CAPITAL, COMMUNITY and JOBS

LOCAL SOLUTIONS FOR FINANCING INVESTMENTS IN A NEW ECONOMY

Capital, Community and Jobs: Local Solutions for Financing Investment in a New Canadian Economy

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The Canadian Labour Market and Productivity Centre (CLMPC) is an independent national labour-business organization whose mission is to contribute to economic growth and the betterment of society by improving business-labour relations in Canada and by providing joint advice on public policy, particularly related to labour market and productivity issues.

The researchers involved with this report included Kirk Falconer of the CLMPC and François Lamontagne of New Economy Development Group Inc.

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I Executive Summary

I Introduction

In recent years, issues pertaining to access to capital for productive investment have risen steadily on Canada's public policy agenda. They have also emerged more prominently as concerns of Canadian business and labour, the two constituencies of the Canadian Labour Market and Productivity Centre (CLMPC). An important new focus for the CLMPC is a current trend towards localized financial innovations in all parts of the country.

In 1997, the Government of Canada's four regional development agencies — the Atlantic Canada Opportunities Agency, the Federal Office of Regional Development (Québec), the Federal Economic Development Initiative in Northern Ontario, and Western Economic Diversification Canada — agreed to work collaboratively with the CLMPC to consider examples of recently-established local investment financing models (LIFMs). The aim was to learn what micro-level institutions and practices have achieved in attempting to reduce financing barriers for small business in diverse communities and regions across Canada.

Capital, Community and Jobs: Local Solutions for Financing Investment in a New Canadian Economy is the result of this collaboration. The report will be a useful resource document for private and public sector actors and decision-makers in communities and regions eager to obtain information about the practical experiences of their counterparts nation-wide. Relevant data and analysis has been provided by the CLMPC through eighteen case studies of LIFMs in western Canada, Ontario, Quebec and Atlantic Canada.

II Background

As a background to the case studies, *Capital, Community and Jobs* presents a brief review of current capital availability issues. In general, impediments encountered by new and developing small and medium-sized enterprises in obtaining adequate and affordable external financing arise for many reasons and are often specific to the nature of supply in individual capital markets for debt and equity. Furthermore, research shows that financing challenges that affect firms in all parts of Canada are especially daunting for those residing in communities and regions situated at some distance from major financial centres. It is this circumstance that has prompted establishment of micro-level institutions and practices of the kind illustrated in the CLMPC's LIFM case studies.

For the purposes of the CLMPC's case study project, an LIFM is defined as a strategic effort to create local, micro-level institutions and practices that help alter or enhance capital supply conditions for the benefit of locally-determined investment priorities and economic change mandates. So defined, LIFMs may be said to address one or both of the following imperatives:

- the need to create locally (in a specific community or communities in a specific region), or secure local access to, a permanent source of long-term risk capital (equity or debt or both) for certain developmental uses; and

- the need to create mechanisms and structures that reliably instill certain key qualities, such as expertise, information, networks and specialization, where requisite, in local investment financing relationships.

Most frequently, LIFM inception takes place at the behest of local, provincial and/or national stakeholders, from the private sector, government and/or non-government sectors, acting in partnership.

The CLMPC has "cast the net widely" in describing the LIFM phenomenon in an effort to highlight diverse investment financing concerns expressed in diverse economic regions of Canada. The essential criteria used for selecting case studies include (1) operation at the local level (i.e., a given community or communities within a given region) with a balance struck between urban and rural examples (2) the existence of multi-level private-public partnership arrangements in the creation and support of an otherwise autonomous model (3) a strategic focus on financing barriers, such as those encountered by small and medium-sized enterprises (at various stages of development), small dollar investment projects, knowledge-based and technology-intensive firms, aboriginal or women entrepreneurs and other potential sources of specialized demand needs.

III Case Studies

To obtain case profile data, CLMPC researchers spoke to key LIFM informants on a variety of topics. Findings are briefly summarized in the document according to specific categories, including: details of the LIFM's inception and development; the institution's mandate; decision-making process and participants; the direct or indirect role of government, where relevant; investment criteria and process, where relevant; infrastructure for supporting projects (or in selected cases, demand-supply matchmaking); and activity to date. Each profile concludes with an overview of results achieved, where substantial history or formal LIFM evaluation permits such discussion. Cases are presented by Canadian region as shown in Table 1.

Table 1: EIGHTEEN CASE STUDIES OF LOCAL INVESTMENT FINANCING MODELS (LIFMs)

Atlantic Canada
ACF Equity Atlantic, Inc. (Newfoundland and Labrador, New Brunswick, Nova Scotia and PEI) — Created with the support of eight lending institutions and five governments, this fund provides venture capital to high growth small business in Atlantic Canadian provinces.
BCA Holdings and Venture Capital (Sydney, Nova Scotia**) —** Based on Cape Breton Island, this institution invests risk equity and other financing to locally-owned small and medium-sized firms.
Calmeadow Foundation/Royal Bank of Canada (Halifax, Nova Scotia) — With the Royal Bank's assistance, Calmeadow supplies a unique form of micro-lending and peer-based support to the self-employed in Nova Scotia.
SADC de la Péninