to be had. (Halifax, North Bay)

5.4 Other Lessons Learned

This section outlines other lesson learned about implementing risk capital facilitation strategies. It has been divided into sub-sections that group the lessons under the following topic areas:

- general observations on project structure;
- general observations about SME/entrepreneur behaviour; and
- general observations about cultural uniqueness.

5.4.1 General Observations on Program Structure

The regional/local delivery model of the CCIP project contributes to the success of the project. By allowing local experts to define their priorities and devise their own strategies, CCIP projects are better able to gain the trust of the local business and investor communities. Trust is a key success factor in matching investors with entrepreneurs. (Victoria)

Physical proximity between coordinating and linking resources facilitates incubation and commercialization. In the case of projects that are linked extensively to researchers/scientists and university administrators, having the project and key partners located on or near the campus can help the project efficiently leverage the input it needs to support the creation of a commercial entity. (Halifax)

A longer period of time is needed to give genesis to community projects, allowing them to become established, and to grow an investment-ready SME community that can benefit from available risk capital. It can be difficult to maintain the same project staff throughout the project, especially at the executive director/manager level, given that there is an inevitable end to the program. Staff turnover at this level results in lost time and resources for the project. In addition, it may be more difficult to gain community support when the project is coming to an end. The uncertainty of the future of the project can cause a ramp-down of activities and involvement by the community. (London)

The ideal model is one where the project is viewed as working at arm's length from government. The best structure for a project is a combination of business, government and academic partners. A project that focuses on risk capital will have difficulty being successful if it is seen purely as a government initiative. Investors' perceptions of government's so-called "red-tape" make a government initiative less appealing. One investor interviewed said, "the motivation is different if you are a volunteer versus being paid by the government". It is critical that the project has the support and involvement of the business community to provide the credibility needed to motivate investors to be part of the network. The involvement of the private sector should be foremost in a project's marketing activities. (London, North Bay)

Clarity around the ownership of intellectual property facilitates commercialization and investment. For projects focused on research based initiatives, researchers should be given the intellectual property rights on all discoveries and inventions. This makes it is easier to patent discoveries and inventions, leading to less ambiguity for the investor. (Halifax)

5.4.2 General Observations about SME/Entrepreneur Behaviour

Management skill gaps are the most significant obstacle to increasing investment in early-stage companies. While it is recognized that the CCIP is not intended to address management skill gaps (i.e., general business skills such as financing and operations knowledge, vision, and leadership), the lack of confidence in an entrepreneurs or enterprise's managerial capabilities can inhibit investors' willingness to invest. (Victoria)

Access to business advisory expertise as part of a newly created company's management structure is imperative. Potential investors must have confidence in the management and decision-making abilities of the company, as a prerequisite to successfully developing its business idea and being profitable. Therefore, it is important that the SME's management board include a mix of business representatives. Projects that assist SMEs to create a solid management structure do so in order to allow the SME to demonstrate to investors that they can put in place a strong team that can successfully manage a new company in its early stage of development. This would mean that the management possess knowledge of the sector and experience providing management advice to similar types of life science SMEs. (Halifax)

Entrepreneurs need a strong business network to succeed. Providing opportunities for entrepreneurs to develop strong business networks helps them to succeed. Peer-to-peer groups and networking functions can provide early stage entrepreneurs with the support they need and make contact with the advisors that can push them forward. (Waterloo, North Bay, London)

5.4.3 General Observations about Cultural Uniqueness

Building relationships within the native community is best achieved through one-on-one contact. In order to promote a project's objectives in Aboriginal communities, it is important that project staff meet with members of the Aboriginal community in their own environment. (Wendake)

The native community cannot be treated as a uniform population. Different native nations either accept or reject assistance or advice depending upon their relationship with the nation that is delivering it. It may be difficult for projects to leverage existing networks in the native community because there can be a lack of cohesion within these networks, and in general among various native nations, that can make it difficult to achieve buy-in and support across communities. (Wendake)

6. RELEVANCE

This section discusses the relevance of the CCIP and assesses the extent to which it meets a need in Canada. Findings are derived primarily from the seven case studies, eleven e-mail survey responses from non-case study projects, and five Industry Canada interviews.

Finding: The need for a CCIP-type initiative will remain beyond the demonstration period.

Investors and entrepreneurs had been looking for CCIP-type services (deal facilitation for $100,000 to $750,000 investments) in some communities prior to the CCIP. The CCIP gave existing organizations the financial resources to meet these needs. However, the Okanagan project has reported that angel investing will remain highly unlikely in remote areas and that efforts to gain access to such funding is futile. This is consistent with the CCIP Secretariat's own findings that CCIP-type services are unlikely to be successful in communities with populations under 75,000.

Finding: There is support for offering CCIP-type services in large urban communities.

Large communities such as Vancouver and Calgary have the same small deal financing gaps as many of the demonstration communities. However, there exist concerns about whether such a service would have an incremental impact in a larger community.

Finding: A number of communities that found it difficult to achieve established targets found ways to remain relevant to the overall CCIP mandate and Industry Canada's objectives.

When the Hamilton and Halifax demonstration projects ran into difficulties, the CCIP Secretariat supported their efforts to find an alternative method of meeting the Plan's objectives, rather than ceasing operations altogether. As a result, the Hamilton project moved to Burlington under new direction and consequently moved closer to realizing its objectives. The Halifax project adopted a very innovative approach by working directly with Dalhousie University and its scientists to identify opportunities for commercialization. This model may be replicable in other environments.

6.1 Responsiveness to Community Needs

Case study participants in most communities agreed that the demonstration projects were very responsive to their needs. Many communities felt strongly that CCIP-type services should continue to exist beyond the program's sunset.

7. ALTERNATIVES

This section discusses potential alternative forms of program delivery that may be relevant for the CCIP. This includes both the likelihood of a project continuing operations beyond Industry Canada's funding sunset, and alternatives for entrepreneurs and investors seeking risk capital advice and matching services.

7.1 Sustainability

It has been known from the outset that Industry Canada's funding for demonstration projects will sunset at the end of five years. It was expected that those projects that proved to be successful would either find alternative revenue sources to sustain their operations, or would be able to source additional funding within the community. The viability of these options is discussed below.

Finding: Very few projects expect to achieve self-sufficiency by project sunset.

Only the Niagara project has said definitively that it feels confident in its ability to continue operations past the sunset. Further, the Thérèse-de-Blainville project may offer evidence of a project that could become self-financing, but likely not before its funding runs out in March of 2002. Many of the projects are doubtful that they will be able to raise enough financial support within their communities to continue to offer most of the services that they currently offer.

Finding: Projects operating as part of a host organization are better positioned to continue to offer some investment services or support.

Their services will remain relevant and demand from entrepreneurs and investors will continue, but sustaining funding will remain a concern. It is anticipated that clients may continue to seek CCIP-type services from the host organization only to find that they are no longer available.

Finding: Obstacles exist to the application and use of success and engagement fees.

An obstacle for many projects is the concern that charging success fees may violate securities regulations, given that some projects are not equipped to act, in a legal capacity (e.g. as brokers), in the deal-making process. Projects were also concerned that charging such fees might lead to a loss of trust by entrepreneurs and investors. Further, some SMEs might be unable to pay such fees, thereby limiting their access to available assistance. In addition, some communities did not experience a large enough demand for the type of services offered by the project to permit the use of service fees to be a relevant strategy for financing.

7.2 Investor and Entrepreneur Alternatives

If the demonstration projects are unable to continue their services beyond the Industry Canada funding sunset, then entrepreneur and investor clients will need to seek alternatives to the services they currently receive from the CCIP. Case study participants were asked to list alternatives to existing CCIP services within their communities. Participants were not enthusiastic about the idea of losing the CCIP projects, and as a result, provided caveats to each potential alternative, which are also listed below.

- **Private consultants.** Entrepreneurs could potentially obtain mentoring and coaching from consultants in order to move them closer to a state of investment readiness\. However, such specific professional help may not be available in all communities, and may be too costly where it is available.

- **Private networks.** Some communities may have industry associations or less formal networks that could act as a source of investment opportunity leads. The disadvantage is that there would be no advice component.

- **Banks.** Banks could provide referrals to potential sources of risk capital and advisory services, but would provide very limited support for these services themselves.

- **"Old boys network".** Investors could learn of potential opportunities through their existing networks of contacts. However, such networks tend to be exclusionary and would not help entrepreneurs become investor ready.

- **General prospecting.** Investors could do their own research into potentially high-growth companies, but this would be time-consuming and not necessarily worth the effort in many of the CCIP communities.

- **Brokers.** Investment brokers could provide matching services. However, they are not active in all communities, and may not always give objective advice to either investors or entrepreneurs.

- **Local CFDC/SRDC office.** Where such offices exist they could potentially absorb local CCIP services. However, they would have to ensure that their own budgets are adequate to cover the additional costs. As currently composed, CFDC/SRDC offices do not provide advice services to the depth that CCIP projects do, and their own equity deals are capped at $125,000.

- **Economic Development/Business Development Agencies.** The objectives of the CCIP are very much in line with economic development principles. However, local agencies tend to focus more on large-scale opportunities and may not wish to offer the detailed services provided by the CCIP.

- **Neighbouring communities.** Entrepreneurs in communities close to a major financial centre (e.g., Vancouver, Toronto, Montreal) may be able to find investors, and perhaps even advice, in these large neighbouring communities. However, it increases the costs of sourcing the financing and discounts the preference both entrepreneurs and investors have for local help. Evaluation participants hypothesized that the local nature of CCIP services increased the trust and comfort level of clients, a critical element to successful deal making.

- **Matchmaking/resource web site.** Investors and entrepreneurs from any community could potentially be linked online, with risk capital resources available on a separate section of the site. The disadvantage of this approach is that there would be no personal interaction and no direct advice component.

8. CONCLUSIONS

Based upon the findings from the evaluation, the following conclusions about the CCIP can be drawn.

The CCIP has helped to increase access to risk capital.

The CCIP's ability to source $168M in risk capital is evidence of its success in increasing access to this form of financial support for businesses. Canada Community Investment Plan projects have contributed to the identification of investors, including angel investors, and have helped to bring new forms of investment, such as venture capital firms and seed investment firms, to new parts of the country where no such firms were previously active.

Investment readiness among SMEs has improved for those firms that had a direct involvement with the CCIP.

Improving investment readiness is an ongoing process, given the continual cycling into the economy of new and growing businesses. As a result, the CCIP could only be expected to impact SMEs that had a close involvement with its activities and where CCIP staff or volunteers could support the SME as it sought out investors and investment relationships. More widespread support was difficult. Although the CCIP's *Steps to Growth Capital* materials were expected to provide this support to a wider audience, extensive use of this material was limited by the challenges faced in making easy to understand materials available early on in the program.

The CCIP has proved to be an effective means of identifying the best practices and critical success factors needed to improve access to risk capital.

As a result of the CCIP's program of activities, in particular its demonstration projects, the CCIP Secretariat has been able to collect evidence as to the circumstances in which access to risk capital can be improved, and the critical factors that need to be in place for investment facilitation services to have effect. The CCIP has shown that results can best be achieved when any number of combinations of the following criteria are in place:

- the community is characterized as having a nascent sector with high potential for clustering and growth. This acts as an engine of growth for the community.
- there is a critical mass of entrepreneurs and investors. This can allow for a diverse range of investment opportunities and investment interests to make matching a possibility. Normally this critical mass can be found in communities of greater than 75,000 inhabitants;
- there is an established entrepreneurial culture where there is an interest in and pursuit of privately led business initiatives;
- there is access to knowledgeable leaders who have experience in facilitating deal making. This includes persons with experience in business development (i.e. incubation and start-up); the development of business plans and investment documents; an understanding of financing and the needs of investors, as well as the associated "soft" skills that facilitate relationship and network building;

- there is a diverse economic base that encourages innovation. Communities with a single, or very few industries, represent a higher risk in terms of likelihood of success;
- there is access to educational institutions, research laboratories and other centres of thought-leadership and innovation;
- there is a reasonable level of business community infrastructure already in place. This includes access to lawyers, accountants, consultants, banks, experienced entrepreneurs and other individuals with management skills and experience.

The CCIP has taken active measures to disseminate best practices and lessons learned, and there remain additional opportunities to leverage the knowledge collected.

A key objective of the CCIP was to identify what works in improving access to risk capital. The CCIP successfully collected and synthesized this type of information, in large part as a result of the experience of its demonstration projects. It was especially successful in sharing new knowledge across projects. More wide-spread diffusion of lessons learned occurred as a result of the creation of best practice documents (i.e. *The Winning Formula* and *The Winning Formula at Work*) as well as through the national conference which it held in June of 2001. Additional dissemination opportunities remain, in particular through greater diffusion of the *Steps to Growth Capital* materials and sharing of the practical experiences of the demonstration projects in other communities.

A community-based approach, supported by a central coordinating body, proved to be a positive way of achieving results locally.

In order to improve both investment readiness and access to risk capital, the CCIP can be concluded to have achieved success in large part due to the flexibility it allowed projects to work locally, and implement strategies and develop tools that worked best for their constituents. The CCIP Secretariat simply played the positive role of information facilitator among projects (specifically through the liaison support it provided in the form of regularly scheduled teleconference calls and in-person meetings). The output from this activity was increased levels of knowledge and creativity among projects as they shared information on subjects of importance to their work as well as best practices.

No single model of investment facilitation intervention can be implemented across all communities.

Based upon the results of the evaluation, it is clear that there is no single method for facilitating access to risk capital that can be replicated and implemented across communities. Each community needs to capitalize upon the strengths of its own environment when devising a strategy. In addition, opportunities to generate growth within specific industry clusters, such as biotechnology and information technology, provide opportunities for creative, tailored approaches for leveraging risk capital, such as is the case with the creation of the University of Dalhousie's Business Development Office and the Vancouver Island Technology Centre. Despite the differences that may be necessary, the evaluation does point to the importance of having a strong mentoring, or one-on-one support component in place. This must be facilitated by a respected and knowledgeable individual or group of individuals.

The success of initiatives that support access to risk capital is highly dependent upon the individuals involved in the effort.

All evidence from the CCIP experience points to the critical importance of having individuals with the right mix of skills and networks to ensure not only access to capital, but to assist SMEs in presenting appropriate messages in order to gain use of this capital by securing agreements with investors.

1

INDUSTRY CANADA

Evaluation of the Canada Community Investment Plan

Final Case Study Report: Appendix A - Halifax (Greater Halifax Partnership)

September 28, 2001

PRICEWATERHOUSECOOPERS

Table of Contents

1.0 INTRODUCTION

The Canada Community Investment Plan (CCIP) is an Industry Canada sponsored program designed to improve access to risk capital by growth-oriented small and medium-sized enterprises (SMEs). The CCIP provides communities outside main financial centres with the information and tools they need to start and operate an investment facilitation service for their fast-growth SMEs.

One of the key approaches used to support improving access to risk capital is through the use of demonstration projects. Twenty-two projects were selected by the CCIP following a competitive process. These projects have implemented diverse strategies aimed at facilitating access to risk capital by local SMEs.

1.1 Evaluation Objectives

The CCIP wishes to disseminate the best practices and the lessons learned by these projects for the benefit of all communities looking to implement their own investment facilitation strategy for SMEs. The evaluation of the CCIP will support this requirement by providing a summary of the achievements of the Plan and observations and lessons learned.

To support the evaluation of the CCIP, seven of its demonstration projects were selected for review as part of a final "lessons learned" evaluation of the CCIP. This case study provides an overview and evaluation of the Halifax, Nova Scotia project, which is operated by the Greater Halifax Partnership.

1.2 How to Read This Document

The first part of this document, Section 2.0, provides a brief description of the approach used to conduct the case study. Section 3.0 gives an overview of the Halifax project, including a discussion of its context and background. Section 4.0 examines the key findings derived from the case study and Section 5.0 seeks to draw out the lessons learned from the case. Section 6.0 examines whether the project remained relevant and Section 7.0 looks at whether there are alternatives means of delivering the project to achieve results. Conclusions are provided in Section 8.0.

2.0 EVALUATION APPROACH

This case study included: document review; web site review; a site visit, and in-person and telephone interviews with project staff, sponsors, and investors. Given the nature of the case, no focus groups or discussions with entrepreneurs were held. A total of 7 interviews were conducted including: one with the key project staff person at the Business Development Office within Dalhousie's Medical School; one with a Greater Halifax Partnership (GHP) staff person; one with the GHP's Chairman of the board, one with the host organization (i.e. Dalhousie Medical School); one with the ACOA observer and two with investors. Although repeated attempts were made to conduct interviews with some of the researchers involved in the Dalhousie project, no response was received following these requests.

The documents that were reviewed included the project's original and updated business plans, quarterly reports, annual financial audit reports, project publications and documents, and reports and other documentation provided by the CCIP Secretariat and the project.

3.0 CONTEXT AND PROJECT PROFILE

The Halifax project proposal was submitted by the Greater Halifax Partnership (GHP)[1]. It was reviewed and selected by a national panel of experts from each region composed of the private sector. It was then selected in 1996 as one of 11 projects selected that year.

The Halifax CCIP project experienced a significant change in scope over the course of its activity, in essence resulting in two very different approaches to meeting the objectives of the CCIP. Although this case study focuses primarily on the project following its change in focus in 1999, a brief overview of the project throughout its life and lessons garnered from the project's initial two years of activity are also included.

The initial Statement of Work for the CCIP called for a partnership with the Halifax Equity Group (HEG) Incorporated. The HEG would be responsible for:

- advising prospective investee firms regarding investment readiness;
- developing an active network of formal and informal sources of growth capital; and
- facilitating deals between users and sources of growth capital.

The HEG planned to use an investment facilitation process where it would assist investees through business plan screening and development, and provide advise on growth financing strategies. Key companies to target would include firms working in knowledge-based industries, manufacturing, environmental technologies, international service businesses and media production. On the investor side the HEG would work to identify sources of angel investment and build relationships with all forms of investors.

Despite the well planned out approach for the HEG, the project experienced a significant change in scope in December of 1998 when the agreement with the HEG was cancelled and a new Memorandum of Understanding (MOU) was struck in June, 1999 with the Medical Initiatives Society (MIS) of the Dalhousie Medical School (DMS). CCIP documents indicate that the HEG for-profit model was replaced by the one with the DMS to "increase leverage with community partners; accelerate the community service mandate, and focus on sectors where Halifax enjoys a competitive advantage." The evaluation also revealed that the HEG was not viewed as being able to achieve the objectives established for it. A default letter was issued by the President of the GHP to HEG in December of 1998 due to non-performance of required activities. The letter states that the GHP "has not been successful in placement of funds on behalf of any investors/investees firms seeking or providing capital growth." Management also expressed concerns over the level of consulting fees that were being charged to SMEs by the HEG. Also of note is the fact that the HEG, as a separately incorporated entity, has its own board of directors. Unfortunately, HEG's board did not include representation from the GHP. As one interviewee stated in response to the relationship and work completed by HEG, "Sometimes you bet on the wrong horse."

The change from HEG to the medical school allowed the GHP to refocus its CCIP initiative on the life

[1] - The GHP was created in 1986. The Partnership focuses on local economic development through a distinctive model of public/private investment.

sciences sector in Halifax. Halifax had been pinpointed as offering potential for growth within the sector, in large part due to the presence of Dalhousie University. The sector has been characterized as being in a "nascent" stage of development with an emergent biotechnology cluster. In addition, an assessment of the activity at Dalhousie's Medical School identified that over 300 medical research projects were underway, providing a likely incubator for business growth. However, it was also observed that there was a lack of infrastructure in place to support the development of this sector. The GHP had engaged in discussions with Dalhousie around opportunities and it was understood that small levels of investment directed at research initiatives could support sector growth. The discussions led to a "moment of convergence" with a move to work collaboratively with the University.

3.1 Project Objectives

The objectives of the GHP/DMS project remained similar to those of the initial CCIP initiative; however, a significant change in scope was anticipated, given that the new project would focus on one economic sector only (life sciences), and would play a very proactive role in moving researchers within the Medical School to become entrepreneurs and business owners.

The GHP's agreement with the DMS outlined that it would:

- identify prospective investee firms;
- identify sources of growth capital;
- provide support through the provision of business development expertise; and
- facilitate deals between users and sources of growth capital.

Further, despite a focus on the activities of the DMS, the GHP would continue to support other sectors within the Halifax community through information sessions and seminars as part of its overall commitment to the CCIP.

3.2 Current Project Description

To deliver on the objectives identified above, the DMS entered into an agreement with a private firm, BioMed Management Inc,[2] to perform management services for it under the guise of a Business Development Office (BDO), which would be located on University grounds. BioMed was seen to be well positioned strategically within the medical and investment community, and to possess a broad knowledge of the biotechnology industry. These assets, it was believed, would facilitate its ability to meet the above noted objectives and support growth in the sector.

The BDO is set up at one of the medical buildings, in close proximity to research labs and administrative offices, and is dedicated to supporting the identification, selection and commercialization of medical/biotechnolgy research. It also develops linkages between investors and industry, and the researchers and administrators at the DMS. Further, the BDO identifies and assesses the commercial potential of the research projects at the University. To support the scientists carrying out research activities and to turn their research into a commercially viable opportunity with associated financing, the BDO provides assistance in the development of investment proposals and other documents. The BDO

[2] BioMed Management Inc. is a privately owned management firm.

also identifies sources of growth capital, including mechanisms for assessing investors. Finally, to the extent possible, the BDO facilitates "deal making" between the scientists and investors. Overall, the BDO likens itself to "Technology Development Company".

3.3 Project Administration

The current Halifax project is administered by the GHP and overseen by the GHP's Board of Directors. As noted earlier, the GHP has entered into an agreement with the Medical Devices Society at Dalhousie University, which in turn contracts with BioMed to operate a Business Development Office within the School.

The BDO is staffed by sub-contracted staff from BioMed. The President of BioMed officially reports to the DMS, however is in direct communication with the Vice President of the GHP on all CCIP project activities and issues in order to ensure updating.

3.4 Project Partners and Funding

Industry Canada committed to providing the GHP with $600,000 in funding from October1996 to December 2001. The GHP was required to ensure a contribution of one third of total funding to the project, or $300,000. Contributions were made directly by the GHP and the HEG. In addition, the HEG generated some revenues through the leverage of fees (e.g. approximately $13,000 leveraged by HEG in 1997-1998), which have contributed to revenues for the project. At the time of the evaluation, the project could demonstrate a one third contribution, mostly as a result of the GHP's infusion of monies into the project.

3.5 Project Milestones and Activities

In the first part of this section are examined the activities undertaken by the HEG and the GHP. Following a set-up period where the HEG established offices and created a corporate structure, it engaged in some outreach activities to promote the concept of angel investing and access to risk capital. Its activities included:

- presentations (e.g. to the local ACOA office; St. Mary's University Business Development Centre; The Canadian Bar Association; the Canadian Labour Market and Productivity Centre: Atlantic Canada Conference, and the Canadian Association of Family Enterprises: Atlantic Canada Chapter);
- participation in the Entrepreneurs Forum Luncheon Speakers Series;
- the conceptualization of an Investment Opportunities Database (in partnership with other Atlantic CCIP projects);
- efforts to launch the Steps to Growth Capital material in the community;
- participation in an investor forum (i.e. Metropolitan Immigrant Settlement Association); and
- partnering in the delivery of angel seminars (i.e. with the Entrepreneurs Forum and ACOA).

Upon termination of its agreement with the HEG, the GHP's work with Dalhousie University opened the door to a whole new set of very different and focused activities. As noted, a Business Development Office was created at the University. The BDO undertook a survey of all research activities within the medical faculty and triaged these according to their commercial potential in the face of market demands.

This activity was undertaken through document review, in-person interviews with scientists and through the use of a proprietary "stage gate" methodology used to assess the commercial applicability of scientific discoveries.

The GHP and the BDO also worked to bring to the community MedInnova Partners Inc., an investment firm, and to build interest among other investment firms, such as locally based ACF Equity Atlantic. In addition, the BDO and the GHP are working on the establishment of a community venture capital fund, the Nova Scotia Opportunities Fund (NSHOF), which would result in the establishment of a capital fund to support the life sciences sector in Nova Scotia.

4.0 FINDINGS

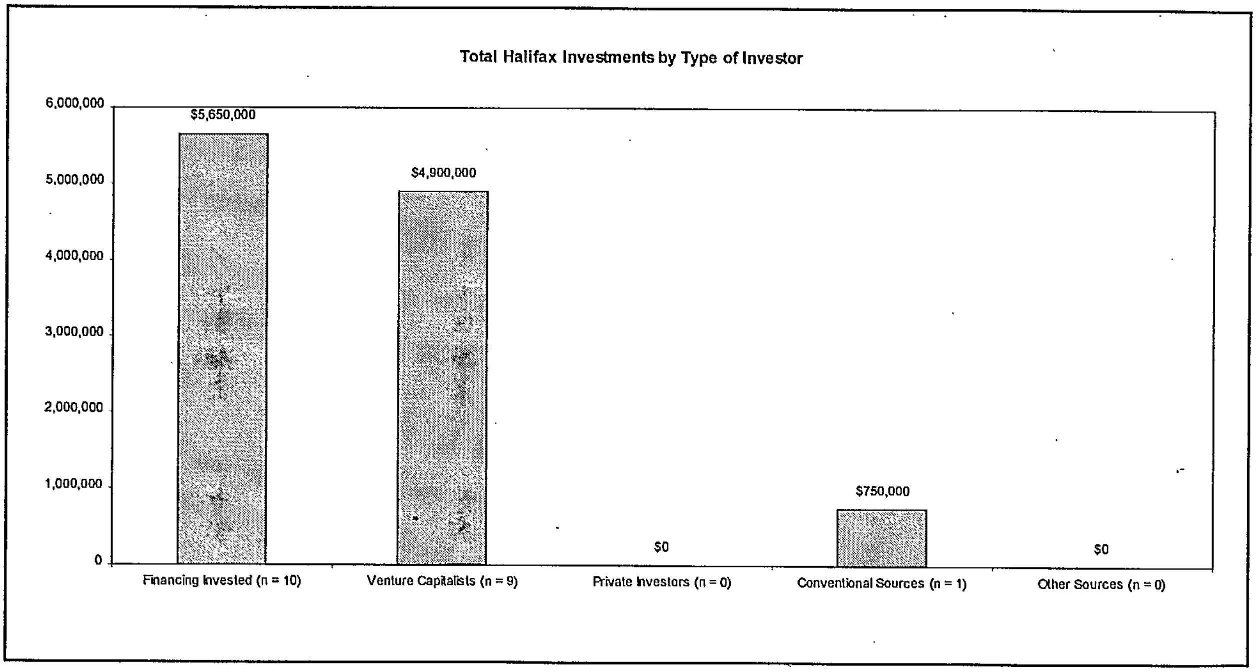
This section provides a summary of key evaluation findings.

4.1 Objectives Achievement and Project Outcomes

This section of the case study examines whether the Halifax CCIP has achieved its stated objectives and the results, both intended and unintended, that it has had.

4.1.1 Access to Risk Capital

The current Halifax project has improved access to risk (i.e. seed capital) and venture capital for the select group of people upon which it is focused, namely the scientists/faculty and students within Dalhousie's Medical School. It has also improved access to the life sciences sector in general. The BDO's work has resulted in access to close to $6M in private financing in less than two years. These monies have been raised to support a number of private companies that have been developed at the University. The graph below provides a summary of the investments made by type of investor.



As an example of not only direct infusion of financing, but greater access to capital, MedInnova Partners Inc. was attracted to establish an office very near the University Campus. MedInnova is a technology development company focused on early-stage, novel technologies that are being developed in the life and health sciences marketplace. Its business strategy includes two types of investments:

- providing funding in the range of $200,000 to $450,000 for early stage technology; and
- funding technology development programs through research agreements with Atlantic Canadian universities and commercial partners.

In its efforts to attract more investment to Halifax, the GHP hosted a summer B-B-Q and investors and entrepreneurs who were in Halifax to see the tall ships were invited to attend. This networking initiative opened the door to the establishment by MedInnova of its Halifax based office. MedInnova chose to locate in close proximity to the University, allowing the BDO to leverage the scientific and business expertise of MedInnova's local Investment Analyst when screening proposals. Currently, MedInnova has committed $6.5M for early seed stage investing in biotechnology in Halifax and made a $285,000 investment in Fusogenix Inc., one of the companies created at the University.

The project has been most successful in attracting investment from venture capitalists and seed investment firms. It has not pursued angels as a source of investment up to this point. Given that the life sciences sector involves research that is extremely complex, high risk and expensive at its early stages of development, its activities tend to be less suited to the angel investment community. Angel investments directed at these types of initiatives would require very knowledgeable investors who understand the biotechnology and health sciences sector, and who could make informed decisions about an invention or a discovery's potential. Normally, angel investors are considered to be experienced and successful business people, perhaps in possession of a high level of expertise in a particular field. However, the likelihood of finding angel investors in the Halifax area who are knowledgeable enough to make strategic decisions about investment into the sector is believed to be small. Even one of the venture capitalists interviewed for the evaluation explained that it was because of their working relationship with the BDO, and their confidence in its staff's knowledge and expertise in the sector, that is was willing to invest in a newly formed company. As a result, no measurable impact on access to angel investment has been observed.

4.1.2 Investment Readiness

The achievement of results by the CCIP project in Halifax has been influenced quite heavily by the talents and skills of BDO staff (in particular the President and CEO of BioMed) in supporting Dalhousie scientists' and their liaison with investors. The evaluation revealed that the President's professional background, knowledge and personality were core to making potential researchers investment ready. As one interviewee commented about this type of work "It is very important to understand the commercialization of research, you need the right people with the right background".

Given that much of the work to prepare scientists for commercialization was done by the BDO, the impact on investment readiness among these scientists is likely less than what might have been experienced had they had to take responsibility for becoming investment ready themselves in order to secure investments. The impact on investment readiness has been slightly greater on those scientists who have created a business and who have worked more closely with the BDO to secure investment.

The following four companies were assisted through an assessment of the commercial potential of their work, through the development of business and investment documents, by identifying appropriate business people to sit in management positions within the corporation, and by linking them with appropriate investors:[3]

1. *OncoDynamics:* This company is focused on improving cancer patients' survival rates. It was formed with the support of NU-TECH, Dalhousie's technology transfer organization. Five hundred thousand dollars was raised as primary seed investment (provided by the Eastern Technology Seed Investment Fund) with an additional $1,500,000 being sought.

2. *Delex.* Therapeutics Inc: This company has commercialized drug delivery via pulmonary systems. It has raised $600,000 in seed investment (provided by the Eastern Technology Seed Investment Fund) and obtained second round funding in the amount of $5,000,000.

3. *NovaNeuron Inc.:* It is researching and commercializing tools for neurodegenerative disease diagnostic and therapeutics. To date it has raised $850,000 in seed capital with investments coming from ACF Equity Atlantic and the Eastern Technology Seed Investment Fund.

4. *Fusogenix Inc.:* This company is focused on the development of drug delivery using fusion proteins. It was formed with support from the BDO and NU-TECH and it has raised $285,000 in seed investment from University Medical Discoveries Inc. (i.e. MedInnova Partners Inc.)

The creation of these companies is viewed as significant by those involved in the Halifax CCIP, and there is a high level of interest in the potential to continue to commercialize within the University and in other related institutions. As one interviewee commented, "If we could be known as a place in Canada where a medical school commercializes its research, it would be a home run."

The University's resources and services (e.g. access to labs, research devices, the BDO, etc.) combine to act as an incubating environment for the companies. Under agreement with the University, companies may operate in and use the facilities of the University for a period of up to three years. Companies then relocate to a privately rented site.

To support the aspiration that Halifax be known as a leader in life sciences research, the University is a partner in Nova Scotia's Life Sciences Development Association, which is working to position the Province for growth in the sector. The Dean of the Faculty of Medicine at Dalhousie is Co-chair of the Association. During the time of this evaluation, the Association held a press conference to launch the concept of a Life Sciences Research Village, through which the broader research facilities in the Halifax area, and more broadly across the Province, could partner to work more closely on collaborative projects. In its meeting with the press it highlighted the success achieved by the BDO in leveraging private venture capital.

In addition to the work being done by the BDO, the CCIP project has, over the course of its funding, participated in events designed to improve the knowledge and skills of the business and investment

---

[3] The amounts of investments presented below are taken from the BDO's website and may not reflect more recent investment activity.

community, most notably through speaking engagements, often on the topic of angel investing. It is difficult to assess the impact of these activities given that they were held over a four-year period, and their audiences varied greatly in interest and level of knowledge.

4.1.3 Community Linkages and Synergies

In the case of the Halifax CCIP, most discussion about the impact of the initiative on the community needs to be focused on the individuals who form part of the Dalhousie Medical School community, namely the researchers and faculty, students and administrators.

Evidence suggests that the impact has been moderate to high on the School's life sciences community. The School's administration indicated that the creation of the BDO and the realization of a number of companies have resulted in an infusion of funding and new equipment for the School's laboratories. Further, it was adamant about the importance of bringing researchers and business together, "It is very important to understand commercialization of research. It is important to move it forward." The University feels that by opening the doors of entrepreneurship to its researchers it will be a more attractive place to work. This will help to prevent researchers from going to the private sector.

From the scientists' perspective, younger faculty members tend to demonstrate greater openness to the concept of commercializing their research discoveries than do some older members. The negative attitudes towards commercialization by some faculty, management and scientific community leaders have, however, proved to be only a limited obstacle at this point. The scientific community has stated that more public discussion needs to occur on the role of Universities in the promotion of commercialization, if this type of model, and others that are similar, are to be fully implemented in other sites.

4.1.4 Other Outcomes/Results

The CCIP initiated collaboration between the GHP and the DMS has resulted in another related initiative to support growth in the life sciences sector. Together, the University and the GHP are currently pursuing the development of a Nova Scotia Health Opportunities Fund (NSHOF). The fund would see the establishment of $5M in capital available to the life sciences sector in Nova Scotia. The fund would raise capital under the Community Economic Development Investment Fund (CEDIF), a fund that provides tax credits, RRSP eligibility and limited guarantees to investors. Through this initiative, "seed" funding would be made available provided at companies early growth stages to support early growth and value creation. The vision for the NSHOF is that it will combine its capital pool with a network of partners that can identify and evaluate new and emerging technologies. The BDO within the Medical School would be positioned at the core of the network, serving to position the University as the key source of innovation and intellectual property.

5.0 LESSONS LEARNED

Based upon the information gathered throughout the case study, the following lessons about improving access to risk capital, improving investment readiness, and sponsoring and administering such projects can be derived from the Halifax demonstration project.

5.1 Access to Risk Capital

The time required to set up and establish networks is longer than anticipated. It was reported that this stage of the project was cumbersome. It took the HEG close to a year to establish networks with entrepreneurs and investors so that it could even hope to achieve results. Just the time needed to prepare potential entrepreneurs to meet with investors is lengthy.

The identification of angel investors is very difficult. The experience of the early part of the project with HEG demonstrated the difficulty in identifying angel investors. Others in the community did not feel that there existed a significant angel investment population.

Focus on a single sector. The Halifax CCIP provides an example of how focusing energies on a single sector, such as life sciences or "bio-medical" industry, allows for a greater impact by limited resources.

In a specialized sector, such as life sciences, a team of highly skilled professionals who possesses the right mix of expertise and skills to facilitate the identification of opportunities and subsequent investor interest is required. The BDO has on staff a range of highly skilled, specialized staff that play key roles in identifying and facilitating the creation of new companies. These skills are required, as the project states that its activities involve "not mentoring, it is actually heavy lifting". By this was meant that the BDO plays a large role in assisting researchers by doing most of the work that they are not interested in or capable of doing, which in turn allows them to focus on their research. All staff have graduate degrees and possess specific expertise. Areas of specialization include: health sciences administration; pure and applied sciences; business administration and law. Participants in the project were adamant that the "right people" will ensure that they can "speak the right language" to researchers and investors.

It is important to demonstrate that a company's early stage of development can be managed. The BDO, by virtue of the experienced staff brought to it by BioMed, as well as its experienced affiliates, has been able to demonstrate to investors that it can put in place a strong team that can successfully manage a new company in its early stage of development.

Clarity around the ownership of intellectual property facilitates commercialization and investment. At Dalhousie, researchers are given the intellectual property rights on all discoveries and inventions. This means that it is easier to patent discoveries and inventions, leading to less ambiguity for the investor.

5.2 Changes in Investment Skills

A mix of industry, investment skills and knowledge are essential. The GHP/Dalhousie initiative has been successful in creating companies and improving the entrepreneurial and investment skills of scientists and researchers because it is led by an individual who possesses expertise in life sciences. This knowledge generates a comfort level among scientists and investors. In addition, this individual has worked as a venture capitalist and therefore understands the needs of investors.

It is more difficult to identify a good idea with a good business plan than it is to identify an investor. Prior to the change of scope of the project, the HEG was using networking as its key means of identifying investment opportunities and potential investors. It continued to run up against the challenge of finding companies or entrepreneurs with management skills that investors would have confidence in; "the biggest concern for investors that we encounter is the belief that the companies lack the management skills necessary."

5.3 Project Sponsorship and Administration

Oversight by a responsible board and program administrators ensures accountability. The GHP took responsibility for a project that was not being run as expected and made the decision to change the scope of the project dramatically. The project indicated that three key things were learned through this process:

- **Apply discipline:** monitor activities against community requirements and adjust them accordingly;
- **Focus activities:** examine where the potential exists and apply energies against that potential; and
- **Leverage existing skills:** work with what already exists in the community.

In the case of the Halifax CCIP, good oversight on the part of the GHP Board and staff resulted in decisive action to alter the scope of the project upon the realization that the initial project was not achieving anticipated results. The actions of the GHP can be characterized by one interviewee who stated "[It] can be turned into something positive if you act quickly."

Let development be faculty based. Unlike some other universities that work mostly with technology transfer offices, the DMS has chosen to create a development office that works directly with Medical School faculty. The result has been increased support by faculty.

5.4 Other Lessons

In addition to the above lessons, a number of other lessons can be derived from the project:

Physical proximity between coordinating and linking resources facilitates incubation and commercialization. In the case of the Halifax project at Dalhousie University, the BDO is located right on campus, providing an easy access point for the researchers/scientists and university administrators. In addition, the investment firm MedInnova Partners Inc. has located its office only a few minutes from the BDO. The result is that the BDO can leverage very efficiently the input it needs to support the creation of a commercial entity.

Access to business advisory expertise, as part of a newly created company's management structure, is imperative. Potential investors must have confidence in the management and decision-making abilities of the company, as a prerequisite to successfully developing its research and being profitable.

Therefore, it is important to choose an experienced mix of business people to sit on the management board of each company. The BDO works with each new company to choose these individuals.

Success stories must be communicated. According to those involved in the project, success breeds success. If the research community is to develop ongoing comfort with commercialization activities, it must hear of positive experiences and successful initiatives being led by others. These stories must tell of the ability to pursue research activities without undue interference, as well as the achievement of financial rewards. Not only should these stories be shared within the University's research labs, they should extend beyond its borders in order to motivate increased activity and development of the sector. Such activity will support the creation of the Life Sciences Research Village.

6.0 RELEVANCE

The objectives of the CCIP project in Halifax are generally consistent with those of the overall CCIP program and the objectives of Industry Canada. The project is supporting innovation in the Canadian economy and leading to the development of jobs. It is doing this by identifying opportunities for the potential commercialization of Canadian discoveries and inventions in a Canadian educational institution. According to interviewees, the activities taking place at the Dalhousie Medical School would not be occurring without Industry Canada's infusion of funding through the CCIP initiative.

6.1 Responsiveness to Community Needs

According to interviewees, the potential to develop an angel investment network in and around Halifax is limited. There were concerns expressed about the energies required to facilitate such investments, especially when there does not exist a strong economic base in sectors that tend to leverage angel investing (e.g. knowledge-based industries) in the community. What was felt to be of greatest need is mentorship.

However, the GHP sponsored Dalhousie Medical School project is responding to an identified opportunity for growth in the life sciences sector. It is therefore helping to fill a need for investment infusion in this sector.

7.0 ALTERNATIVES

The Halifax project is an example of an organization seeking out and turning to an alternative form of program delivery in order to achieve its objectives. Under the realization that the first approach, which was broad in nature and which sought to support many types of industries, rather than a specific one, was not achieving results, the GHP moved to focus most of its CCIP resources into a single sector; the life sciences sector. Results to date have been positive.

7.1 Sustainability

The skills and required knowledge appear to exist within the life sciences community to continue the work of the existing CCIP project in Halifax. Further, given the role played by the BDO at Dalhousie, the benefits that may accrue to its contracted staff, as well as the benefits that are being realized within the University community (i.e. scientists, students and management), this may be sufficient incentive for the initiative to continue without Industry Canada funding. However, before this can happen the project will need to generate a critical mass of activity to raise revenues to sustain a facilitator such as the BDO.

8.0 CONCLUSION

An initial effort to link investors and SMEs resulted in few tangible results, such as investment deals. As a result of the GHP's decision to apply discipline and refocus its CCIP project in order to leverage existing opportunities (i.e. within the Medical School), the project was able to redirect its activities to improve investment readiness and access to capital among an identified regional growth sector.

The existence of an academic institution within the community that is interested in focusing its medical research on a growth sector (i.e. life sciences), provides a seedbed for commercial activity and investment opportunity. However, these opportunities are best pursued by those investors with expertise in the sector, and are not traditionally pursued by angel investors because of the extremely high risk involved and specific knowledge required to assess the potential of a research discovery or product. The Dalhousie Medical School, through the creation of a Business Development Office, has successfully managed to identify commercial opportunities and generate seed and venture capital investment in these. These results will help to support a larger strategy focused on building Halifax' potential position as a leader in life sciences research.

2

INDUSTRY CANADA

Evaluation of the Canada Community Investment Plan

Final Case Study Report:
Appendix B - London (London Venture Group)

September 28, 2001

PRICEWATERHOUSECOOPERS

Table of Contents

1.0 INTRODUCTION

The Canada Community Investment Plan (CCIP) is an Industry Canada sponsored program designed to improve access to risk capital by growth-oriented small and medium-sized enterprises (SMEs). The CCIP provides communities outside main financial centres with the information and tools they need to start and operate an investment facilitation service for their fast-growth SMEs.

One of the key approaches used to support improving access to risk capital is through the use of demonstration projects. Twenty-two projects were selected by the CCIP following a competitive process. These projects have implemented diverse strategies aimed at facilitating access to risk capital by local SMEs.

1.1 Evaluation Objectives

The CCIP wishes to disseminate the best practices and the lessons learned by these projects for the benefit of all communities looking to implement their own investment facilitation strategy for SMEs. The evaluation of the CCIP will support this requirement by providing a summary of the achievements of the Plan as well as observations and lessons learned.

To support the evaluation of the CCIP, seven of its demonstration projects were selected for review as part of a final "lessons learned" evaluation of the CCIP. This case study provides an overview and evaluation of the London Venture Group demonstration project, located in London, Ontario.

1.2 How to Read This Document

The first part of this document, Section 2.0, provides a brief description of the approach used to conduct the case study. Section 3.0 gives an overview of the London project, including a discussion of its context and background. Section 4.0 examines the key findings derived from the case study and Section 5.0 seeks to draw out the lessons learned from the case. Section 6.0 examines whether the project remained relevant and Section 7.0 looks at whether there are alternatives means of delivering the project to achieve results. Concluding remarks are provided in Section 8.0.

2.0 EVALUATION APPROACH

This case study included: document review; web site review and a site visit. The purpose of the site visit was to see first hand how the project worked and meet project staff and other stakeholders to undertake the lessons learned evaluation. Interviews were held with project staff, intermediaries and investors. There was also a focus group held with board members and a focus group with entrepreneurs. In total, 25 people were interviewed including:

- four project staff;
- seven board members;
- three intermediaries;
- four investors; and
- seven entrepreneurs.

The documents that were reviewed included the project's original and updated business plans, quarterly reports, annual financial audit reports, project publications and documents, and reports and other documentation provided by the CCIP Secretariat and the London Venture Group.

All fieldwork to support the evaluation was conducted between April and June of 2001. Therefore, the results of the evaluation, and the lessons learned, reflect information and results gathered for this period.

3.0 CONTEXT AND PROJECT PROFILE

The London Enterprise Development Corporation (LEDCO) was a community-based volunteer organization in existence prior to the creation of the CCIP. It comprised many of the leaders of London's business community. These business leaders saw a need in the London community to facilitate local technological research and developments arising in health care facilities and advanced learning institutions to become commercially viable new businesses. LEDCO identified the need for three services for entrepreneurs:

1) Provide mentorship for fledgling organizations.
2) Provide mentorship for the development of business plans, provide information on the various sources of funding and help entrepreneurs gain the presentation skills needed to establish credibility with the investing community.
3) Arrange introductions between the entrepreneurs and potential investors through Investor Forums and one-on-one meetings.

Following an organizational review performed on LEDCO, the resulting report indicated that there was strong support for the services they provided. However, the administration of the program activities, such as mentoring entrepreneurs, building investor contacts, and building awareness and credibility within the community, was too much for a volunteer based organization to achieve. Thus the CCIP program came at an opportune time, providing LEDCO with the opportunity to obtain the additional support and funding needed to make the desired goals of the organization a reality. The LEDCO (i.e. London Venture Group) project proposal was submitted to Industry Canada on August 16, 1996. It was reviewed and selected by a national panel of experts from each region composed of the private sector. It was then selected in 1996 as one of 11 projects selected that year.

Following the commencement of the project, LEDCO changed its name to the London Venture Group (LVG) to reduce confusion between the names of the London Enterprise Development Corporation (LEDCO) and that of the London Economic Development Corporation (LEDC), where they shared office space.

3.1 Project Objectives

The objectives of the London Venture Group project remained consistent with the objectives outlined in the original business plan, including:

- provide investment opportunities to angel investors and venture capitalists;
- provide coaching and support to entrepreneurs to prepare an "investor ready" business plan;
- match mentors with entrepreneurs;
- assist in finding resources to build management teams;
- assist other, non-clients, to find alternative funding sources.
- create networking opportunities between service providers, the investment community and entrepreneurs;
- create awareness of opportunities in London;
- network with angel investors, venture capitalists, the University, City Hall and others to foster a business investment climate; and
- act as a catalyst to bring together angels/venture capitalists with entrepreneurs.

The LVG focuses on knowledge-based industries in the areas of medical technologies, telecommunications and information technologies; however, it will also assist entrepreneurs in other industries. The LVG assists businesses that are established small to medium-sized businesses with high growth potential. They also focus on companies where the principals have significant personal investment and are seeking at least $150,000 in new capital or strategic investment. In addition, the company must have a business plan in place.[1]

3.2 Project Administration

The London Enterprise Development Corporation (now called the London Venture Group) was incorporated on October 25, 1994, prior to becoming a CCIP project. At the time of the evaluation, the LVG had a full-time executive director, a part-time operations manager and a full-time executive assistant. These individuals were responsible for the administration of the LVG. They also conducted the first screening of business plans.

The project is overseen by a "highly influential and highly regarded" volunteer Board of Directors comprised of 14 members representing different industries and disciplines including: accounting; banking; business management; marketing; law; academia; engineering and government. The London Economic Development Corporation and the Business Development Bank of Canada both have a representative on the board. In addition, the LVG currently has 15 mentors (volunteers from the business community) that are available to mentor entrepreneurs depending on the individual needs of each entrepreneur.
The LVG has developed a collaborative web-based portal that provides all members, entrepreneurs, investors and sponsors with a mechanism to share information in a private portal. Coaches and mentors can work with entrepreneurs on-line and investors can view potential business opportunities in a private and confidential manner.

3.3 Project Partners and Funding

The amount of funding identified in the original contract between the LVG and Industry Canada allocated $551,945 from the project start of February 7, 1997 to its sunset on December 31, 2001over five years. It is estimated that by the end of project the LVG will have received $513,917. This shortfall of $38,028 occurred in the first reporting period where the activities of the LVG were not as high as originally projected. Despite some underestimated level of activities in the first period, the LVG was successful in soliciting its required contribution from the community and in maximizing the CCIP contribution identified in its contract with Industry Canada.

One of the main organizations to sponsor the LVG over the course of the project has been the City of London, which has provided $75,349 in grants[2]. The LVG has also raised $70,174[3] in other community

---

1 Putting Venture & Capital Together Brochure.

2 Figure includes funding up to June 30, 2000

3 Figure includes funding up to June 30,2000

donations from organizations including the Richard Ivey School of Business at the University of Western Ontario and various businesses in the community. The LVG has been able to leverage its networks with organizations such as the City of London Small Business Centre and the London Economic Development Corporation where it has been able to use existing office space, equipment, and administration support at a more reasonable price than it had purchased these services outright.

In April 2001, the LVG began to charge entrepreneurs a service fee of $500. LVG also has in place membership fees for corporate members ($250), individual members ($100) and community partners ($2,500). Currently, there are approximately 15 to 20 corporate members (e.g. (BMO, PWC, CMDF, Lerner & Associates), four community partners (e.g. London Economic Development Corporation, University of Western Ontario, Fanshawe College and the City of London) and 12 individual memberships. In the latter part of 1998, the LVG began holding events and charging attendance fees. For example, to attend a Power Breakfast, members pay $45 and non-members pay $50.

3.4 Project Milestones and Activities

The LVG has held several events in the community that are helping build networks with investors, including angel investors. These events provide forums for introducing investor-ready entrepreneurs to potential investors. These events are also building an awareness in the community of equity financing and helping to build excitement around entrepreneurship.

The LVG has held a range of public events with investors, entrepreneurs and other business community representatives. The table below summarizes the types of events that have been held and the number of participants.

Type of Event	# of Events	Total # Investors	Total # of Entrepreneurs	Total # of Other
Investor/Entrepreneurial /Venture Forum	10	265	215	500
Power Breakfast	5	80	105	315
Angel Lunch	1	70	0	30
Annual General Meeting	3	50	30	220
Networking Breakfast	1	30	70	0
Workshop	1	8	22	70

4.0 FINDINGS

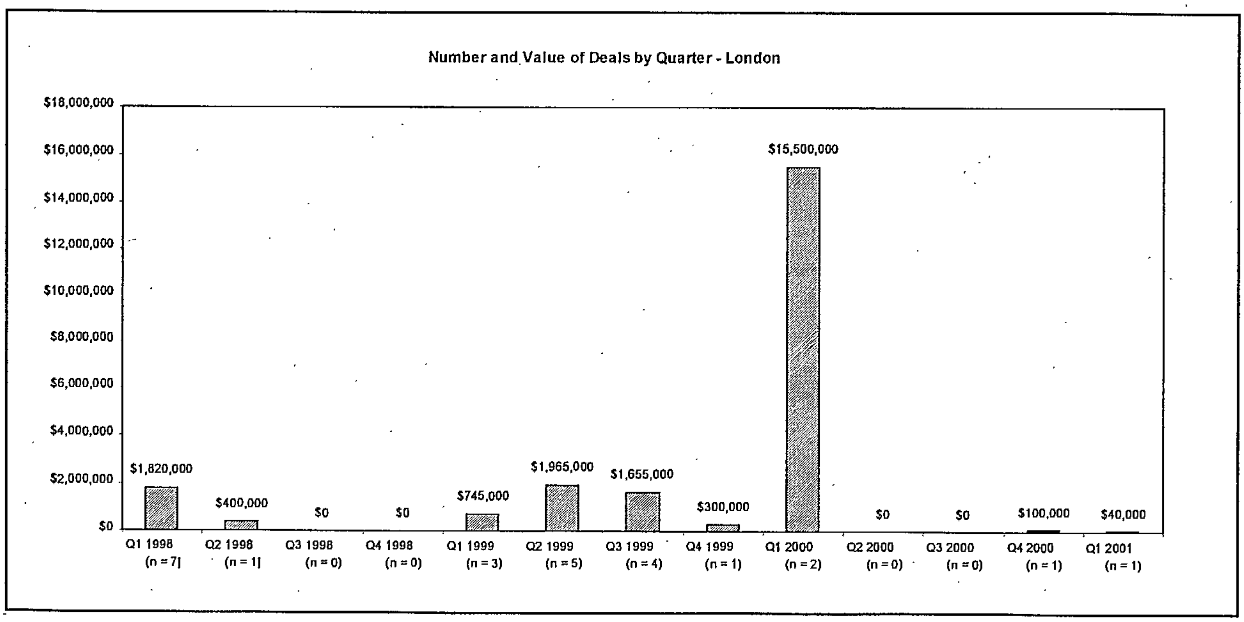
This section provides a summary of key evaluation findings.

4.1 Objectives Achievement and Project Outcomes

This sub-section of the case study examines whether the London Venture Group has achieved its stated objectives and the results, both intended and unintended, that it has had.

4.1.1 Access to Risk Capital

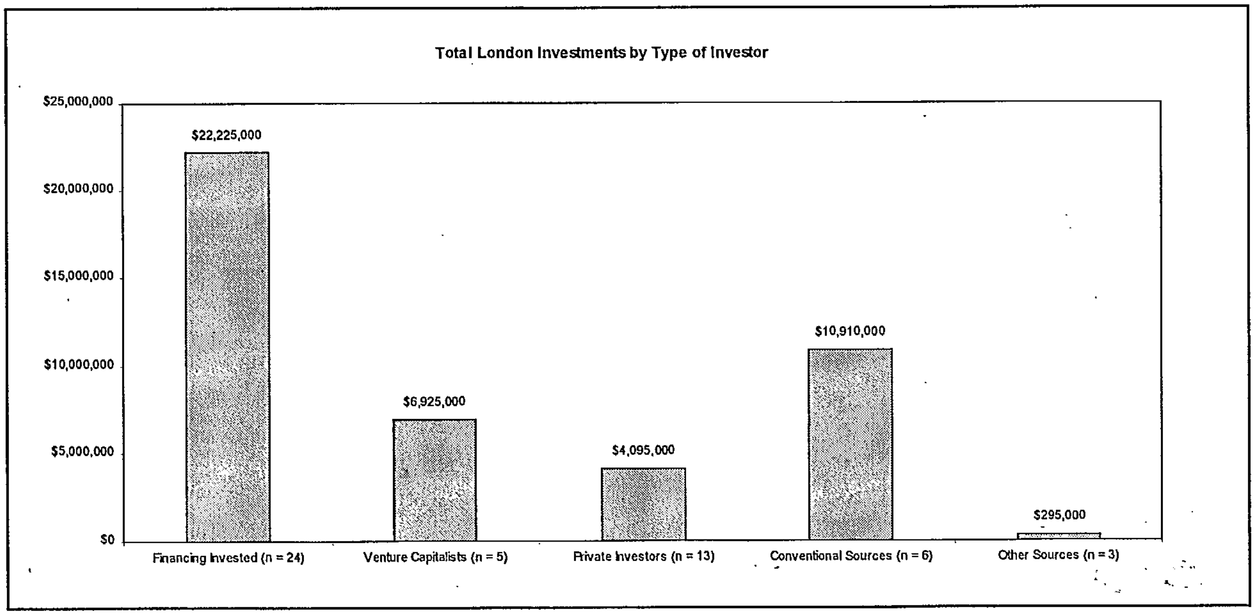
The LVG has been successful in improving access to risk capital by small and medium-sized growth oriented businesses. The project measures its success by the number of deals it had completed and the amount of money invested. The LVG has dealt with over 200 companies and has successfully linked 25 entrepreneurs to over $22.5 million in investment financing. As a result, there have also been over 500 jobs created in London and an estimated $1.5 million in tax income generated for the City. The LVG has successfully led entrepreneurs through a process to make them more knowledgeable about financing sources by helping with business plans to become more investor ready and by preparing them to meet with potential investors within and outside the London community. Six entrepreneurs that LVG assisted have gone on to win the Chamber of Commerce Business Achievement Award. Another was a finalist and two others were nominees. The graph, below, shows the deal flow over the course of the London project's existence.



The LVG has also helped to build an "awareness of angel investors and what they are" and has helped mobilize, formalize and bring angels out in the open by bringing the business and investment community together at different types of events. The Investor/Venture Forums and Power Breakfasts hosted by the project have been instrumental in bringing the business community together and raising the profile of entrepreneurship in London. One of the intermediaries interviewed stated, "It is hard to know who has capital because London is a conservative city. The LVG has been instrumental in opening doors . . . the companies are getting exposure to these investors".

A number of additional impacts of the LVG were observed. There are other successful deals made as a result of introductions between entrepreneurs and investors resulting in funding from other sources. This type of indirect outcome is not tracked, although the LVG is aware that this is occurring. In addition, one interviewee noted that "successful entrepreneurs were coming back as an investor".

The LVG has also developed an inventory of approximately 400 investors including venture capitalists, angel investors, financial advisors and bankers. They draw on this group as they look for the right type of financing for those investor ready entrepreneurs. The network of angel and venture capital investors, which was not in place prior to the LVG project, has improved access to risk capital. The traditional way for an investor and an entrepreneur to link before the LVG was through informal networks, mostly through professionals such as accountants, lawyers and various personal connections. Now the LVG offers a more formal way of improving access to risk capital that specifically targets and identifies the best match for both the entrepreneur and the investor. The graph, below, shows the type of financing that the LVG facilitated for its clients. The majority of the financing was sourced through conventional avenues ($10.910M), followed by venture capitalists ($6.925M). An additional $4.095M came through angel investors.



4.1.2 Investment Readiness

The LVG does not hold training sessions or seminars for entrepreneurs to enhance their investment skills. The approach the LVG takes is one of 'one-on-one mentoring' that is tailored to the needs of each entrepreneur. Mentoring is provided by volunteers from the business community, identified on LVG's list of mentors.

The LVG also has in place a Venture Committee made up of selected board members. Once the entrepreneur has a solid business plan in place and is close to being investor ready, the entrepreneur does a dry run of their presentation to the Venture Committee. Feedback from this Committee demonstrates the process has been very effective in enhancing the skills of the entrepreneur to take them to the stage of making a pitch to an investor or group of investors through an Investor Forum or one-on-one meeting.

The level of investment readiness of entrepreneurs who are assisted by the LVG has increased considerably. While the LVG's focus is on entrepreneurs with a business plan in place, these business plans often need to be improved and fine-tuned in order to be ready to present to an investor. The LVG works with an entrepreneur to help them get their business plan to the stage where they are investor ready. For those entrepreneurs who do not fit the criteria of the LVG (i.e. a highly committed entrepreneur with excellent management firmly in place and small to medium-sized companies in the early stages of growth requiring in excess of $150,000 in strategic investment), the LVG uses its community networks to refer them to other organizations (e.g. Small Business Centre) for assistance.

4.1.3 Community Linkages and Synergies

The LVG has established strong linkages with other initiatives in the community. It has been active in networking with other community organizations such as the Small Business Centre, the London Economic Development Corporation (where it currently shares office space), and the Chamber of Commerce. These three organizations also have mandates to help businesses in the London community; however, they have different focuses (i.e. small "lifestyle" or "mom and pop" businesses; and broad business retention and growth). The LVG is filling a need with small and medium-sized growth oriented businesses that are not otherwise served specifically. These organizations work together to help the entrepreneur and refer clients to each other.

The LVG has also developed relationships with the London Hi-Tech Association (LHTA), InterNetwork London, the London Hi-Technology Alliance (a new umbrella organization being created), and the University of Western Ontario. These relationships are important to the LVG because of its focus on knowledge-based industries. In particular, the linkages with the University of Western Ontario (UWO) and the Ivey School of Business are important, as these are sources of innovation and invention which is the basis for long term, high growth companies. The Director of the Office of Industrial Relations at UWO is a member of the LVG board of directors, and also actively serves on the Venture Committee, which reviews new business presentations. In addition, the LVG will have a professor from the Ivey School of Business joining their board, which will provide a direct link to the student's field projects and ultimately to small and medium-sized potential businesses that could benefit from the services of the LVG. The LVG has also attended the fourth year Engineering students' project presentations, in order to increase the LVG's presence on campus. The LVG is currently working with one of the project presenters, to establish a business based upon the fourth year project.

5.0 LESSONS LEARNED

Based upon the information gathered throughout the case study, the following lessons on improving access to risk capital, improving investment skills, and sponsoring and administrating such projects can be derived from the LVG project.

5.1 Improving Access to Risk Capital

The ideal project model is one where the project is viewed as working at arms length from the government. The best structure for a project is a combination of business, government and academic partners. A project that focuses on equity investment will have difficulty being successful if it is seen as a government initiative alone. Said one interviewee, "the motivation is different if you are a volunteer versus being paid by the government". It is critical that the project has the support and involvement of the business community to provide the credibility needed to motivate investors to be part of the network.

Angel investors need to be continually nurtured or the relationship can be lost. To build a solid network of angel investors, relationships need to be nurtured on an ongoing basis. A higher level of contact generates more enthusiasm for possible investment and reduces skepticism. The objective is to keep building the "excitement" in the community by more frequent contact and more "exciting news" (i.e. successful deals and their impact on the community).

It is important that entrepreneurs are clear on the commitment and amount of time needed to reach a stage of investment readiness. To prepare entrepreneurs for the "road ahead", it should be clear from the start how long the process can take before the entrepreneurs are introduced to potential investors. It is equally important to prepare them for the chance that they may not, in the end, find an investor who is interested. This knowledge ensures that entrepreneurs understand the commitment that they must make and prepares them so they "don't run out of money before they are even investor ready".

5.2 Investment Skills Enhancement

Some entrepreneurs are not "coachable" and resources are better spent on those that are open. There are some entrepreneurs that do not listen to the advice that is provided, no matter who communicates it or how it is communicated. With limited resources to mentor entrepreneurs to a state of investor readiness, it is better to focus on those who are serious and willing to accept advice.

Facilitating dry run business plan presentations provides a good forum for preparing the entrepreneur for the real thing. Having entrepreneurs do a dry run presentation of their business case before a committee is a good way to "polish" the presentation and give the entrepreneur practice in delivering their case to investors. This type of approach prepares the entrepreneur for the types of questions that they may get from a real investor. Without a dry run, the entrepreneur may lose an opportunity because they weren't prepared to present their case thoroughly.

A CCIP project needs to walk a fine line between broker and consultant or it risks losing the support of the business community. It is critical that CCIP projects are not seen as being in competition with services offered in the community. The project needs to provide hands-on assistance to entrepreneurs, but cannot provide the same services that are already available. There are also legal issues that need to be considered if finder's fees are charged and CCIP is being viewed as a broker. One of the ways to manage this is to inform the business community of the project and its goals through public forums.

5.3 Project Sponsorship and Administration

Service and finder's fees require credibility and volume before they can be used as a source of funding. Until a project is credible and proving its value in the community, it is difficult to expect to charge user fees or finder's fees. In order to rely on this type of funding, there also needs to be a high volume of entrepreneurs and deals struck. Once the project has this credibility and volume, then user fees not only help to fund the project, but they "weed out" the less serious entrepreneurs.

The resources needed to operate such a project should not be underestimated. A full-time executive director and an administrative assistant are required from the beginning of a project. There are too many administrative tasks that need to occur early on that can divert the executive director from primary activities (e.g. networking, mobilizing investors, etc.).

A program sunset of five years makes it difficult to get staff commitment. It is difficult to keep a consistent project staff, especially at the executive director level, with an inevitable end to the program. Staff turnover results in lost time and resources for the project, not to mention the difficulty in keeping the goals and the vision for the program in view.

The board is instrumental in the project's success and all members should share the same vision or its potential will not be realized. With a board composed of volunteer members, it is expected that there will be turnover. To maintain a consistent vision for the board and the project, there should be succession planning and orientation as new members join the board so that there is "evolution not revolution". In addition, the larger the board, the more difficult it is to have a core group of individuals driven by the same vision. It was mentioned by an investor that offering the board members an honorarium would provide more accountability.

Finding sponsors needs to be approached aggressively and consistently. One of the roles of the board members is to use their business contacts to obtain sponsors. It is not good enough to ask volunteer board members to do this, a more aggressive approach must be set out. One method is to have members identify up to 50 personal businesses contacts and set sponsorship targets that must be achieved.

Investors Forums should be held as needed and not be regularly scheduled events. Having a set schedule for Investor/Venture Forums can be difficult to maintain because the entrepreneurs in the "pipeline" may not be at the stage where they are prepared to present their business case to potential investors. While these types of forums are very successful, they should be held when the demand is there and should not be regularly scheduled events.

6.0 RELEVANCE

The following section examines whether the project has remained relevant.

6.1 Meets a Need in the Community

The LVG is filling a need in the London community. There are entrepreneurs who have knowledge-based businesses (e.g. advanced technology, health related technology) that have not been able to progress into commercially viable businesses. These entrepreneurs either lack funds or expertise, or they are not knowledgeable about the types and sources of financing available to them in order to grow their businesses[4]. The LVG has recognized this gap and is helping to address this need by working with the "well connected" business people in the community to bring entrepreneurs to the LVG. It is also using this network of investors and other business associates to help profile the LVG. The interest the LVG has raised in the business community is reflected in the volunteer support it receives from the community and in the interest in the events held.

[4]London Enterprise Development Corporation Business Plan, August 16, 1996.

7.0 ALTERNATIVES

This section examines whether there are other ways to deliver the program and still achieve the same objectives.

7.1 Strengths/Weaknesses of a CCIP Program

The main strength of the CCIP project is that it provided communities with the funding to commit full time resources to the project. In addition, the CCIP allowed for local solutions by using a hands-off approach, "The result was a good diversity of solutions". However, it was also noted that a five year project duration can be too short for projects to fully show the value in the community and become self-sufficient to continue beyond the sunset.

7.2 Sustainability

The LVG is not at a point of financial self-sufficiency. There is no confirmed plan, as of yet, as to what will happen to the LVG after the CCIP funding stops. However, the consensus among the individuals interviewed in this case study is that the LVG needs to continue because it is filling a need in the community. The options being examined include:

- charging higher fees and expanding the area of service to communities outside of London;
- forming an umbrella group that would serve the common needs of several groups in the city;
- linking with other municipalities within the London region and seeking government funding;
- exploring linkages with the Toronto Venture Group, or a pay for services group already established in Toronto that may want to expand into London;
- converting into a private service, extending the range of service and soliciting finder's fees and providing a virtual incubator environment;
- selling the investor-ready service as a front-end to venture capitalists on a retainer basis; and
- providing the same service to other incubators and pursuing businesses that would be attracted to the incubator[5].

Without the continuation of the LVG, it is not likely that entrepreneurs will be able to obtain similar services elsewhere. The ways in which entrepreneurs and potential investors link would default back to the more traditional way of introductions through business or personal networks. In addition, more entrepreneurs would likely find it difficult to obtain financing without the strong business case the investor is looking for.

7.3 Other Needs in the Community

Entrepreneurs suggested that the LVG organize "peer" groups where entrepreneurs going through the process of obtaining equity financing could meet to share ideas and learn from each other's experiences. This, in their view, would be very helpful and worthwhile. It was also suggested that students at the Ivey School of Business conduct some "real life case studies" of entrepreneurs that would provide learning experience for them and for other entrepreneurs.

---

[5] London Sustainability Report, February 14, 2001

There were two things mentioned, in addition to the CCIP projects that are needed in the London community:

1) an early stage "seed" fund to get entrepreneurs started so they can leverage this to obtain additional funds from banks. The fund in Waterloo/Kitchener was mentioned as an example; and
2) an incubator for knowledge-based entrepreneurs. One of the activities that the LVG had taken on was lobbying to the City of London for the establishment of a $5 million bio-technology incubator. However, this initiative was shelved over two years ago as the interested parties could not come to a consensus on the details.

8.0 CONCLUSION

For a community with existing infrastructure (including financial institutions, venture capital investors, angel investors, community-based economic development and small business organizations, and related associations), the CCIP program, through a community-based project, can provide the support that the community needs to facilitate better access to seed capital and equity financing for small and medium sized entrepreneurs. This type of kick-start will often be all that is needed for these entrepreneurs to obtain other sources of funding from other investors and financial institutions. Without this type of facilitation, which brings entrepreneurs closer to becoming investor ready, many of these small businesses will never become commercially viable entities because they lack the funding, the expertise and the knowledge of where to get capital.

The LVG has been successful at providing a means to facilitate the matching of entrepreneurs to the types of equity financing that are needed to move them into commercially viable businesses. The LVG has provided the type of mentoring that is needed to get entrepreneurs more investor ready, it has identified and mobilized angel investors and has build an inventory of over 400 sources of financing.

3

INDUSTRY CANADA

Evaluation of the Canada Community Investment Plan

Final Case Study Report: Appendix C - Moncton (Regional Investment Corporation)

September 28, 2001

PRICEWATERHOUSECOOPERS

Table of Contents

1.0 INTRODUCTION

The Canada Community Investment Plan (CCIP) is an Industry Canada sponsored program designed to improve access to risk capital by growth-oriented small and medium-sized enterprises (SMEs). The CCIP provides communities outside main financial centres with the information and tools they need to start and operate an investment facilitation service for their fast-growth SMEs.

One of the key approaches used to support improving access to risk capital is through the use of demonstration projects. Twenty-two projects were selected by the CCIP following a competitive process. These projects have implemented diverse strategies aimed at facilitating access to risk capital by local SMEs.

1.1 Evaluation Objectives

The CCIP wishes to disseminate the best practices and the lessons learned by these projects for the benefit of all communities looking to implement their own investment facilitation strategy for SMEs. The evaluation of the CCIP will support this requirement by providing a summary of the achievements of the Plan and observations and lessons learned.

To support the evaluation of the CCIP, seven of its demonstration projects were selected for review as part of a final "lessons learned" evaluation of the CCIP. This case study provides an overview and evaluation of the Moncton, New Brunswick project, operated under the name Regional Investment Corporation Inc.

1.2 How to Read This Document

The first part of this document, Section 2.0, provides a brief description of the approach used to conduct the case study. Section 3.0 gives an overview of the Moncton project, including a discussion of its context and background. Section 4.0 examines the key findings derived from the case study and Section 5.0 seeks to draw out the lessons learned from the case. Section 6.0 examines whether the project remained relevant and Section 7.0 looks at whether there are alternatives means of delivering the project to achieve results. Concluding remarks are provided in Section 8.0.

2.0 EVALUATION APPROACH

This case study included: document review; web site review; a site visit, and in-person and telephone interviews with project staff, board members, and investors. A focus group was also held with SMEs in the community. The documents that were reviewed included the project's original and updated business plans, quarterly reports, annual financial audit reports, project publications and documents, and reports and other documentation provided by the CCIP Secretariat and the project.

A total of nine interviews were conducted including one with the key project staff person, four with board members and one with the ACOA observer to the project. In addition, three investors were interviewed.

3.0 CONTEXT AND PROJECT PROFILE

This section provides a description of the Regional Investment Corporation (RIC) project and the context in which it was established.

3.1 Project Background

The RIC project proposal was submitted by the Greater Moncton Economic Commission (GMEC) Inc. It was reviewed and selected by a national panel of experts from each region composed of the private sector. It was then selected in 1996 as one of 11 projects selected that year.

Moncton is a community that has vanquished and survived a number of economic transitions over the last thirty years. Presently, the community is home to an estimated 98,000 inhabitants[1] , and its economy has seen growth in industries such as teleservices, the services sector, distribution and warehousing, light manufacturing and knowledge-based industries. It is home to two colleges and three universities and 45% of its population has completed some college or university education.

The key driver for the project was the interest by a local group of individuals in improving access to capital. This group saw a number of challenges to accessing capital emerge over time including: the decline in available public sector grants; the reluctance of the banking industry to provide financing when there is little other contributed equity (in the form of grants for example); changes and shrinkage of the local trust companies that had been more open to funding projects than banks; greater limits placed upon insurance companies regarding commercial real estate investments, and the limited use of venture capital financing due to perceptions around its cost and control.

When the CCIP call for proposals was received, this group saw the program as an opportunity to move forward their "access to capital" agenda. A submission was made through the GMEC for CCIP funding.

3.2 Project Objectives

As a result of the above access to capital constraints, the GMEC proposal set out its primary objective as follows:

- to facilitate the use of equity financing in the Greater Moncton region.

Secondary objectives included:

- to introduce existing equity capital sources to the region by means of direct contact and the development of a directory type listing of various capital providers;
- to provide potential investees with a physical location where independent input and assistance could be provided to them in support of their desire to raise equity capital; and

[1] 1991 Census, Statistics Canada

- to enhance the planning process for business ventures requesting and requiring equity capital (including the preparation of detailed business plans, shareholder agreements and other due diligence material).

Over the course of the project, the above objectives did change somewhat. An updated business plan submitted in 2000 stated that the project's objectives were to:

- develop a network of private investors (repeated from original plan);
- assist various investees in obtaining capital (repeated from original plan);
- develop and or identify various sources of potential equity financing (repeated from original plan);
- facilitate deals between investees and sources of capital (repeated from original business plan);
- acquire risk/return management tools to enhance investment opportunities (new); and to
- establish a business support program (new).

Interestingly, a promotional document detailing the 'who', 'what' 'when' and 'where' of the RIC concept states that its mandate is to "(1) create mechanisms whereby New Brunswick citizens and corporations are encouraged to invest directly into New Brunswick private business and (2) develop a set of opportunities such that pension funds and other traditional investors view the Province more favourably as a safe location for their investment monies." In essence, the vision for the RIC was that it would eventually function as a "flow through" organization where monies from a variety of funds (e.g. labour-sponsored venture capital funds, pension funds, miscellaneous capital funds), would be directed through the RIC and its board as it facilitated investments, managed due diligence requirements and levied fees for services that would deliver the monies to private corporations in the Province.

From the above, it is evident that the RIC was, from the outset, working to achieve two sets of objectives: one set focused on the requirements of the CCIP program, the other on improving access to capital across the province through the development of risk/return management tools, such as a tax credit and investment funds.

3.3 Project Administration

The RIC is an incorporated entity that functions independently of the GMEC. Although initially managed by a committee of 10 people, in 1998 this committee was formalized into an interim board of directors composed of six people. The GMEC's proposal had outlined that the "board [be] viewed as the central feature of the initiative." Although the original business plan for the project called for the establishment of a board that would then break out into an Investor Committee, an Investee Committee and an Application Screening Committee, these committees were not established. In addition, although the plan called for board members to be paid per diems in return for their contribution of time and expertise, such payment did not occur. In effect, the original vision for the role of the board, which was closely linked to a "flow through" model, did not materialize.

With the introduction of the interim board, two ex-officio members were installed, one from the GMEC, the other from Atlantic Canada Opportunities Agency.

3.4 Project Partners and Funding

Industry Canada had committed to providing the RIC with $600,000 in funding from 1997 to 2001. The RIC was required to ensure an additional contribution of one third of its total project funding, or $300,000 through local contributions.

The initial business plan submitted by the project projected that it would be supported by local contributions in the range of $200,000 in the first year, and $100,000 in following years. In addition, the project projected fee revenues for services in the range of $40,000 for the first year, growing to close to $500,000 in year five. In its revised work plan for the first year of its activities, which was submitted in February of 1997 to Industry Canada, its anticipated revenues for the first year were set at approximately $98,000. These funds were to be provided by the Moncton Response Group Inc.

The project did leverage some funds, including the anticipated contribution by the Moncton Response Group, the Greater Moncton Economic Commission, and smaller amounts from the St. John and Miramichi Economic Commissions. However, the project generally had difficulty raising its one-third contribution, a situation that affected its overall funding by Industry Canada.

3.5 Project Milestones and Activities

The project proposed in its Industry Canada submission that it would undertake 13 key strategies in support of its objectives. These included:

- prepare a database of investors;
- prepare and co-ordinate a listing of angels in the region;
- publicize the existence and mission of the project in the local market place;
- establish a board with regional coverage;
- hire staff to support the board;
- provide services in French and English;
- develop contacts with local lending institutions;
- use the angel concept to provide additional management expertise where possible;
- establish a fee structure leading towards a self-financing entity;
- research other equity facilitation methods;
- develop contacts with local educational institutions;
- promote proper planning by using the project's board as a clearing house for investees wishing to raise equity capital; and
- introduce capital sources to the region.

Of the above, the last two strategies were not part of the project's proposed list of activities in a revised work plan submitted to Industry Canada in February of 1997.

In the early part of the project, its activities focused very heavily on efforts to put in place a tax credit (i.e. the New Brunswick Tax Credit Program). It was believed that the establishment of such a credit would encourage greater investment in New Brunswick-based business. The tax credit would provide investors with a 30% tax credit on investments up to $30,000, for a maximum $9,000 tax rebate. The President of the RIC, and members of its board, held meetings with the Premier, the Federal Minister of Finance, Paul Martin, and a variety of other government officials to raise support for the legislation needed to support the tax credit program. In addition, the project took time to prepare a number of documents destined for officials at the provincial and federal levels.

In January of 1999 the Provincial Legislature of the day passed the Equity Tax Credit Act. However, a summer election resulted in a change of government without the legislation receiving proclamation, and therefore without it becoming law. As the new government came into power the group continued to work to see the legislation become law. However, ongoing stalling by the government (due to its lack of receptivity to enacting legislation brought forward by a previous government) resulted in a lack of interest by the project in continuing its lobbying efforts, and similarly, a lack of interest in the CCIP project in general.

Throughout these activities, the project experienced a change in its leadership in 1998 when a new President was brought on board. This change resulted in an increased effort to implement the objectives of the CCIP program.

Most of the activities noted at the beginning of this section were completed, at least at a high level. For instance, in the spring of 1998 the project began setting up an investor database and engaged in general promotional activities. These were held in order to generate investor and investee contacts. The RIC received and worked to support potential entrepreneurs in their preparations for growth. This included business plan development; financial counselling and investment plan counselling. By the fourth quarter of 2000, the RIC held its first and only investor forum, at which time three potential business opportunities were presented to invited investors.

4.0 FINDINGS

This section provides a summary of key evaluation findings.

4.1 Objectives Achievement and Project Outcomes

This section of the case study examines whether the RIC has achieved its stated objectives and its results, both intended and unintended. It also examines whether the project has contributed to the objectives of the larger CCIP program, and those of Industry Canada.

4.1.1 Access to Risk Capital

The project achieved very limited success in improving access to risk capital. Early on the project identified that the identification of angel investors was particularly difficult. It liaised with accounting firms, banks and other funding agencies in order to identify potential investors. It also developed and distributed communication materials to the business community, including brochures and media advertisements. In the summer of 1998 it completed a mailing to 270 investors in an effort to solicit their participation in the project. The project was eventually able to identify sources of risk capital and generate a list of 25 to 30 angel investors. However, it encountered a number of obstacles in its efforts to generate interest in local opportunities and engage in matchmaking. These obstacles included:

- a lack of sophistication among investors;
- poor knowledge and understanding of growth sectors;
- limited interest in mentoring;
- a lack of liquid investment; and
- a fear of taking risks.

Overall, there was a lack of synergy between the interests of the investors and the business concepts presented by local SMEs. This lack of synergy between the interests, experience and knowledge of the investors (who tended to be older and sometimes retired business people) and the new business concepts presented by young entrepreneurs inhibited matchmaking.

In addition, comments made suggested that the project did not use the right approach in attempting to match investors with potential opportunities. In an attempt to maintain investor confidentiality, it refrained from pursuing activities that might have brought investors into contact with one another. Only in 2000 did the project host one investor forum where three entrepreneurs presented their business concepts. In retrospect, interviewees suggested that more similar activities should have taken place, as well as other strategies being used like investment syndicates. Overall, investor confidentiality turned out to be less of a concern among investors than simple discretion.

In terms of identifying a critical mass of investees in need of equity financing, here too the RIC experienced challenges. The quarterly reports submitted by the RIC show that it received a total of 86 enquiries from prospective business people from January 1998 to March 2001; an average of only two clients per month.

Although the project did get the message out about risk capital and angel investing through a variety of means (e.g. conferences, a forum, speaking engagements, media coverage), the need for and interest in this type of financing was limited.

Other obstacles that the RIC faced in attempting to improving access to risk capital included:

- those investors who were more willing to take risks were deterred from investing in local business projects because they felt that the returns were not high enough and entrepreneurs did not present good exit strategies;
- investors in the community were generally less interested in high-risk initiatives that were brought forward by start-up companies with no track record. The investors in Moncton generally wanted to invest in more secure endeavours (e.g. a business expansion); and
- having to work with investors who found it difficult to analyse a potential project's risk due to lack of experience in a particular field.

In the end, the project succeeded in facilitating one deal worth $50,000 in angel investment.

4.1.2 Investment Readiness

Limited change in investment readiness occurred as a result of the RIC project. In general, the community did not give rise to the critical mass of "investor attractive" entrepreneurs needed to ensure the project's success and a more substantial number of deals. Many of the potential businesses in the community that could have used the services of the RIC were simply not in need of equity financing. Those that were looking for equity were generally start-ups and tended not to have in place a solid business plan, which is needed as a foundation upon which to build investment documents. The RIC reported that "[We] have not been able to attract a large enough group of high quality investees", therefore "greater effort has to be put forth to attract investees that are ready to be presented to potential investors. Although we have many new clients, most are not prepared for investor presentation." In fact, one interviewee went so far as to say "[We] have to get the bulb turned on with some of these people", when talking about their ability to present business plans.

As a result, the RIC spent much of its time weeding out projects with limited potential (e.g. they could not demonstrate that the project could make money) or working with entrepreneurs who required assistance with their business plans.

Other obstacles that the project faced in improving investment readiness included:

- entrepreneurs were unwilling to cede partial ownership of their business in exchange for an infusion of angel money. This fact made it more difficult for the project to entice projects to pursue angel investing; and
- the cost of due diligence acts as a major impediment to smaller deals.

4.1.3 Community Linkages and Synergies

Although the project liaised and met with a number of relevant organizations (e.g. Atlantic Canada Equity Fund, Access Capital d'Acadie, Cooperative Development Fund), its potential for linkage was not fully realized. Comments heard in some interviews suggested that the project should have maintained greater ties with the GMEC and ACOA. Instead, the board's interest in pursuing the creation of a tax credit meant that much of the project's focus was on linking with various political decision makers. The push-pull between the interests of members of the board, and the objectives of the CCIP project made it difficult for RIC to develop strong ties to key organizations.

The RIC did seek to expand its services to nearby communities. It approached and negotiated arrangements with Enterprise Saint John and the Miramichi Economic Development Commission to serve businesses in these communities.

Within Atlantic Canada the RIC participated in regional teleconference calls and meetings between all Atlantic CCIP projects. At one point, the Atlantic Provinces envisaged the creation of an Investment Opportunities Database that would be uploaded to the web. The expectation was that all four Atlantic CCIP projects would link to the site. However, various changes in staffing in the Atlantic projects, and other changes in focus, led to the plan to develop the database being set aside.

4.1.4 Other Outcomes/Results

The divergent interests of the board and the CCIP project made it difficult for the RIC to focus entirely on the achievement of its objectives. In fact, at the time of the evaluation, the board that had been responsible for the project had met for its last time and had agreed to wind down the Corporation six months ahead of its official sunset. Interview findings made it clear that some members of the board, given the failure to see legislation enacted that would support the creation of a tax credit, were no longer interested in the CCIP project.

5.0 LESSONS LEARNED

Based upon the information gathered throughout the case study, the following lessons about improving access to risk capital, improving investment skills, and sponsoring and administrating such projects can be derived from the Regional Investment Corporation demonstration project.

5.1 Access to Risk Capital

There were few serious and sophisticated investors in the community. Project staff were able to solicit only 25 to 30 investors in the community of Moncton. Further, they estimated that there were likely no more than 100 serious and "knowledgeable" investors throughout the Province.

There is a difference between being wealthy and being in a position to invest. The project discovered that many of the people who thought they could invest because they were "wealthy", i.e. they had a high net worth, actually were not in an investment position because much of this worth was tied up in their businesses; in other words it was not liquid.

SMEs will not gain access to capital if the investor does not sense a good fit with their interests. The RIC reported that it had difficulty achieving results when no "chemistry" existed with the investee. Under these circumstances, the investor saw the project as being too risky.

A lack of knowledge of the investment sector tends to inhibit investment interest. Project staff and investors themselves noted that "if they do not understand the sectors, they do not understand its potential". As a result, the project had difficulty leveraging interest in growth oriented business ideas (e.g. internet-based training) among local investors. Instead it found that many investors wanted to invest in businesses that they understood.

Not all investors who are willing to make a small investment (i.e. $50,000 to $200,000) are interesting in taking a high risk. The focus of the CCIP program presupposes that angel type investors, or investors looking to invest smaller amounts, are willing to accept a high level of risk. In fact, many of the community' investors did not want to engage in risky ventures.

There was a lack of interest in mentoring a new business. Within the community it was reported that many investors were simply not interested in mentoring a start-up or being part of its management structure.

Some investors in the community would have been willing to accept a slow growth investment. Not all investors were looking to make a quick dollar. Some in the community would have been as open to an opportunity that would have presented a slower rate of return with less risk.

5.2 Investment Readiness

Where the levels of investment readiness are low, a great deal of effort is required to bring an entrepreneur to a state of investment readiness. The RIC project found that it had to spend a lot of its time working with entrepreneurs just to ensure that they could articulate a clear business concept and an accompanying business plan, "We spend a lot of time educating business". Some of these companies really did not need investors; they needed management consulting services.

SMEs seeking investment require specific coaching before meeting with and presenting projects to investors. The RIC hosted an investor forum at which three firms were given the opportunity to present their business concepts to local investors, accountants, lawyers and bankers. Although the event was well received and generated much discussion among investors, the RIC learned that additional SME coaching would have helped improve the strength of the presentations.

5.3 Project Sponsorship and Administration

The project should have had stronger ties to the local economic commission. The RIC was incorporated as a separate organization from the GMEC because its mandate was different. This required that a separate management structure be put in place and no representative from the GMEC sat on the board (ex officio only). The project faced challenges as a result of the interests of its board. The result was dissatisfaction by many with the project, and a lack of interest by others in the objectives of the CCIP program. It was suggested that oversight by a local organization might have minimized these challenges.

The project found it difficult to manage its activities given the flexibility it was afforded. Due to the divergent interests of the board of directors that was managing the project, it was suggested than a stronger emphasis by the CCIP Secretariat on meeting the CCIP's overarching objectives would have reduced the level of flexibility afforded the RIC project and given it a better ability to manage diverse interests and expectations.

5.4 Other Lessons

Success is not achieved without persistence. The project noted that in its efforts to identify and pull investors and SMEs with potential out of the woodwork, it had to be "persistent".

6.0 RELEVANCE

Although there is likely to exist some level of need for investment facilitation services in most communities, the size and economic makeup of the community of Moncton did not demonstrate an ability to absorb and leverage the services provided by the RIC. The fact that the project ended its activities early, not withstanding the divergent interests of its board, suggests strongly that the need for such a project with a focus on building investor and entrepreneur networks and supporting matchmaking, does not exist in Moncton at this time.

6.1 Responsiveness to Community Needs

The project attempted to make itself "fit" to the needs of the community and the interests of the board, and to deliver its activities according to what was required. However, the entrepreneurial community is in greater need of assistance in generating viable business ideas and assisting entrepreneurs with the development of their business plans.

7.0 ALTERNATIVES

It was suggested that the approach used by the project, which included very traditional activities of mentoring, liaison and information dissemination, could possibly have been replaced by other forms of interaction. In the case of the RIC, however, any alternative delivery strategy that might be used to improve access to risk capital or investment readiness would still have to deal with the fact that the community lacks a critical mass of angel dollars and appropriate and interesting entrepreneurial ideas.

7.1 Sustainability

The Regional Investment Corporation closed its doors at the end of June 2001. There was no interest in keeping up the project, nor any financial means of doing so.

Of note under this is the original proposal that the project would establish a fee structure for services to allow the project to become self-sustaining. However, because the tax credit never came to fruition, the board's hope that it would be able to become a "flow through" organization, in fact a venture capital fund management team, meant that the project never did even come close to leveraging the types of dollars it proposed it could.

8.0 CONCLUSION

The RIC achieved limited results in facilitating access to risk capital and improving investment readiness, in part because of the limited availability of investors, and also because of the lack of entrepreneur sophistication. Further, the emphasis placed by members of the board on the development of a provincial tax credit, although theoretically beneficial to the creation of an investment culture within the Province, led the project to focus a significant part of its energies on lobbying and politicking. As a result, the project achieved only one deal and became the victim of discouragement over the lack of results.

Of note however, is the fact that the efforts of the project (at least those dedicated in facilitating investor/investee relationships), truly focused on angel investing at the local level. The project, unlike some other projects CCIP, did not work with SMEs that required more advanced forms of funding such as venture capital. Instead, it counselled such firms on how to access that type of funding and who to approach to get it.

4

INDUSTRY CANADA

Evaluation of the Canada Community Investment Plan

Final Case Study Report: Appendix D - North Bay (Bayway Community Investment Corporation)

September 28, 2001

PRICEWATERHOUSECOOPERS

Table of Contents

1.0 INTRODUCTION

The Canada Community Investment Plan (CCIP) is an Industry Canada sponsored program designed to improve access to risk capital by growth-oriented small and medium-sized enterprises (SMEs). The CCIP provides communities outside main financial centres with the information and tools they need to start and operate an investment facilitation service for their fast-growth SMEs.

One of the key approaches used to support improving access to risk capital is through the use of demonstration projects. Twenty-two projects were selected by the CCIP following a competitive process. These projects have implemented diverse strategies aimed at facilitating access to risk capital by local SMEs.

1.1 Evaluation Objectives

The CCIP wishes to disseminate the best practices and the lessons learned by these projects for the benefit of all communities looking to implement their own investment facilitation strategy for SMEs. The evaluation of the CCIP will support this requirement by providing a summary of the achievements of the Plan and observations and lessons learned.

To support the evaluation of the CCIP, seven of the projects were selected for review as part of a final "lessons learned" evaluation of the CCIP. This case study provides an overview and evaluation of the Bayway Community Investment Corporation demonstration project, located in North Bay, Ontario.

1.2 How to Read This Document

The first part of this document, Section 2.0, provides a brief description of the approach used to conduct the case study. Section 3.0 gives an overview of the North Bay project, including a discussion of its context and background. Section 4.0 examines the key findings derived from the case study and Section 5.0 seeks to draw out the lessons learned from the case. Section 6.0 examines whether the project remained relevant and Section 7.0 looks at whether there are alternatives means of delivering the project to achieve results. Concluding remarks are provided in Section 8.0.

2.0 EVALUATION APPROACH

This case study included: document review; web site review and a site visit. The purpose of the site visit was to see first hand how the Project worked and to meet Project staff and other stakeholders in-person to undertake the lessons learned evaluation. We held in-person and telephone interviews with Project staff, intermediaries and investors, held a group interview with Board members and a focus group with SMEs. A total of 16 people were interviewed including:

- three project staff;
- three board members;
- three intermediaries;
- four investors; and
- three SMEs.

The documents that were reviewed included the project's original and updated business plans, quarterly reports, annual financial audit reports, project publications and documents, and reports and other documentation provided by the CCIP Secretariat and the project.

All fieldwork to support the evaluation was conducted between April and June of 2001. Therefore, the results of the evaluation, and the lessons learned, reflect information and results gathered for this period.

3.0 CONTEXT AND PROJECT PROFILE

The North Bay and District Chamber of Commerce submitted its formal business plan in August of 1996 to the CCIP program. The business plan for Bayway focused on putting in place an equity financing facilitation infrastructure that would build upon the existing infrastructure in the North Bay community by forming partnerships with other government and non-profit community organizations (e.g. Economic Development Commission, Chamber of Commerce, Small Business Centre, Community Futures Development Corporations) and professionals from the private sector (i.e. accountants, lawyers, consultants). The action plan that was laid out in the original business plan spanned across the entire process for assisting small and medium-sized enterprises (SMEs) become investor-ready. It included preliminary screening of business plans, assistance in revising business plans to be more investor ready for potential investors, conducting due diligence, and mentoring SMEs through the negotiations and through financial restructuring.

The Project would utilize both the internal expertise (i.e. Project staff and Board members) and external expertise (i.e. professionals from the private sector) through a team approach at different stages of the process. The teams were identified as follows:

- DART (Development and Review Teams) - 1-4 individuals selected at random. Provide primary screening of SMEs to identify the most promising and also to identify, motivate and inventory angels;
- SMART (Smart Money Assistance and Review Team) - 3-5 professionals selected at random, including an Angel having a personal stake in the target business's success. Provide secondary screening, including assistance with business plans, due diligence, design of investment and source of seed capital; and
- CART (Community Assistance and Review Team) - 1-4 members per team. Responsible for every application that gets past the secondary review stage. They are in place to provide continuing support and mentoring/monitoring.

3.1 Project Objectives

The objectives of Bayway remained similar to the original objectives outlined in the first business plan, which included:

- to build an inventory of the equity requirements of SMEs and the sources of equity financing available to them within and outside the community;
- to build a functional network with internal and external resources that can be used as a hub for an intelligent referral system;
- to facilitate the matching of SMEs to investors by providing assistance, including an educational component, through the entire process from the identification phase to the exit phase;
- to bridge the additional sources of funding for both equity and debt financing; and

- to communicate strategies to mobilize the business/financial community to help motivate dormant angels[1].

3.2 Project Administration

The Project staff of Bayway started with a full time executive director position and a part-time administrative assistant. In mid 1999, the executive director resigned leaving the position open for the remainder of the Project. The current level of funding and the sunset of the CCIP Program made it difficult to hire another full time executive director, so this position was replaced with one of the Board members becoming a part-time volunteer Project manager for the duration.

There is a Board of Directors currently in place, made up of seven members (only five are in office) representing the core sponsor organizations and other private sector companies. The activities of this Board are limited to that of an advisory role, given the current level of activity within the Bayway project.

The Project has set up a website that provides information and resources for SMEs on obtaining equity financing, writing business plans, etc. The site is also the gateway for North Bay to the Carrefour Capital website that facilitates the matching of SMEs to investors.

3.3 Project Partners and Funding

Industry Canada has provided Bayway with $353,400 in funding from June 15, 1997 to March 31, 2001. It is projected that Bayway for the year 2001/02 will received an additional $48,000 in CCIP funding, totally $401,400 over the five year period. The original contract agreement identified the CCIP funding at $465,000, a difference of $63,600. The maximum allowable under the agreement was reached only during the first year ending March 1997. For the year ending March 1998, only 80% of the maximum contribution was reached and 67% for the year ending 1999. A amendment to the agreement was made on February 23, 2000 which decreased the maximum allowable because of difficulties in obtaining the one third community funding.

Over the course of the project, the core sponsors have included: Nipissing East Community Opportunities (NECO); North Bay & District Chamber of Commerce; and North Bay Economic Development Commission. Other sponsors have included the University of Nipissing, Tembec and Grant Thornton accountants, Scotiabank, Bank of Montreal and Royal Bank. The first year of the Project, Bayway was able to raise $44,538 in community sponsorship; however, in the years following, the direct contributions from the community decreased by approximately 40%. These secondary sponsors have only sponsored once or twice because of Bayway's slow start, its limited success in linking SMEs to equity financing and the competition by other community organizations for funding.

Bayway from the start has shared office space with NECO, which has resulted in a very close working relationship. This type of arrangement has financially benefitted Bayway as they were able to share, not only the space, but the equipment, and a receptionist/ administrative assistant. Bayway was also expected to have an application fee of $500 for each business plan submitted for review and a finder's fee of 2% of

[1] Bayway Community Investment Corporation Business Plan, August 12, 1996

investment dollars collected on each successful application. However, the application fee was only collected on one occasion and no finder's fees were ever collected.

3.4 Project Milestones and Activities

The types of activities that Bayway is carrying out today have evolved from the original business plan. While the objectives of the Project have remained the same, the means by which they are achieved has shifted from a direct facilitation approach to a more indirect advisory and referral role. Bayway does an initial screening of business plans and then refers SMEs to existing service providers in the community. In the original plan, the Project staff and Board members would be part of either the DART, CART or SMART team and would mentor the SMEs through the different stages of investor readiness.

The website that was initially envisaged would be more of an interactive tool that facilitated the matching of SMEs with investors both within and outside of North Bay. The concept of the website is still valid, but the website is linked to the inventory of investors and SMEs generated through the Carrefour Capital website rather than through Bayway. Bayway has become the gatekeeper for the Carrefour Capital website for North Bay and is responsible for pre-screening and selecting the SMEs that have access to the investment opportunities through Carrefour. Bayway has contracted Lawlor Associates to rebuild the Bayway website and to act as their agent in handling the Carrefour information processing function. The actual Bayway website is also a source of information on equity and other sources of financing for SMEs and investors.

Bayway has focused its efforts on providing seminars and training for SMEs to improve their business and investment readiness skills. Overall Bayway has sponsored over 10 seminars and workshops ranging in topics from Successfully Managing Business Growth to Income Tax seminars. These seminars/workshops, in total, have been attended by over 860 SMEs and entrepreneurs, 25 investors and 115 representatives from community based organizations and the business community.

In addition, Bayway has participated in networking events where they have had the opportunity to present and also to network with the investment and business community. For example, a Bayway representative has attended seven of the monthly Toronto Venture Group investor forums which have provided a good networking opportunity. Each forum has over 20 investors, 20 entrepreneurs and 50 other business community representatives in attendance.

4.0 FINDINGS

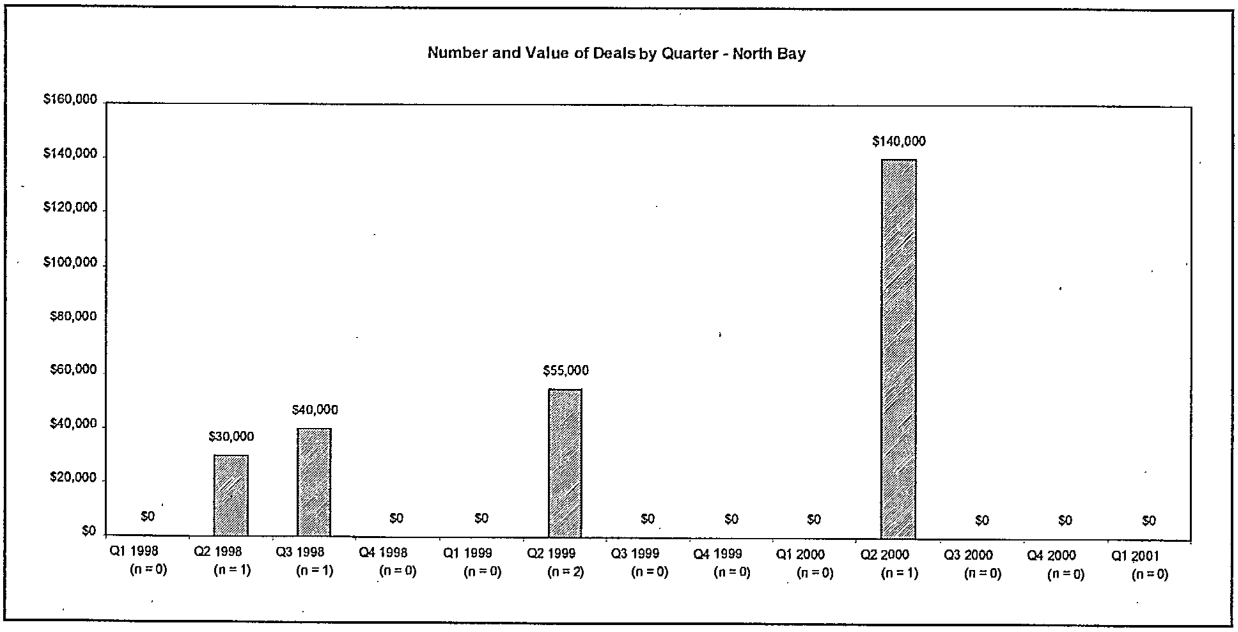
This section provides a summary of key evaluation findings.

4.1 Objectives Achievement and Project Outcomes

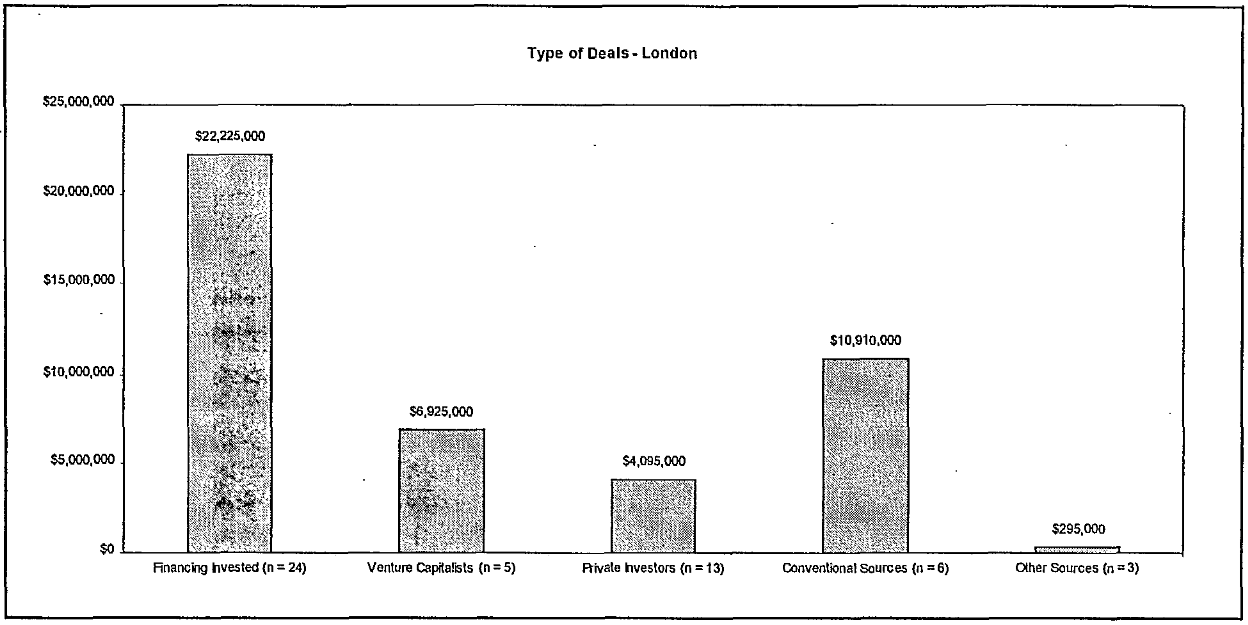
This section of the case study examines the extent to which Bayway has achieved its stated objectives and the results, both intended and unintended, that may have ensued. It also examines whether the Project has contributed to the objectives of the larger CCIP program and those of Industry Canada.

4.1.1 Access to Risk Capital

As of September 20, 2000, Bayway had successfully closed 5 deals since its inception. The total amount of money invested in these five deals was $265,000, with one of the deals worth $20,000, being conducted with an angel investor. This deal flow falls short of projections in the original business plan which identified goals of $16,500,000 of equity financing, based on the completion of 66 deals at an average of $250,000 per deal. It was also anticipated that $4,125,000 of the equity financing would come from 40 to 50 local angel investors, with the rest coming from outside sources such as Venture Capital companies. The graph, below, shows the deal flow for the North Bay project.



The graph, below, depicts the type of financing that was raised for the five deals. As the graph shows, the majority of financing was provided by venture capital firms ($140,000) and conventional sources ($105,000).



While the actual number of deals has been considerably less than originally projected in the business plan, there have been other less tangible and direct outcomes, including:

- the number of deals that are closed by the equity broker, Lawlor Associates that Bayway has supported for taking on this type of role in the community. The deals that this equity broker closes are indirectly related to Bayway's activities;
- the contribution to building the infrastructure to improve access to risk capital. By building the networks with other community based organizations and the private sector, the level of awareness of equity financing sources has been increased;
- working with NECO, Bayway helped initiate NECO into providing more equity financing than they had done in the past; and
- finally, through the connection with the Carrefour Capital site and the Toronto Venture Group, Bayway has opened the door for investment opportunities coming from venture capitalists and angel investors from outside of North Bay.

The success in improving access to risk capital has been limited compared to what was anticipated in the original business plan.

The success lies in the infrastructure that Bayway has fostered through its networking with community organizations and the business community, in particular Lawlor Associates, which has evolved into an equity broker as a result of its relationship with Bayway.

Bayway has also improved the access to risk capital with its association with the Toronto Ventures Group, where they have introduced some SMEs to this network of venture capital and in its role in moving NECO into more equity financing deals rather than its traditional focus on debt financing. Bayway is also providing some limited opportunities for matching SMEs with potential investors through its connection to the Carrefour Capital website. To date four SMEs are posted on the site; however, no investors from North Bay are registered.

4.1.2 Investment Readiness

According to investor interviewees, SMEs are generally not very "investor ready" or business savvy in North Bay. Bayway has helped to increase the investment skills of SMEs to a small extent by co-sponsoring small business seminars, such as Managing Growth and Accessing Financing, with other organizations including FedNor. In addition, the information on equity financing and developing business plans available on the Bayway website also helps to improve the skills of SMEs. Currently, there is mentoring and advisory services, to a small extent, being done by the Project manager and Board members, but SMEs are mostly being referred to services available in the community.

4.1.3 Community Linkages and Synergies

Bayway has made some linkages and synergies with other community initiatives; however, there has been some confusion over the role that Bayway plays as opposed to NECO and other community organizations. There was uncertainty in the community on whether Bayway provided equity financing to SMEs. This confusion likely occurred because of the close working relationship and shared office space with NECO and the need for more marketing activities. In addition, the role that Bayway has adopted as more of a referral and advisory service for SMEs is a role that other organizations also play; therefore, there is some overlap with other initiatives in the community. However, none of these other organizations focus specifically on matching SMEs with investors, so the Project is addressing a specific service gap.

Having an executive director/manager and representatives from the core sponsors and the private sector on the Board, who have strong networks and contacts in the community, is instrumental in building links and synergies with other community initiatives. The members of the board of directors and the project managers have been connected to other community development organizations and initiatives, which has been leveraged to benefit the Bayway project.

5.0 LESSONS LEARNED

5.1 Project Sponsorship and Administration

A solid communications plan is essential to get the message out about the Project. SMEs and investors were not all that familiar with Bayway or what it did. There needs to be a strong message that the Project is a facilitator of equity funding, not a provider and there has to be more awareness of the Project in the community by communication mechanisms such as advertising in local newspapers, formal and informal networking, presentations to local organizations (Chamber of Commerce, Rotaries, etc.), co-sponsorship of community events, presentations to professional service consultants, etc..

Get a secrecy/confidentiality agreement in place with the Board so that their expertise can be utilized to its full potential. Having a Board comprised of volunteer members from the private sector is important for an initiative of this type. However, the conflict of interest concerns that arise from this type of structure need to be addressed at the outset of the Project. In order for the Project to be effective, the expertise of the Board needs to be leveraged as much as possible. A secrecy/confidentiality agreement should be signed as early as possible to alleviate any concerns of conflict of interest.

The make-up of the Board is critical in the success of the Project. Having a volunteer Board can result in little or no accountability for the Project. As such, an honorarium should be provided so there is more accountability. In addition, the Board needs to have a mix of business people from the private and public sectors, including the sponsor organizations and professionals such as accountants, lawyers, and bankers. This type of private sector representation will fair well with the investment community.

Networking skills and contacts within and outside the community are essential in building the network that is needed for the Project. The Project staff and the Board must be well connected within and outside the community. The success of an initiative of this type depends on the linkages and synergies that are created within and outside of the community. The executive director should have an entrepreneurial and creative mind, and think beyond the mandate of the project in order to ascertain how its activities can be used to further the needs of the business community. They should also focus on networking activities rather than administrative tasks.

Clear Project goals and roles that have been agreed upon by Project staff and Board members is needed to achieve the objectives. Everyone has to understand their role on the Project and how they are to contribute to achieving the goals. Without this common vision there can be a lot of time wasted on activities that are not supporting the achievement of the Project objectives.

5.2 Improving Access to Risk Capital

The size of the community can have an impact on the success of the Project. While there is a need in North Bay for a CCIP Project like Bayway, it is very difficult to maintain momentum when the critical mass may not be sufficient to support its existence. In a smaller community where "everyone knows everyone", the need may not be in matching the SMEs to investors, but more in the mobilizing of the investment community and in making SMEs more investor ready.

Venture capitalists in major centres are not interested in investing under $1 million in remote communities. The work involved for an investment under $1 million does not entice venture capitalists to invest in remote communities. There is too much hands-on management with these SMEs which is even more difficult if they are not in close proximity.

The use of a website for matching SMEs to investors may not be the right facilitation vehicle. The deal flow rate in a smaller community is too small to benefit from the use a website as a matching mechanism. In addition, the need for anonymity of angel investors and the concern of SME "ideas" being broadcast adds to the problem. And finally, the use of a website to match SMEs with investors outside of the community may work, if there is an investor who does not mind investing in a remote community.

The Project has to have concrete results to be credible in the community. In order to obtain the local community support and funding, a Project has to show that it has had successful deals consistently, which builds credibility and buy-in from community organizations, financial institutions, investors, etc. It is very difficult to show achievement or credibility when the focus of the Project is to build infrastructure.

Existing infrastructure should be enhanced rather than creating a separate entity. Existing community infrastructure should be enhanced rather than forming a separate entity, for example, enhancing the NECO or the Business Development Bank of Canada rather than spending time and resources on setting up a separate entity. These organizations already have the contacts, networks, and expertise to assist SMEs and this knowledge/expertise should be leveraged.

The Project should not come across as a government initiative but should have more of a private sector focus. A government program can be perceived by investors as having too much red-tape and bureaucracy, with little flexibility and restrictions because of government funding and accountability. The involvement of the private sector should be foremost in the marketing activities.

5.3 Investment Skills Enhancement

SMEs need to be aware of what is ahead of them in trying to become investor-ready. Often business and financial management skills are limited, so SMEs need to know at the start what the process is, how long it will take and what the chances are of actually obtaining access to risk capital. This will help manage their expectations and their commitment to the process.

While training seminars are useful in enhancing investment skills, one-on-one mentoring provides the best means for helping SMEs with different needs achieve their objectives. What SMEs need is mentoring through the entire process of obtaining equity financing. A seminar, while useful in one specific area of equity financing, does not in itself bring the SME to investment readiness like mentoring does. More effort should have been applied by the executive director and the board members to the mentoring component.

6.0 RELEVANCE

The following section examines whether there is still a need for the Project in the community and the impact the Project has had on the community.

6.1 Meets a Need in the Community

The objectives of the Bayway Project have remained consistent throughout the Project and with those of the CCIP program; however, as the Project evolved, the existing infrastructure in the community was leveraged more than originally planned (i.e. the role of Lawlor Associates). According to case study interviewees, the growth-oriented SMEs in the North Bay community often lack the expertise and knowledge to obtain equity financing to grow their businesses. Educating and helping these SMEs become more investor ready for investors within and outside of the North Bay community is an essential service needed. However, it is likely that North Bay does not have the critical mass to justify a stand alone investment facilitation initiative like the CCIP. It was suggested that an existing organization, such as NECO or the Business Development Bank of Canada, should be enhanced to take on the type of mentoring and matching services envisioned under the Bayway Project.

7.0 ALTERNATIVES

This section examines whether there are other ways to deliver the program and still achieve the same objectives.

7.1 Strengths/Weaknesses of a CCIP Program

Without the CCIP Project, investors and SMEs would meet through personal and business connections. The difficulty with connecting growth-oriented SMEs to investors is the level of investment readiness of the SMEs. As such, the focus of the CCIP Project to educate and work with SMEs to make them more investor ready is good. In addition, the flexibility to allow Projects to try different ways to achieve their goals was felt by many interviewees to be a solid approach.

7.2 Sustainability

Due to their close working relationship, NECO will assume Bayway activities upon the project sunset. Bayway will wind down its activities into NECO. NECO is planning to do an assessment on BayWay's activities to determine what level of activity will be continued.

7.3 Other Needs in the Community

There were several other needs identified by interviewees that could benefit North Bay SMEs and investors. These are identified below.

- Have NECO take on more of an equity financing role and increasing the amount of financing they can invest over $125,000.
- Create a federal or provincial fund that provides public equity investment for businesses that need an initial "equity injection" or seed funding.
- With the high number of conservative and retired potential angel investors in North Bay, it was suggested that a pool of re-directed RRSP investments be set up to help SMEs..
- Link other neighbouring communities with the CCIP Project to increase the potential deal flow by bringing more SMEs and potential investors into the process. This would also open up the potential sponsorship of the project to organizations in other communities, which could help alleviate the challenge of raising project sponsorship dollars.
- To mobilize potential new angel investors, activities need to be sponsored that will incite their interest in investment activities that will support growth oriented firms. Such activities would include the provision of information and education, as well as exposure to business investment opportunities.
- Many of the potential angels in North Bay lack the business expertise/acumen to be making equity investments in SMEs, so they tend to invest in the more conservative ventures such as real estate. The business sophistication and management skills of these potential angels needs to be increased in order to bring them to a state where they are comfortable making equity investments

in the growth-oriented SMEs in their community.

8.0 CONCLUSION

It is difficult in a smaller community to have a strong deal flow. In addition, the small community networks where "everyone knows everyone" make angel investors more likely to want to remain anonymous. Added to this is the fact that many of the businesses in North Bay are micro-businesses whose owners are hesitant about equity financing and losing managerial control of their businesses. The remoteness to major centres is also a disincentive for venture capitalists to invest in businesses in North Bay because of the work that is required for the size of investment and the inconvenience of traveling to Northern Ontario to manage their investments. Finally, the types of angel investors that live in North Bay tend to be conservative, investing mostly in real estate or other more traditional investments. Many are retired individuals who may not possess the business knowledge necessary to feel comfortable investing in businesses that they are not familiar with and to manage their investments in these businesses. These issues have made it challenging for a community such as North Bay to implement a project like the CCIP and for Bayway to fully achieve its original goals.

5

INDUSTRY CANADA

Evaluation of the Canada Community Investment Plan

Final Case Study Report: Appendix E - Thérèse-de-Blainville (Capital Connexion)

September 28, 2001

PRICEWATERHOUSECOOPERS

Table of Contents

1.0 INTRODUCTION

The Canada Community Investment Plan (CCIP) is an Industry Canada sponsored program designed to improve access to risk capital by growth-oriented small and medium sized enterprises (SMEs). The CCIP provides communities outside main financial centres with the information and tools they need to start and operate an investment facilitation service for their fast-growth SMEs.

One of the key approaches used to support improving access to risk capital is demonstration projects. Twenty-two projects were selected by the CCIP following a competitive process. These projects have implemented diverse strategies aimed at facilitating access to risk capital by local SMEs.

1.1 Evaluation Objectives

The CCIP wishes to disseminate the best practices and the lessons learned by these projects for the benefit of all communities looking to implement their own investment facilitation strategy for SMEs. The evaluation of the CCIP will support this requirement by providing a summary of the achievements of the Plan and observations and lessons learned.

To support the evaluation of the CCIP, seven of its demonstration projects were selected for review as part of a final "lessons learned" evaluation of the CCIP. This case study provides an overview and evaluation of the Capital Connexion project, managed by the Société de développement économique de Thérèse-de-Blainville.

1.2 How to Read This Document

The first part of this document, Section 2.0, provides a brief description of the approach used to conduct the case study. Section 3.0 gives an overview of the Thérèse-de-Blainville project, including a discussion of its context and background. Section 4.0 examines the key findings derived from the case study and Section 5.0 seeks to draw out the lessons learned from the case. Section 6.0 examines whether the project remains relevant and section 7.0 looks at whether there are alternative means of delivering the project to achieve results. Concluding remarks are provided in section 8.0.

2.0 EVALUATION APPROACH

This case study includes: document review; web site review; a site visit, attendance at a project sponsored meeting with a number of economic development organisations and nine in-person and telephone interviews with project staff, the sponsoring organisation, entrepreneurs/SMEs and investors, and CLD representatives. Given the nature of the case, no focus groups were held.

The documents that were reviewed included the project's original and updated business plans, quarterly reports, annual financial audit reports, project publications and documents, and reports and other documentation provided by the CCIP Secretariat and the project.

All fieldwork to support the evaluation was conducted between April and July of 2001. Therefore, the results of the evaluation, and the lessons learned, reflect information and results gathered for this period.

3.0 PROJECT PROFILE

The Thérèse-de-Blainville project proposal was submitted by the Société de développement économique de Thérèse-de-Blainville (SODET). It was reviewed and selected by a national panel of experts from each region composed of the private sector. It was then selected in 1997 as one of 11 projects selected that year.

The SODET's project is Capital Connexion, an Internet-enabled confederation of databases operating under a common interface. The idea behind this creation of the network was that it would provide a point of contact for potential investors and SMEs. It would also permit the Centres local de développement (CLDs), who are responsible for supporting small and growth oriented business, to have access to a more formal tool that could assist them in their work.

3.1 Project Objectives

The project's objectives were outlined as follows:

- to enable growth-oriented firms to obtain quick and suitable financing;
- to create a formal network which would allow investors and entrepreneurs to meet;
- to build a databank that allows investors and entrepreneurs to communicate with one another;
- to provide communities with more risk capital resources; and
- to contribute to the economic development of the Thérèse-de-Blainville region, the Province of Quebec and Canada.

Throughout the project, these objectives have remained consistent.

3.2 Project Administration

The SODET is a Centre local de developpement (CLD)[1]. Across Quebec, there are approximately 120 CLDs, or one for each RCM. The SODET's mission is in part "To foster economic development and job creation in the Thérèse-de-Blainville RCM." Specifically, the SODET, like other CLDs, is mandated to: "actively seek out and encourage investments; support local business; encourage young entrepreneurs; undertake special regional economic-oriented projects; promote the area and provide economic leadership, and contribute to the development of social economy enterprises." As such, its mandate includes securing public funds for the development of SMEs in its respective region.

The SODET staff manage the Capital Connexion project. The SODET's board of directors is not involved in the project and has not played a role in guiding its activities. Instead, the day-to-day management of the project is done by one of the SODET's Industrial Commissioners. In addition, the SODET's Director General, who first managed the project when it was initially funded, continues to play a key role in overseeing its activities.

1 A centre local de développement (CLD) is a non-profit organisation financed conjointly by Quebec's provincial government and the local municipality. The mission of the CLD is to mobilize its local community in support of the common objective of supporting the development of the economy and job creation within its territory.

In looking back at the management of the project and the development of the database, the evaluation revealed that four SODET employees have spent approximately 200 days on the project; or the equivalent of one full-time worker in the first year. Overall, the project required a significant amount of technical and design work to establish the website, configure the database and establish links to other CLD databases in the Province. Although the project had planned to decrease its dedicated resources to the equivalent of three quarters of a staff person in the last four years of the project's five year plan, the significant work required and the increasing demands of the project (due to increase in the number of registrants) have meant that the SODET has had to retain one full-time employee for the project.

3.3 Project Partners and Funding

Industry Canada committed to providing the SODET with $325,000 in funding for the Capital Connexion project. This funding covers the period September 1997 to 2002. The project was required to ensure an additional contribution of one third of its total project funding through local contributions, in the amount of approximately $108,000. The SODET itself has provided this contribution.

3.4 Project Description

The Capital Connexion database can be found at www.capital-connexion.com, or accessed directly from the SODET's website at www.sodet.com. The web-based database offers SMEs and investors the opportunity to list their projects, or investment interests and capital available, at no cost, for ease of reference by a global audience. Small and medium sized businesses and investors from almost any jurisdiction can then surf the database for potential opportunities. Once they identify an opportunity that matches their interests, they can make a request for additional information through the system. The central server forwards their request to an accredited local economic development organisation[2] that acts as a 'gatekeeper.' The gatekeeper who receives the request is then responsible for assessing the validity of the request and initiating follow-on contact if there is a belief that there is the potential for a match.

More detail on how the database works is provided below.

3.4.1 The Network of Databases

As noted already, the Capital Connexion database is a confederation of linked, franchised databases. Sixty-six sites are currently linked together. Each site's activity is managed by a separate economic development organisation. An economic development organisation can become part of the network by entering into a contract with the SODET. Under this contract they agree to pay a registration fee and to follow guidelines around the promotion and administration of their database.

Registration fees for each organisation are assessed according to the size of the population in the organisation's host community (e.g., the RCM in Quebec). Each organisation pays fee of 0.02¢ per inhabitant. The minimum fee is $500 per organisation, with the average fees being $1,000 to $1,500. In assessing fees, the SODET works with the economic development organisation to establish performance expectations and may provide an up-front discount to the organisation in anticipation of its achievement

2 In Quebec, these accredited economic development organisations are the CLDs. Outside of Quebec, other interested organisations, also normally working in the area of economic development, may act in such a capacity.

of expected results. The SODET indicated that discounts of 35% to 50% were given to projects in the first year of operation (2000). In the second year, discounts of up to 25% have been given. The assessment of the discount is based upon the previous year's performance by the project and its adherence to various contract requirements around marketing of the site, timely validation of registrations, deal making, etc.

3.4.2 Role of the Economic Development Organisation and 'Gatekeeper'

Each organisation that participates in the project signs a contract with the SODET and assigns an individual to act as a 'gatekeeper'. The contract outlines the expectations to be met by the partnering organisation and its gatekeeper, including the territory that the organisation is responsible for and the requests that it must therefore validate, as well its exclusivity over access to confidential information about local registrants. In summary, the rights and obligations of the gatekeeper include:

- **Local promotion:** Within the first four months of signing the contract, a press conference must be held that announces the project, its expected results and provides a general description of the project. Press releases must also be issued periodically as results are obtained.

- **Validation of registrations:** When a registration is logged into the system by an SME or an investor, the Capital Connexion system analyses its origins and forwards a message to the relevant gatekeeper asking them to validate the information provided in the registration form. The gatekeeper must:
  - Contact the new registrant within three working days;
  - confirm any requirements or criteria (in the case of an investor);
  - evaluate the value of posting the new registration on the Capital Connexion site; and
  - validate the file (through the provision of an access code provided by the Capital Connexion administrator, the SODET).

- **Organising contact between potential partners:** Given that each organisation has exclusive access to the information about those registrants on its territory, the gatekeeper must play the role of facilitator in supporting meetings between SMEs and investors, in particular when requests are received by the gatekeeper.

  In the case that one party makes a request through the system to be linked with another (i.e. SME with investor or vice versa), the gatekeeper must:
  - communicate with the party making the request within a three day timeline;
  - discuss the project and its interests;
  - organize, if appropriate, a meeting; and
  - facilitate, if required, the discussion that may lead to an investment.

- **Update information:** As agreements are entered into, the gatekeeper must complete a form that describes the nature and amount of the investment, and the number of jobs created. In addition, the files for the parties involved should be removed from the system. To support management of the information on the databases, a recent system upgrade allows gatekeepers to assess how long an SME's project or an investment has been listed on the system. Once a record has reached an age of nine months, gatekeepers are prompted to validate whether the opportunity or investment remains valid.

Although each gatekeeper must undertake the tasks noted above, the SODET, as system administrator, also commits to:

- undertaking the general maintenance of the site, including responding to technical problems, and its ongoing improvement;
- building the Capital Connexion network (by enlarging the network, more opportunities for investment can be had);
- promoting the tool nationally; and
- managing website sponsorship.

3.4.3 Access by SMEs and Investors

Registration in Capital Connexion is free to all investors and SMEs. Registrations can be done using the appropriate form in the electronic database. Once the form is completed it is forwarded to a gatekeeper for validation. The completed registration form is forwarded to the gatekeeper for the region in which the city or municipality indicated on the form is located. Upon validation of the record the user is assigned a password.

Once registered, an investor or entrepreneur can identify and select potential partners and access detailed profiles, though these contain no confidential data. An investor or entrepreneur who indicates an interest in a potential partner will receive a call from the appropriate gatekeeper to begin initial discussions about the possibility of a linkage.

Overall, the gatekeeper acts as a "representative" for the requested party and guarantees that registrations are credible. The role of gatekeeper is crucial in maintaining the confidentiality surrounding the entire information transmission process.

3.5 Project Milestones and Activities

The SODET began the Capital Connexion project in January of 1998. It spent the next year and a half developing the database. Ten months after the start of the project, between July and September 1998, it released a beta version of the website. Due to technical difficulties, such as personalising the database by locality, the Capital Connexion site only went live in September 1999. Since that time, minor changes have been made to the database including the addition of comment boxes and counters (to determine the number of visitors who visited a particular file).

By December 2000, the official logo of Capital Connexion was selected and an English version of the database was added to the website. A conversion of the database to a new interface graphic was begun in early 2001.

Although the development of the database represents the major activity of this CCIP demonstration project, the SODET did engage in additional activities to support awareness of the project and marketing of the database to prospective investor and SME registrants, as well as to other CLDs and economic development organisations who could franchise a database. For instance, in November 1997, the

SODET announced the CCIP project during a press conference. The result was the publication of articles in a number of local newspapers. Throughout the following year, the SODET promoted the project locally while it awaited the development of the final version of the website. In early 1999, the SODET continued its promotional activities by presenting the Capital Connexion project to the Professional Association of the Economic Development of the Laurentians and to the Quebec Minister of Regions. In mid-July of 1999, the SODET organised a press conference to announce the official launch of the Capital Connexion website. With the website now in full operation, the SODET extended its efforts to reach other CLDs and economic development organisations. It individually met with six CLDs, and organised two breakfast learning sessions with various private companies, investors, lawyers and the Quebec Minister of Public Services.

In May of 2001 the SODET organised a training session, "Défis d'un Maillage Carrefour-Capital" to provide investors and SMEs with information on how to become more investor ready. A total of 56 people attended the workshop, including gatekeepers, investors and SMEs. In the second half of the workshop, presentations were made by three of the SMEs to the group. These presentations provided the SMEs with an opportunity to profile their business projects. Also in May of 2001 the project held a provincial conference titled "Congrès des Veilleurs Carrefour-Capital". This conference brought together gatekeepers from across the project to discuss and share experiences from the project to date, and offered an opportunity to provide education on risk capital and deal making to the group.

4.0 FINDINGS

This section provides a summary of key evaluation findings.

4.1 Objective Achievement and Project Outcomes

The Objective Achievement and Project Outcomes section examines the extent to which the Thérèse-de-Blainville project has achieved its stated objectives and the results both intended and unintended, that may have ensued. It also examines whether the project has contributed to the objectives of the larger CCIP program, and those of Industry Canada.

4.1.1 Access to Risk Capital

Based on the primary goal of the CCIP, which is to provide growth-oriented firms with greater access to risk capital, evidence suggests that the project has been highly successful in increasing the availability of such capital. With approximately one and half years worth of activity to date, the Capital Connexion website boasts $454,047,000 of available risk capital, of which $118,522,000, or approximately 26% is available through private sources.[3] This capital is available from approximately 150 sources. According to comments made by investors during the evaluation, they are attracted to list their available investments on the site because their identity remains anonymous and because projects are pre-screened by a third party, the gatekeeper. Investors also noted that the Capital Connexion database was the only such tool that they knew of that afforded them such profile for their investment interests. The interviews further revealed that, as a result of the database, investors are more aware of investment opportunities and new business projects than they had been in the past.

The project has also experienced rapid growth, when it is considered that the database has only received significant promotion in the last six to eight months of its existence. Interviews with a sample of SMEs who are listed on the site revealed that they felt that the database was a good tool for possibly accessing capital to support their business projects. They also appreciated the fact that the database allowed for two way interaction. In other words, the system allows SMEs to profile their projects and for investors to approach them (rather than always being the other way around). As one entrepreneur remarked, "It allows people to see what you can offer." In some cases, SMEs interviewed noted that investors who were interested in their project had indeed sought out additional information.

With respect to the number of matches that have resulted through the project, at the time of the evaluation only one deal in the amount of $20,000 worth of private investment could be truly attributed to the project.

One of the fundamental precepts of Capital Connexion is that in order for it to be successful, the local economic development organisations and the individuals acting as gatekeepers within these organisations, must play a proactive role in establishing networks and contacts, managing the database, and in assessing the relevance and strength of business ideas as well as where matches can occur. At the

3 Data is taken from the Capital Connexion site, July 2001. These numbers reflect a "snapshot in time" and do not reflect the total amount of capital that has flowed onto and off the site since its inception.

time of the evaluation assessing the responsiveness of gatekeepers in playing this role was difficult due to the newness of the project. Some comments from SME registrants suggested that gatekeepers needed to play a more proactive role in helping them find financing for their project.

The project's management was clear that the success of deal making relies heavily on the capabilities and actions of gatekeepers. Not only should they react to enquiries from investors and investees in a timely manner, but they should also take steps to search for and structure matches between these groups. The economic development organisations that play the role of gatekeeper in their community must also be well known and respected for their advice by investors if deals are to occur.

Based on the precept of the CCIP program, i.e. that demonstration projects work to promote investments within their own communities, it is interesting to note that through the interviews, investors who register in the database are generally not limiting their search for investment opportunities to their immediate area. Their search is more greatly tied to their interest and knowledge of sectors in which they wish to invest. Further, their interest in an opportunity is closely tied to assurances by the local economic development that the SME and its project are both reliable and relevant. The same can be said for SMEs, where the demonstration project has shown that SMEs are less concerned about where the investment comes from, but more about the investor's understanding of the business that the SME is in.

4.1.2 Investment Readiness

Investment readiness has been of secondary importance to the Thérèse-de-Blainville project, since its primary focus is on establishing links between investors and entrepreneurs. As a result, the database component of the project does not address investment readiness by SMEs. Instead, the project's structure sees the gatekeeper as playing the primary role in assisting entrepreneurs to become investment ready.

To support gatekeepers in this role, as noted earlier, the Thérèse-de-Blainville project hosted a conference in May of 2001 ("Congrès des Veilleurs Carrefour-Capital") at which time it presented information on risk capital, and on how to engage entrepreneurs and investors in discussions. The project did undertake some additional activities with the intent of improving the level of understanding of risk capital among SMEs, and with the hope of improving their level of preparedness for an investment opportunity (e.g. how to prepare an investment proposal). In particular, the project's hosting of the "Défis d'un Maillage Carrefour-Capital" seminar in May of 2001 provided gatekeepers and others with an opportunity to hone their mentoring and deal making skills. The session exposed individuals to risk capital concepts, as well as to information on how to prepare an investment plan. Due to the fact that the workshop was held at the time that the evaluation was taking place, it was not possible to assess the impact of the session on the skill level and behaviour of gatekeepers.

4.1.3 Community Linkages and Synergies

The project has been successful in creating linkages across the economic development community in support of its objectives, and it continues to pursue additional links and to grow the number of CLDs and other economic development organisations that are part of the database network. It is clear that due to the nature of the project, the SODET had to prioritise network building as its number one activity, following the actual development of the database.

To facilitate buy-in and franchising of the database, the SODET publicised the database and demonstrated the website during its presentations to potential gatekeepers. According to interviewees, the project was attractive to the CLDs because it went hand-in-hand with their prime directive of supporting SMEs. In addition, although as previously indicated, fees are charged to each organisation that franchises a database, discounts are given based upon established performance targets. Further, each franchised organisation can promote the involvement of sponsors or partners on their own database by having the sponsor/partner's logo added to the banner at the bottom of their local database [4]. They are free to charge a fee for the inclusion of the logo on their site.

Due to the lack of information on the precise activities undertaken by gatekeepers across organisations, it was difficult to assess the level of support provided to registrants, especially SMEs, by the gatekeepers. Random interviews conducted with the SMEs indicated that most had not interacted with a gatekeeper (e.g. were contacted about their project or an investment opportunity). Because some SMEs had not been proactively linked to an investor they felt that the gatekeepers should play a more active role in matchmaking. To be successful, the project has to rely heavily on the work of the gatekeepers who direct the flow of information between investors and entrepreneurs. Therefore, it is of relative importance for the gatekeeper to validate and support the SME's project by providing assistance. As noted, the SODET recently addressed the need for education among its gatekeepers by delivering the seminar "Congrès des Veilleurs Carrefour-Capital", and by distributing a reference guide (Vade Maecum) to help them manage their database project.

Despite the reach that the project has obtained so far, a number of SMEs and investors interviewed indicated that the database was not well known and needed to be better promoted. This needs to occur in order for them to have greater confidence that a suitable investor/project will be available for matching. The SODET indicated that it was rolling out the database slowly so as to bring more economic development organisation's on board before being overrun by SMEs and investors in regions that do not have a gatekeeper in place. The database administrator indicated that when individuals outside of a franchised region logged registrations or requests, they were being forwarded to the SODET, thereby increasing the workload of the system administrator.

The SMEs and investors who were interviewed generally said that they registered on the site after being told about it by an economic development organisation, or following a random search of the Internet. Working in the project's favour is the fact that, at least in Quebec, about 50% of new business establishments and start-ups are shepherded through the CDL network. It is expected that this will lead more SMEs and investors to the site.

4.1.4 Other Outcomes/Results

No additional unintended outcomes or results were observed. The success of the project, however, is predicated on the availability of good business ideas. To some extent, these good ideas were said to be missing.

4 Although the sponsor/partner's logo would appear on the franchised organisation's database, the task of adding the logo is done by the SODET.

5.0 LESSONS LEARNED

Based upon the information gathered throughout the case study, the following lessons about improving access to risk capital, improving investment skills, and sponsoring and administrating such a project can be derived from Capital Connexion.

5.1 Access to Capital

In order for deals to occur, investors and investees have to meet in person and experience "chemistry". The idea of using the Internet as a way to link potential investors to growth-oriented firms is innovative. However, evidence from other similar projects (e.g. COIN, the Canadian Opportunities Investment Network), as well as the experiences of other CCIP demonstration projects, makes it clear that there is a critical need for individuals to meet and see whether there is a 'fit' between them before a deal will occur.

The occurrence of deals is the product of proactive efforts by 'gatekeepers'. Some gatekeepers are more proactive in seeking out matches than others. No matter how much information is provided or how good a business plan is, SME access to capital will likely only occur if value propositions are well structured and gatekeepers are on hand to critique the business plans and other related documents.

The gatekeepers are the key component in the equation. Gatekeepers act as the project's linchpin. They need to be thoroughly involved in the activities of the project locally. Locally based knowledge about investment opportunities and investors is essential to ensuring that matches occur.

5.2 Investment Readiness

Low level of investment readiness is a substantial barrier to overcome. Due to the nature of the project and its networking focus, once the project has reached an unidentified critical mass, more action will need to be geared towards investment readiness. It was clearly seen through the project's quarterly reports and interviews with various groups that more time should be spent with SMEs to make them investment ready.

5.3 Project Sponsorship and Administration

The information in the database is only as good as the people who manage it. All databases require ongoing monitoring, 'feeding' and 'cleaning' (e.g. removing old investment opportunities) in order to remain relevant. It is necessary for gatekeepers to continually review the information on their database (i.e. investment opportunities and investments available) in order to ensure that viable opportunities are presented.

When developing a new client solution, ensure the assistance of a highly performing programming and website development team. The project indicated that to reduce development time and minimize errors, an experienced web-development firm needs to be hired.

Flexibility leads to creativity and an ability to take risks. The project was clear that the flexibility afforded by Industry Canada in developing the Capital Connexion tool, and thus allowing it to experiment with a new concept, was a key aspect of its ability to deal with challenges along its development path.

5.4 Other Lessons

Sector-specific investment is more sought after than locally based investment. The message heard from investors is that investing locally is less important than investing in something that they know about or are interested in. The effect might be to change the nature of the service offering from one that is location based (i.e. searches can be done by region) to one that is sector specific.

6.0 RELEVANCE

Based upon the number of investment opportunities presented on the database (just over 260 had accumulated by July 2001), the number of investors listed (approximately 150), and the visitor load experienced by the site (close to 40,000), there appears to be a need for, or desire to use, such a database tool. A number of other similar tools have been created in other jurisdictions in the past, but achieved limited success. One such tool was COIN. COIN was ineffective in part due to its failure to facilitate pre-screening of investment opportunities. For its part, Capital Connexion can fulfil this requirement due to the involvement of gatekeepers as intermediaries who are expected to both validate the relevance of business projects and facilitate matching between SMEs and investors.

Currently, there are few, if any comparable tools that allow SMEs and investors to link up with such wide geographic scope and with a connection to an economic development organisation as an intermediary. Although Quebec has a strong investment infrastructure and culture, which is supported by a network of organisations such as the CLDs, before the introduction of Capital Connexion there did not exist any similar initiative that promotes access to risk capital. Banks and venture capital corporations are focused on larger businesses that have higher collateral.

7.0 ALTERNATIVES

It was strongly stated by the project's administrators, SMEs and investors that Capital Connexion is an extremely useful tool that is easy to use. However, the success of matchmaking is predicated on pro-active gatekeepers and on systematic and easy access to data/information on projects being promoted and on investor's requirement. Furthermore, the absence of the Capital Connexion project would reduce access by potential investors located outside the SME's geographic area.

7.1 Sustainability

Although it may be early in the project's evolution to say for certain whether it could be self-sustaining, the Capital Connexion project has demonstrated some ability to generate reasonable revenues in comparison to its costs. By franchising access to the system at a rate of 0.02¢ per inhabitant in the organisation's catchment area, the project managed to raise close to $40,000 in revenues in 2000 and expects to raise close to $60,000 in 2001 through agreements with 66 organisations (these include a mix of CLDs in Quebec (59), the Resources Enterprises Organisation (also in Quebec), and six other economic development organisations across Canada and in Europe). Therefore, it would be fair to assume that as the project expands and its popularity increases, sustainability by covering the costs to maintain and manage the database could potentially be achieved, as long as the franchised organisations continue to see value in the tool; a value that will only be realized when successful linking of investors and investees occur, something that has not occurred to date[5].

5 With the exception of one $20,000 deal cited earlier in the case.

8.0 CONCLUSION

The Thérèse-de-Blainville CLD has successfully managed to make available close to $500M in risk capital; capital that is available by close to 150 different investors. It has championed the creation of a formal network that allows investors and entrepreneurs to publicly display their interests without devolving their identity. To date, over 260 investment opportunities have been registered on the database and over 40,000 visits have been made to the Capital Connexion site. Further, the project has led to communities having greater access to risk capital resources, primarily by making Steps to Growth available and by sponsoring a small number of training sessions.

However, the true success of this initiative will be measured in the longer term when the role of the gatekeepers has been validated through evidence of their proactive efforts to match investment opportunities with investors, and to support SMEs in the deal making process. It continues to be clear, when speaking to investors, that the level of investment readiness among SMEs is low, thus suggesting an ongoing need to help SMEs prepare for the investment process. Such activity is critical to bringing SMEs and investors together and failure by the gatekeepers to take on this task will leave the project with limited results. Substantiating this view is the opinion by SMEs who were interviewed within the context of the evaluation that there needs to be greater involvement by gatekeepers.

In addition, all evidence points to the fact that matches do not occur without a synergy between the investor and the investees. It will be the critical role of the economic development organisations that are acting as third parties to ensure that the right entrepreneur and investor are brought together. As the databases expand to include a wider pan-Canadian and potentially global audience, so too will the facilitation challenge.

6

INDUSTRY CANADA

Evaluation of the Canada Community Investment Plan

Final Case Study Report: Appendix F - Victoria (Vancouver Island Technology Centre)

September 28, 2001

PRICEWATERHOUSECOOPERS

Table of Contents

1.0 INTRODUCTION

The Canada Community Investment Plan (CCIP) is an Industry Canada sponsored program designed to improve access to risk capital by growth-oriented SMEs. The CCIP provides communities outside main financial centres with the information and tools they need to start and operate an investment facilitation service for their fast-growth small and medium-sized enterprises (SMEs).

One of the key approaches used to support improving access to risk capital has been through the use of demonstration projects. Twenty-two projects were selected by the CCIP following a competitive process. These projects have implemented diverse strategies aimed at facilitating access to risk capital by local SMEs.

1.1 Study Objectives

The CCIP wished to disseminate the best practices and the lessons learned by these projects for the benefit of all communities looking to implement their own investment facilitation strategy for SMEs. The evaluation of the CCIP will support this requirement by providing a summary of the achievements of the Plan and observations and lessons learned.

To support the evaluation of the CCIP, seven of the projects were selected for review as part of a final "lessons learned" evaluation of the CCIP. This case study provides an overview and evaluation of the Victoria, British Columbia project, operated by the Vancouver Island Technology Centre (VIATeC).

1.2 How to Read This Document

The first part of this document, Section 2.0, provides a brief description of approach used to conduct the case study. Section 3.0 gives an overview of the Victoria project, including a discussion of its context and background. Section 4.0 examines the key findings derived from the case study and Section 5.0 seeks to draw out the lessons learned from the case. Section 6.0 examines whether the project remained relevant and Section 7.0 looks at whether there are alternatives means of delivering the project to achieve results. Concluding remarks are provided in Section 8.0

2.0 APPROACH

The case was conducted using document review, in-person and telephone interviews. A member of the evaluation team conducted a two-day site visit in order to see first hand how the project worked and to meet project staff and other stakeholders in-person. Interviews were held with project staff, Board members, investors and a focus group was held with local entrepreneurs. A total of 18 people were interviewed including:

- three project staff;
- three Board members;
- three investors; and
- nine entrepreneurs.

The evaluation also included a document review covering the original project business plan, quarterly reports, annual financial audit reports, other site visit briefings and reports, and other documentation provided by the CCIP Secretariat and the project.

All fieldwork to support the evaluation was conducted between April and June of 2001. Therefore, the results of the evaluation, and the lessons learned, reflect information and results gathered for this period.

3.0 PROJECT PROFILE

This section provides an overview of the Victoria project.

3.1 Project Background

Funding for the Victoria project began in September, 1997 following submission by the Vancouver Island Advanced Technology Centre (VIATeC) of a proposal to Industry Canada. It was reviewed and selected by a national panel of experts from each region composed of the private sector. It was then selected in 1997 for funding as one of 11 projects selected that year. VIATeC is a non-profit organization which promotes and enhances the development of Vancouver Island's high-tech industry. It was established in 1990 and acts as a single point of contact for those involved or interested in the Island's advanced technology industry.

Prior to the CCIP program, VIATeC members were already looking to the organization for financing advice. The Industry Canada funding allowed the organization to meet this community need by providing dedicated resources to work with local investors and entrepreneurs.

3.2 Project Objectives

The objectives of the Victoria CCIP have remained consistent since the submission of the original business plan to Industry Canada in March 1997. The original objective statement contained in that business plan was:

> *"to create an environment within Greater Victoria wherein qualified local advanced technology companies are able to access the funding appropriate to their needs to finance their growth."*

There are three key elements of the objective statement above: creating a satisfactory funding infrastructure environment (access to risk capital); ensuring local advanced technology companies are qualified (improving investment readiness); and, ensuring companies seek funding appropriate to their needs.

3.3 Current Project Description

The project has changed little from the vision presented in the original business plan submitted in 1997. However, the emphasis has shifted somewhat from facilitating access to capital to improving the general business sophistication of clients and the community.

3.3.1 Project Activities and Milestones

The VIATeC CCIP project employs several strategies to achieve its objectives. The primary strategy involves working with entrepreneurs to help them become investor ready. This typically involves helping the entrepreneur understand and articulate their business, and documenting their potential in a Business Opportunity Document. A number of tools are used in getting entrepreneurs investor ready, including books such as Denzil Doyle's Making Technology Happen, web sites such as the Strategis strategic planning sub-site, and various forums and seminars.

One of the more successful strategies employed by the Victoria CCIP program is the Venture Business Panel, which is profiled in The Winning Formula at Work. This panel, consisting of various business experts from the community, convenes on an as-needed basis (approximately 15 times so far in the past three years) to provide feedback to entrepreneurs preparing to meet investors. Feedback from these sessions has been extremely positive. CCIP project staff prepare the entrepreneurs for these sessions, helping ensure that it is a productive exercise.

The other main element of the Victoria CCIP strategy is identifying and working with investors. Focusing primarily on investors looking for deals in the 100k to 750k range, CCIP staff determine investor profiles to understand the type of investment opportunities they are seeking. Following this, CCIP staff forward business opportunity documents that match the investor profiles and facilitate meetings between investors and entrepreneurs. At this point, the CCIP project is no longer involved in trying to facilitate a deal.

3.3.2 Project Administration

The Victoria project is administered by VIATeC and overseen by VIATeC's Board of Directors. The project staff includes a full-time project coordinator assisted on a part-time basis (20%) by a VIATeC consultant. VIATeC's CEO and various other VIATeC staff also provide input on an as-needed basis.

3.3.3 Project Partners and Funding

The management of the CCIP project in Victoria by a partnership entity in itself constitutes an interesting means of generating input into the initiative.

Industry Canada has provided VIATeC with $550,000 in funding from 1997 to 2002. VIATeC was required to ensure a contribution of 1/3 of total funding to the project. Contributions have been made directly by VIATeC, and now total over 50% of the total CCIP program costs.

4.0 FINDINGS

This section provides a summary of key evaluation findings.

4.1 Objective Achievement and Project Outcomes

This section of the case study examines whether the Victoria CCIP project has achieved its stated objectives and the results, both intended and unintended, that it has had.

4.1.1 Access to Risk Capital

The VIATeC CCIP program has been very successful in meeting its objective of improving access to risk capital. In fact, the program has already exceeded its original goal of $10 million in 5 years by facilitating access to $14 million (to a total of 20 companies) in just over 3.5 years. Former CCIP clients have also raised millions of dollars in later rounds of financing due at least in part to the skills they learned from VIATeC.

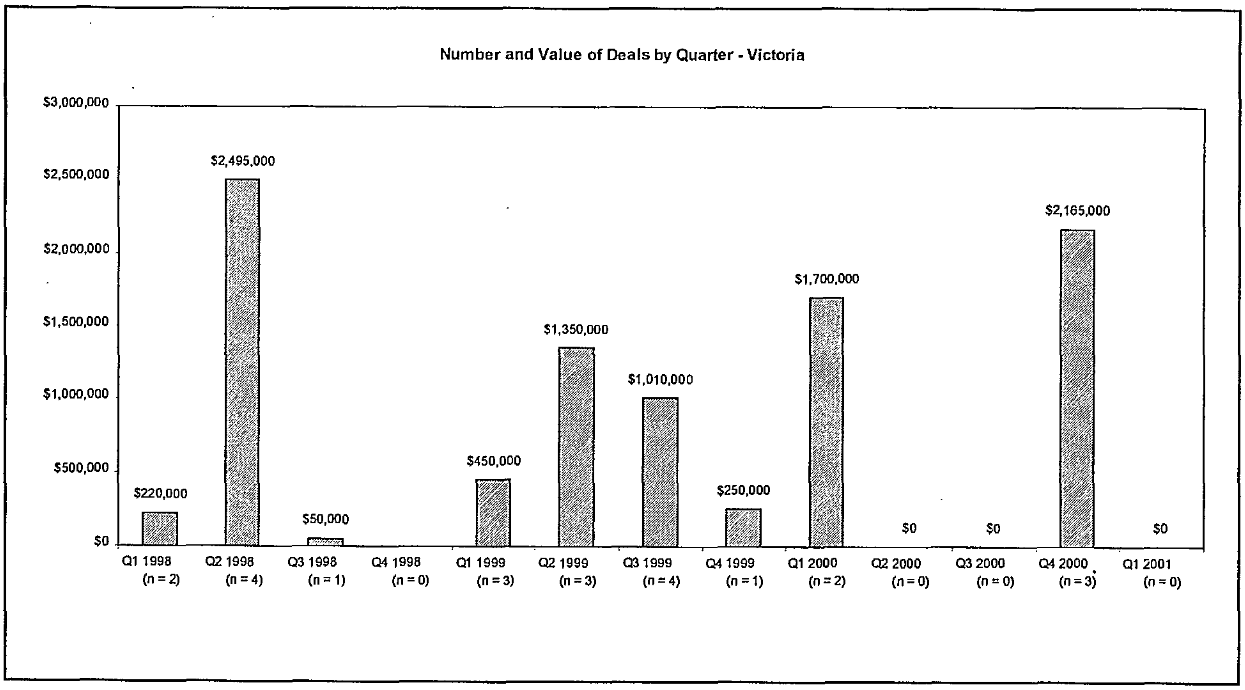
The program has also been successful in raising the profile of Victoria's high-tech industry among investors both on the Island and in Vancouver. This has resulted in an increased willingness on the part of investors to consider Victoria area firms when looking for deals. The CCIP program has, in particular, filled a gap in facilitating deals in the 100 to 750 thousand dollar range.

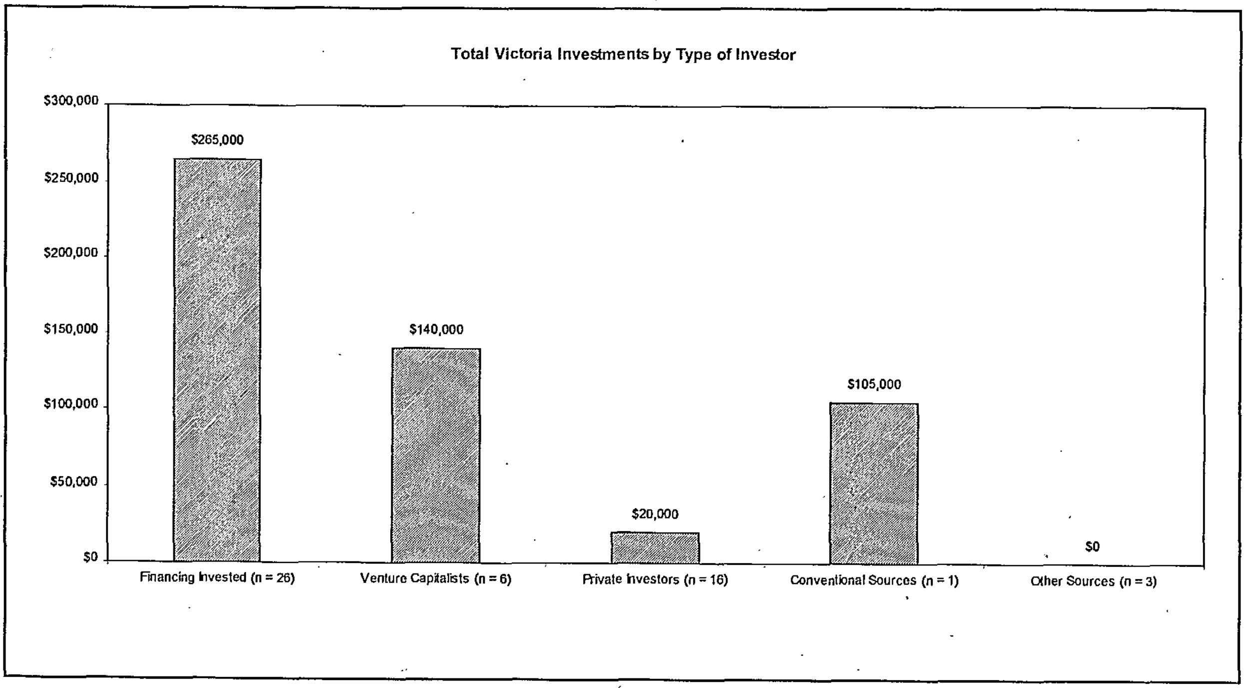
4.1.2 Changes in Investment Skills

All participants in the study agreed that VIATeC and the CCIP program have together (it is difficult to isolate their impacts as various initiatives and efforts overlap) increased the general business sophistication of Victoria. In particular, the clients that have received individual coaching from CCIP staff have reported substantial increases in investment skills.

Entrepreneurs interviewed for this evaluation agreed that they are now more aware of potential funding sources and better prepared to meet with investors than they were prior to their involvement with the CCIP program. Even though only one of the nine focus group participants had been successfully matched with an angel investor, all participants agreed that they had benefited from the advice they received from VIATeC and the CCIP staff.

The investors interviewed for this study agreed that CCIP clients are better prepared than random entrepreneurs they meet with when looking for deals. One investor noted that Victoria has had previous initiatives aimed at investment matching that failed, most likely due to the fact that they did not provide the advice services currently offered by the CCIP project.





4.1.3 Linkages and Synergies with Other Initiatives in the Community

VIATeC has forged strong linkages and synergies with other initiatives and organizations in the community. It has established relationships with the two universities and one community college on Vancouver Island, the local Chamber of Commerce (with whom they share their building), all governments (federal, provincial and municipal) and five research labs on the Island, and innumerable individuals in the business and professional communities. They have done this through continuous communications and events, as well as extensive networking, with able assistance from their Board of Directors. VIATeC has also raised the profile of Vancouver Island's high-tech industry in Vancouver and the international marketplace.

All of these efforts have given VIATeC an excellent reputation within Victoria. It has successfully positioned itself as the single point of contact for anyone interested in learning about or working with Vancouver Island's high-tech community. The CCIP program has benefited from its association with VIATeC, both sharing in and contributing to this positive reputation. These community-building efforts are on-going and it is expected that the high-tech industry will soon become the top industry on the Island.

4.1.4 Other Outcomes

VIATeC has been successful at improving access to risk capital by small and medium sized growth oriented companies. The VIATeC CCIP program has dealt with over 260 companies since 1997 and successfully linked 20 entrepreneurs to $14 million in investment financing. It has also had several other impacts on Vancouver Island's advanced technology and business communities, as detailed below.

5.0 LESSONS LEARNED

Based upon the information gathered throughout the case study, the following lessons about improving access to risk capital, improving investment skills, and sponsoring and administrating such projects can be derived from the Victoria demonstration project:

5.1 Access to Risk Capital

It is best not to be judgemental about the quality of entrepreneurs' business ideas. Rather, give them the tools and understanding they need to approach investors and let the market tell them if their ideas are going to work or not. Not only does this avoid any perceived bias or conflict of interest, it provides investors with an opportunity to discover ideas with hidden potential.

Traditional business plans have limitations. While investors want to know that entrepreneurs have business plans available, they typically do not have the time or inclination to read through several full-length business plans in an effort to discover investment opportunities. Shorter, strategy-based documents, such as Denzil Doyle's Business Opportunity Document, are more useful in that they provide only the most essential elements for investors to quickly assess business and investment potential. If the investor is intrigued by a particular idea, a full business plan may be provided at this point.

Angel investors are most likely to consistently accept risk in the high technology sector over other sectors. Early-stage companies face numerous obstacles to success. Angel investors generally only accept high risk if they feel there is sufficient opportunity to make a worthwhile return. In Victoria it was explained that the high-technology sector was considered the only one with sufficient promise to provide a balance between risk and investment and this was the reason why a focus had been placed on investment opportunities in this particular sector.

5.2 Changes in Investment Skills

Helping entrepreneurs make appropriate decisions about the type of funding and growth they are seeking is more important than matching them with an investor. Even though the overriding theme of the CCIP project is improving access to risk capital, this may not always be the appropriate strategy for an entrepreneur. More traditional financing options may be preferable, or a change in strategic direction may be required. While CCIP projects should be cautious about providing direct recommendations, asking entrepreneurs to take a considered look at all of their options can prove extremely valuable.

Technology entrepreneurs can be over-optimistic about their business' potential in the short-term and under-optimistic in the long-term. Much of the work done by the Victoria CCIP project has related to helping entrepreneurs set realistic expectations and objectives. This enables them to have productive discussions and negotiations with potential investors.

5.3 Project Sponsorship and Administration

Being a part of a host organization that provides additional services increases the CCIP's flexibility in achieving its objectives. First, a host organization typically provides greater resources and support than would be available to a stand-alone organization, allowing CCIP personnel to concentrate their efforts on objectives-specific tasks. Second, it provides ready access to experienced personnel that can bring fresh insight to CCIP issues and opportunities. This model is formalized in Victoria, with one full-time CCIP staff member, and another VIATeC consultant with 20% of their time dedicated to the CCIP project. This type of model would not be possible if the CCIP were a stand-alone organization.

Boards of Directors should provide very specific help to community-based projects such as the CCIP. Each Board member should provide a specific point of view and skill set in order to maximize value to the project. In addition, Board members can prove invaluable in creating and sustaining a positive network within the business and investor communities.

5.4 Other Lessons

In addition to the above lessons, a number of other lessons can be derived from the CCIP experience in Victoria:

The advice component of the CCIP project adds tangible value to investor matching efforts. As was noted in section 4.1.2, investors agree that entrepreneurs are better prepared after working with CCIP project staff. This increases the likelihood that an investor will make a deal with an entrepreneur. Further, the skills entrepreneurs learn allow them to successfully source later rounds of financing. This lesson is also related to a point made above that helping entrepreneurs make appropriate decisions is more important in the long-term than simply matching them with an investor. This philosophy has resulted in a service in Victoria where, in the words of one of the project staff, "no one goes away empty handed."

The regional/local delivery model of the CCIP project has contributed to its success in Victoria. By allowing local experts to define their priorities and devise their own strategies, the CCIP project was better able to gain the trust of the local business and investor communities. As was noted during the evaluation, trust is a key success factor in matching investors with entrepreneurs.

It takes nearly two years to start-up a CCIP project. There is considerable effort required to establish an identity, make contacts, develop investor profiles, source and build a critical mass of business opportunities, and get entrepreneurs investor ready. During this start-up phase it can be difficult to obtain community funding. If a program like the CCIP were to be repeated in other communities greater than two-thirds funding would enhance efforts during this critical early phase.

Management skill gaps are the most significant obstacle to increasing investment in early-stage companies. While it is recognized that the CCIP is not intended to address management skill gaps (i.e., general business skills such as financing and operations knowledge, vision, and leadership), it was noted several times that lack of confidence in an entrepreneurs or enterprise's managerial capabilities can inhibit investors' willingness to invest.

6.0 RELEVANCE

The objectives of the Victoria CCIP project were largely defined in response to community needs that existed at the time of the call for proposals. Many entrepreneurs were already coming to VIATeC in search of assistance and advice regarding financing options. These needs have since been confirmed by the success the project has had in facilitating access to risk capital. Further, the fact that new clients continue to seek assistance and investors are still engaged provides evidence that the project's objectives will remain relevant beyond the demonstration period.

While incremental impacts are difficult to identify and quantify, particularly on a national basis, it does appear that the Victoria CCIP project has increased the availability of risk capital for SMEs located on Vancouver Island. Most of the incremental improvement has occurred as a result of increasing the visibility of the Island's entrepreneurs and opportunities among Vancouver's investment community. This likely would not have occurred without the efforts of the Victoria CCIP project. It is also likely that Vancouver investors will reduce their focus on Vancouver Island opportunities once the program ends.

7.0 ALTERNATIVES

This section examines whether there are other ways to deliver the program and still achieve the same objectives.

7.1 Sustainability Beyond the CCIP

VIATeC, its members (clients), Board members, and area investors, all would like to see the program extend beyond the program sunset (set for September 2002). Indeed, it was felt by interviewees and focus group participants that area entrepreneurs would likely continue to seek VIATeC assistance for funding advice after the program formally ends.

Funding for the program, though, is a serious concern. Though VIATeC has been successful in increasing its share of CCIP program funding past 50%, it does not believe that it can increase the percentage much past this mark. Thus, VIATeC's funding assistance services will likely have to be curtailed significantly if no additional public funding can be found to replace the CCIP funding.

While engagement and success fees have been considered, VIATeC has rejected these options for a variety of reasons. First, there are concerns that success fees may conflict with provincial securities regulations. Further, clients may be unwilling to pay such fees, or may feel that a financial stake in the outcome would bias VIATeC's advice.

7.2 Other Options for Entrepreneurs and Investors

Interviewees in Victoria were quite concerned about the end of the CCIP program, as most felt that comparable support would not be available beyond the program's sunset. Potential alternatives for investment matching services in Victoria include (with caveats in brackets):

- Private consultants (but they are costly for entrepreneurs);
- Private business and professional networks (but they don't provide advice);
- Banks (they generally do not consider equity financing, but they could potentially offer referrals to interested risk capital investors);
- "Old boys network" (this is inefficient, and would likely miss a lot of opportunities - also there would be no advice component);
- General investment prospecting (this is very time-consuming and inefficient - in particular, there may not be enough incentive for Vancouver-based investors to prospect in Victoria); and
- Investment brokers (they may provide biased advice to entrepreneurs).

8.0 CONCLUSION

To date, VIATeC has operated one of the most successful CCIP demonstration projects. They have exceeded their initial five-year objectives for facilitating access to risk capital in just over three and a half years, and by all accounts have had a very positive impact on the Vancouver Island high technology community.

The following observations can be made about the success of the Victoria project:

- Trust and relationships are an essential component of "deal making";
- The project has benefited from its proximity to the Vancouver investor community;
- The CCIP program has increased the efficiency of the equity investment process in Victoria; and
- The number of quality angel investors is likely to grow in the future as Victoria's high-technology industry matures.

7

INDUSTRY CANADA

Evaluation of the Canada Community Investment Plan

Final Case Study Report: Appendix G - Wendake (Mission Capital)

September 28, 2001

PRICEWATERHOUSECOOPERS

Table of Contents

1.0 INTRODUCTION

The Canada Community Investment Plan (CCIP) is an Industry Canada sponsored program designed to improve access to risk capital by growth-oriented small and medium-sized enterprises (SMEs). The CCIP provides communities outside main financial centres with the information and tools they need to start and operate an investment facilitation service for their fast-growth SMEs.

One of the key approaches used to support improving access to risk capital is through the use of demonstration projects. Twenty-two projects were selected by the CCIP following a competitive process. These projects have implemented diverse strategies aimed at facilitating access to risk capital by local SMEs.

1.1 Evaluation Objectives

The CCIP wishes to disseminate the best practices and the lessons learned by these projects for the benefit of all communities looking to implement their own investment facilitation strategy for SMEs. The evaluation of the CCIP will support this requirement by providing a summary of the achievements of the Plan and observations and lessons learned.

To support the evaluation of the CCIP, seven of its demonstration projects were selected for review as part of a final "lessons learned" evaluation of the CCIP. This case study provides an overview and evaluation of the Wendake, Quebec project, known as Mission Capital.

1.2 How to Read This Document

The first part of this document, Section 2.0, provides a brief description of the approach used to conduct the case study. Section 3.0 gives an overview of the Wendake project, including a discussion of its context and background. Section 4.0 examines the key findings derived from the case study and Section 5.0 seeks to draw out the lessons learned from the case. Section 6.0 examines whether the project remained relevant and Section 7.0 looks at whether there are alternatives means of delivering the project to achieve results. Concluding remarks are provided in Section 8.0.

2.0 EVALUATION APPROACH

This case study includes: document review; web site review; a site visit, and in-person and telephone interviews with project staff, sponsors, partners and entrepreneurs/SMEs. Given the nature of the case, no focus groups or discussions with investors were held. The documents that were reviewed included the project's original and updated business plans, quarterly reports, annual financial audit reports, project publications and documents, and reports and other documentation provided by the CCIP Secretariat and the project.

A total of eight interviews were conducted including one with the key project staff person, one with the project's sponsoring organization, four partners, and one entrepreneur.

All fieldwork to support the evaluation was conducted between April and June of 2001. Therefore, the results of the evaluation, and the lessons learned, reflect information and results gathered for this period.

3.0 CONTEXT AND PROJECT PROFILE

The Wendake project proposal was submitted by the Native Commercial Credit Corporation (NACCC). It was reviewed and selected by a national panel of experts from each region composed of the private sector. It was then selected in 1997 as one of 11 projects selected that year.

The project was selected as a native-focused project. According to those interviewed as part of this case, the aboriginal community is many years behind being able to capitalize on the current investment climate, making the need for skill development and investment facilitation a priority for this community. The NACCC's submission document summarized the native situation as follows:

> *"Analysis of the native and commercial base has shown that many things remain to be done before communities can boast that they have reached the level and rhythm of the Canadian economy in general. In spite of their successful achievements, many communities are still in the earliest throes of economic development. Indeed, our analysis shows that the economy is essentially dominated by the services sector, represented mostly by businesses catering to the supply and demand of sustaining primary needs."*

The above excerpt accurately frames the context within which the NACCC sought to pursue a project that would bring entrepreneurs and investors together.

3.1 Project Objectives

In the publication ***Native Business World Echo,*** the following observation was made: "Most native entrepreneurs are not familiar with the functioning, requirements and criteria of venture capital corporations, while managers of these capital corporations are not in tune with the realities and opportunities available in native communities." This statement summarizes the rationale for the creation of Mission Capital, as an NACCC sponsored project. Based on this need, the project was launched with the objective of ensuring that ties be established between 41 native communities in Quebec and venture capitalists. More specific objectives for the project outline that it would:

- identify the native businesses requiring venture capital and make them aware of the opportunities for obtaining capital;
- inform Community Economic Development Organization's (CEDO) community development officers, and entrepreneurs of the needs and expectations of venture capital corporations;
- inform the venture capital corporations of the needs and culture of native entrepreneurs;
- identify competent human resources to assist entrepreneurs with their projects;
- promote networking among native entrepreneurs and venture capital corporations;
- increase and consolidate the earnings of native entrepreneurs; and
- contribute to the economic development of Quebec through the creation of quality jobs and performing businesses.

Of note in reviewing the original objectives of Mission Capital is its focus on increasing access to Venture capital rather than risk capital, including angel investment. Later documents detailing project objectives focus more on access to risk capital.

3.2 Project Administration

Mission Capital is managed as a project of the NACCC[1] and receives direction from the NACCC's board of directors. The board meets twice a year. A number of members of this board are also partners in the Mission Capital project and have committed time and financial support to the project[2]. These partners include:

- Desjardins (institutional financing);
- Native Benefits Plan (NBP) (fund management);
- Fonds de solidarité des travailleurs du Québec (FTQ) (fund management);
- Gagné Letarte (legal);
- PricewaterhouseCoopers (PwC) (accounting/finance); and
- Hydro Quebec (private sector management).

The senior staff person responsible for the project is the NACCC's Executive Director. One full-time staff person was hired to deliver the project's activities. In addition, the NACCC provided access to two staff members and resources (e.g. office space and boardroom) to facilitate day-to-day operations.

3.3 Project Partners and Funding

Industry Canada committed to providing the NACCC with $600,000 in funding for the Mission Capital project. This funding covers the period September 1997 to September 2002. The Mission Capital project was required to ensure an additional contribution of one third of its total Industry Canada project funding through local contributions.

Mission Capital was successful in leveraging contributions from a number of partners who saw a clear link between the objectives of the project and the interests of their own organization. For instance, the Native Benefits Plan (NBP) manages a private aboriginal pension fund. The NBP serves nine of eleven First Nations in Quebec and provides native businesses and their employees with a pension option. The fund is thus made up entirely of native earned dollars. The NBP wishes to see greater development of the aboriginal business community given that this will translate into growth of the Plan. The NBP thus saw its contribution as "sowing seeds" for the future.

Mission Capital entered into relationships with six partners and received financial and in-kind contributions from all six. A listing of these partners and their contributions are provided below:

---

1 The NACCC is a non-profit organization begun in 1992 that offers commercial loan services, in English and French, to Status Indians and Métis situated throughout Quebec. It is one of 32 Aboriginal Capital Corporations (ACC) created across Canada since 1985, under Industry Canada programming. It is one of four in Quebec. The NACCC focuses on supporting the economic development of numerous First Nations in Quebec and has at its disposal a $5M investment fund that it uses to provide financing to commercial initiatives undertaken by small and medium-sized enterprises (SMEs) that are owned by defined aboriginal groups or individuals. Its loans are provided up to a maximum of $250,000.

2 For the purposes of this report, the NACCC is referred to as the sponsoring agency rather than a partner.

Summary of Mission Capital Funding Sources

Partners by Type	Amount of Contribution					
	1997-98*	1998-99	1999-2000	2000-01	2001-02	2002-2002**
Federal Funding						
Industry Canada	$60,000	$120,000	$120,000	$120,000	$120,000	$60,000
Direct Contributions						
Desjardins	$5,000	$15,000	$15,000	$15,000	N/A	N/A
NBP	$5,000	$20,000	$20,000	$20,000	N/A	N/A
FTQ	$5,000	$20,000	$20,000	$20,000	N/A	N/A
In-Kind Contributions						
Gagné Letarte	--	$14,810	$19,795	$9,220	N/A	N/A
PwC	--	$18,145	$27,571	$14,700	N/A	N/A
Hydro Quebec	--	$21,000	--	$20,000	N/A	N/A
Total Partner Contributions (Direct and In-Kind)	$15,000	$87,955	$103,571	$98,920	N/A	N/A
Total Funding	$135,000	$223,571	$107,955	$218,920	N/A	N/A

* Mission Capital was in operation for only seven months in 1997-98 (September to March)
** Mission Capital's final funding period will be for six months (April to September 2002)

Given the summary above, Mission Capital secured $170,000 in financial contributions, and just over $145,000 in in-kind contributions from project inception to the end of March 2001. An additional 18 months of project activity remain. The expected contribution by Industry Canada is $600,000 (two-third of the project's total budget) over the life of the project.

Mission Capital has also generated revenues from workshop fees charged to participants in the "Introduction to the Native World" workshops, as outlined in the table below:

Year	1997-98	1998-99	1999-2000	2000-2001	2001-2001
Workshop Fees	$--	$7,850	$8,396	$80,096	N/A

3.4 Project Milestones and Activities

Given the project is focused on assisting First Nations throughout Quebec[3], it spends much of its time communicating, networking and meeting with representatives from target communities. The approach used by Mission Capital was largely dictated by the geographic dispersion of native communities and the reality of current native and non-native interaction; interaction that is limited by common misunderstandings by both groups, especially non-natives. According to interviewees, the keys to developing positive relationships with, and working with the aboriginal community, are to spend time networking and building such relationships. This leads to greater acceptance by and access to the aboriginal communities' economic development and business contacts. The project undertook a number of selected activities that are quite distinct from those of other projects to achieve this.

Soon after it began its activities, Mission Capital focused on informing the CEDOs[4] and their officers about the project and the subject of risk capital. The project informed all CEDOs and solicited their support. These same organizations were also invited to attend one of five meetings held around the Province. The response from the development officers was that they would be in a better position to support Mission Capital's work once they had formed an association, which was anticipated to take place in early 1998.

Another key activity of Mission Capital was to undertake a series of regional workshops to sensitize the investment community to the needs and potential of the aboriginal community. Rationalizing these workshops, the NACCC stated: "Starting with the premise that there is enough venture capital funding in Quebec and Canada, we believe that when the parties concerned become aware of their potential partner's situation, venture capital will be more accessible and more extensively used by our economic development projects."

The workshops were first delivered in 1998 to seven regions and supported by Mission Capital partners, in particular Hydro Quebec who provided support for up to five workshops per year. The objective of these workshops, titled "Introduction to the Native World", was to build bridges between the native and non-native cultures and to eliminate prejudices and misconceptions. The workshops were delivered by an experienced facilitator who is well reputed for his sensitive style of communication. These workshops were again held in 1999, 2000 and 2001, with some revision being made to their content throughout time. A total of 26 workshops had been held at the time this evaluation was conducted.

To support networking and the economic development of the native community, Mission Capital launched a tri-annual publication called ***Native Business World Echo***. Two issues of the magazine were published in 1998 and three in 1999, 2000 and 2001. The publication is produced in English and French and distributed to:

- entrepreneurs;
- CEDOs;
- band councils;
- selected venture capital funds;
- SOLIDEQ;

3 With the exception of the Cree and Inuit nations.

4 There are 36 CEDOs located throughout Quebec. They were created to support entrepreneurs and provide access to management services including the preparation of business plans.

- CLDs (Local Development Commissions); and
- Workshop attendees.

4.0 FINDINGS

This section provides a summary of key evaluation findings.

4.1 Objectives Achievement and Project Outcomes

Under the title of Objective Achievement and Project Outcomes is examined the extent to which Mission Capital has achieved its stated objectives and the results, both intended and unintended, that may have ensued. It also examines whether the project has contributed to the objectives of the larger CCIP program, and those of Industry Canada.

As noted earlier, the Mission Capital business plan first outlined objectives to support the linkage of entrepreneurs with venture capital firms:

> *"The key to success lies in the ability of the network to create the channels through which supply and demand might meet in a positive atmosphere, and amid conditions deemed satisfactory and acceptable to both parties present. The object is to introduce two parties who wish to become further acquainted with each other."*

As a result, Mission Capital's initial activities focused on venture capital investment, not on risk capital or angel investing. This focus likely had some effect on the level of achievement of the project in improving access to risk capital and angel investing, which is viewed as being very limited. It may also explain why Mission Capital has devoted a substantial amount of its energies to the development of a venture capital fund.

4.1.1 Access to Risk Capital

Given the focus of activities by Mission Capital, very little immediate change in the level of access to risk capital was evident. As a result of barriers that are said to exist between native and non-native communities, Mission Capital began its work at a very fundamental level. It began by working to eliminate existing barriers of prejudice and misinformation among the investment and business community. This work has served to move forward the idea of potential opportunity within the native community, and helped to create an increased understanding of venture and risk capital and angel investing among those responsible for economic development. In addition, the project has served to demystify the perception that natives, given their tax exempt status, live 'the good life'. Mission Capital has sought to clarify the reality that exists on and off reserves and to demonstrate the potential that exists among natives.

Data taken from the Mission Capital's quarterly reports shows that the project was able to secure only two private investors as possible sources of risk capital. Again, the perceived need to focus on education and networking, especially with venture capitalists and the economic and business community, likely contributed to the project's low results in this area.

4.1.2 Investment Readiness

Overall, it may appear unfair to assess Mission Capital against the achievement of this objective in the same way that other projects are being assessed, given the challenges faced by the native community in building an entrepreneurial culture; a state that precedes the stage of growth requiring risk or venture capital financing. Of relevance is that, in parallel with the work of Mission Capital (although not fully attributable to its work), partners have noted a change in the entrepreneurial spirit of native Quebecers. The native population is described as more educated and informed. It is more serious about pursuing opportunities and it is believed to be showing greater interest in growing business from within.

As one interviewee explained, as is the case in the non-native population, knowledge and understanding of what risk capital is and how it can be used is rather low. However, following education on the subject, knowledge among natives is believed to have increased among those business people and entrepreneurs who may have a greater need for or interest in financing. Generally, it was believed that in order for significant change to occur, the messages and information presented through a project such as Mission Capital have to be repeated, and repeated often. As stated by one interviewee, "Like all training, you forget things over time so you need to go around and repeat the messages."

With respect to supporting entrepreneurs to become more investment-ready, what is needed are entrepreneurs with good business ideas and the skills needed to pursue them. Mission Capital's efforts have not led to the identification of projects with investment potential (at the time of this evaluation). According to the data submitted by the project to the CCIP Secretariat, only four SME enquiries were received by Mission Capital, with two being accepted for consideration. During the site visit it was confirmed that one deal was in progress.

Although Mission Capital had planned to meet with individual entrepreneurs to discuss their potential business ideas and projects, these meeting were postponed and had not yet taken place.

4.1.3 Community Linkages and Synergies

The host organization for the project, the NACCC, is reasonably well-positioned to lead this native-focused project. Given its existing programming at the time of application for a CCIP project in 1997 (i.e. loan and financing activities for businesses in start-up and expansion phases, a commercial loan program and consultation services for young aboriginal entrepreneurs in selected First Nation communities[5]), its staff possessed solid knowledge of the needs of native entrepreneurs and a large provincial network of contacts which could be leveraged to support the achievement of the project's objectives. Further, in 1998 the NACCC received funding from the National Aboriginal Capital Corporation to deliver seminars to young entrepreneurs to raise their understanding of the business environment. This increased the activity level of the NACCC and further enhanced Mission Capital's networking opportunities, something that could facilitate a broader range of native contacts.

Through its outreach activities, the project has had the opportunity to meet with and speak to hundreds of native community leaders, entrepreneurs, and members of the investment community. For instance, the 22 two-day "Introduction to the Native World" workshops, which were held from 1998 to 2001, allowed the project to reach close to 600 people.

Recognising that the project engaged in a substantial amount of outreach; "nous tentons de toutes les

[5] Relevant First Nations communities included: Algonquin; Abénaquis; Attikameks; Hurons-Wendat and Micmac as well as the Alliance Autochtone du Québec.

façons d'intéressée les agents de dévelopement économiques afin d'amorcer les discussions", such outreach only leads to results if those being reached out to are willing to take the hand they are offered. The interest and involvement of the CEDOs turned out to be limited. A survey sent to 41 economic development officers that would have captured their concerns and interests resulted in a response by only four. In addition, Mission Capital had hoped to be able to involve the CEDOs in the creation of a project review committee. Unfortunately, no structure existed among these organizations to facilitate this exercise and it was noted that it would not be practical to assemble the group, given the cost of travel. Overall, the challenge faced by the project in leveraging these organizations proved daunting.

Through interviews it was explained that the project had run out of ideas on how to generate activity between entrepreneurs and sources of risk capital by the fall of 2001. It again turned to direct contact with the economic development organizations and conducted another tour of the communities. With this there was a realization that the focus on the entrepreneur by this group was limited.

4.1.4 Other Outcomes/Results

In addition to what has been noted above, Mission Capital is participating in a collaborative effort that would see the creation of the First Native Venture Capital Corporation (FNVCC) that would manage a native pool of venture capital investments. The FNVCC would invest in eligible projects that meet predetermined criteria around management skills, the quality of human resources, the existence of a market for products and/or services and the potential for profitability. Working closely with Mission Capital on this initiative is the FTQ and the NBP. The FTQ already supports a northern Quebec venture capital fund and is interested in making an investment in the fund. The NBP has indicated its interest in making a $2M investment in the fund over a five-year period. The NBP sees this as an opportunity to diversify its investment portfolio, give entrepreneurs access to an additional financial tool to assist their business development, and contribute to the improvement of the quality of life in native communities. Additional investment may be provided by Desjardins, Aboriginal Business Canada and the NACCC.

Interviewees believed that the creation of the FNVCC would improve native business peoples' access to risk capital, and more importantly, facilitate native peoples' ability to invest back into the aboriginal community.

Mission Capital is currently engaged in a cross-nation tour to speak to the NBP's members in order to generate support for this investment. This activity was taking place at the time of the evaluation so outcomes are not yet known. However, recent approvals from the federal and provincial governments are likely to lead to the establishment of the fund.

5.0 LESSONS LEARNED

Based on the information gathered throughout the case study, the following lessons about improving access to risk capital, improving investment skills, and sponsoring and administrating such projects for the aboriginal community can be derived from the Mission Capital demonstration project.

5.1 Access to Risk Capital

The barriers faced in building links between the native and investment communities are well entrenched and difficult to overcome. Information collected throughout the case demonstrate that barriers such as the Indian Act (in particular article 89), cultural differences and misconceptions about the attitudes and potential of aboriginal business, combine to increase the overall challenge in bringing "demand and supply" together.

Education of the aboriginal community will not lead to results unless parallel education occurs among non-natives. Project staff and partners noted that the development of investor-investee relationships is a two-way street. Given that the investment opportunities within the aboriginal community are limited (i.e. limited number of angel investors), non-aboriginal sources of risk capital would have to be sought out. To break down barriers between these two groups, the non-aboriginal community needs to be better educated. In addition, "success stories", like those highlighted in the project's tri-annual publication ***Native Business World Echo***, need to be identified to help break down barriers.

The native community cannot be treated as a uniform population. The NACCC, given its mandate to serve native communities across the Province, approached the challenge of increasing access to venture and risk capital in a uniform manner. Its aspiration was that it would leverage existing networks in the native community (e.g. the CEDOs and First Nations Local Commissions) to engage assistance in assembling and supporting an entrepreneur network. Unfortunately, there was a lack of cohesion within these networks, and in general among various native nations, that made it difficult to achieve buy-in and support across communities.

5.2 Investment Readiness

Using a province-wide initiative makes it challenging to reach many people quickly. Given that Mission Capital is mandated with serving the entire native population in Quebec (with the exception of the Cree and Inuit Nations), it has had to focus much of its energies on liaison and networking initiatives. Project staff feel that, although they have traveled the Province, they have only been able to reach a small number of people, making it more difficult to impact overall knowledge and skills. Communities' level of openness and interest would have to increase if it were to reach individual entrepreneurs.

Being responsible for a large geographic territory makes it difficult to affect the level of investment readiness, especially when one-on-one contact is needed. The staff with Mission Capital spent a substantial amount of time travelling around Quebec, meeting with members of native communities and investors. Despite the large number of people that they met with, the fact remained that the project had difficulty establishing any substantial close relationships with entrepreneurs. Further, no sources of angel investment were identified.

More training is needed within the native economic development community. The project identified that a greater depth of knowledge and training is needed by those working to develop the native entrepreneurs if these entrepreneurs are going to expand their business ideas into growth and innovative sectors, and subsequently reach a state of investment readiness where they can begin to contemplate accessing venture and risk capital.

5.3 Project Sponsorship and Administration

Funding contributions are more easily levied when the sponsoring organization has demonstrated capabilities. The Mission Capital project demonstrates how the experience and credibility of the sponsoring organization can be levied to generate outside support for a CCIP-type of initiative. Confidence in the abilities of the NACCC, especially its staff, served to incite partnership in Mission Capital's activities and to generate both financial and in-kind contributions.

It is easier to generate interest and project partnership when other partners are credible. Partners indicated that they were more likely to partner when they felt the other partners coming to the table were respected. The confidence partners had in other partners engaged in the project incited their interest and involvement. This fact has served to support interest in the creation of a native venture capital fund.

5.4 Other Lessons

In addition to the above lessons, a number of additional lessons can be derived from the project:

The ability to build a cross-native network was hampered by established relationships among native nations. Different native nations either accept or reject assistance or advice depending on their relationship with the nation that is delivering it. As a result, given that the project was led by a Huron-based organization (the NACCC is located within Wendake, which is located just outside of Quebec City) it had greater or lesser success in opening doors depending on the Huron nation's relationship with other nations.

Building relationships within the native community is best achieved through one-on-one contact. The project realized early on that, in order to promote its messages, it would have to meet with members of the native community in their own environment. This was the driver for engaging in cross-native tours.

6.0 RELEVANCE

Based on the desire to support native entrepreneurism, a need exists for programs and services that will assist entrepreneurs in native communities. Interviewees suggest that more assistance may be needed to spur on the development of an entrepreneurial culture, with the next step of building financing options; one that should occur in the next few years. The nature of risk capital, but more particularly angel investment, is that it is generally applied to high risk, growth-oriented business. Given the bulk of native communities' estimated 1,300 businesses[6] are based on more traditional businesses found in the service, primary and secondary industries, with few specialized services (with the exception of communities located near major urban centers), the relevance of angel investment may be questioned at this time.

6.1 Responsiveness to Community Needs

The objectives of the Mission Capital project are consistent with those of the overall CCIP program and the objectives of Industry Canada. In particular, Mission Capital is opening doors in order to improve the potential for growth and innovation in the native community. The challenge for Mission Capital has been to deliver similar "deal" results as other projects, given that the economic development and level of entrepreneurship the Quebec aboriginal communities is working with are not the same as those of non-native communities. It is clear that Mission Capital is not able to focus on deal making among this population, given that there is:

- a more pressing need to build knowledge and interest in entrepreneurship;
- a basic need to eliminate prejudices among natives and non-natives;
- a lack of clarity around the level of available angel investment within the native community and the real need for such investment; and
- a hesitancy displayed by the non-native investment community (particularly institutional investors) to support native initiatives, in particular as a result of Article 89 of the Indian Act[7].

It can be argued that there is a need for the type of approach being taken by Mission Capital, given the barriers that exist to fostering development within the native community. However, a project that focuses on access to risk capital may be less relevant than ones that focus on building an entrepreneurial culture.

6 Profile des 41 communauté Indiennnes du Québec". Business Plan Presented Within the Framework of the CCIP. Quebec Aboriginal Venture Capital Network, April 1997

7 Article 89 of the Indian Act statutes that Indian possessions on a reservation are exempt property.

7.0 ALTERNATIVES

Those who contributed to Mission Capital's activities felt that they had sought to achieve their objectives in the most appropriate manner possible. Irregardless of how success is measured, it was clearly stated by interviewees that a high degree of networking, relationship building, and a solid level of confidence would be needed before the next task of improving investment skills and access to risk capital could be tackled head on.

7.1 Sustainability

Although Mission Capital has received financial and in-kind support, much of the interest in the project has arisen out of the potential it presents to assist in the establishment of a native venture capital fund. No focus has been placed by the project on mechanisms to support self-financing, nor is it realistic to believe that a sufficient pool of native entrepreneurs would come to it for support unless it could be networked into the economic development network of the communities.

8.0 CONCLUSION

The native community is at a juncture where support is needed to foster entrepreneurism and create potential success stories. The activities of Mission Capital have focused on networking as a means of bridging the gap between cultures and demystifying the native community to the investment community.

The project encountered challenges along the way and may have been more successful had it been able to capitalize on the CEDO network in the native community. Despite these challenges, the project leveraged resources effectively and continued to work to develop tools to support aboriginal business development. Although the project has made no substantial inroads in the area of angel investment, its focus on venture capital appears to be leading to the development of a native venture capital fund. For those participating in the establishment of the fund, there is a belief that it will contribute to the economic development of the native community.

8

INDUSTRY CANADA

Evaluation of the
Canada Community Investment Plan

Final report:
Appendix J - List of Steering Committee Members

September 28, 2001

PRICEWATERHOUSECOOPERS

Canada Community Investment Plan (CCIP)

Program Evaluation Steering Committee

Jan Skora (Chair)
Radiocommunications and Broadcasting Regulatory Branch
Industry Canada
(613) 990-4817

Rick Charlebois
Capital Alliance Ventures
(613) 567-3225, ext. 12

Rick Cornwall
Venture Capital Group
Business Development Bank of Canada
(613) 995-8835

Clinton Lawrence-Whyte
Treasury Board Secretariat
(613) 957-0139

Shana Ramsay
Small Business Policy Branch
Industry Canada
(613) 946-9448

Megan Price
Finance Canada
(613) 992-2387

Jeffrey Roy
University of Ottawa
(613) 562-5800 ext. 4730

Glen Stansfield
Niagara Enterprise Agency
(905) 687-8327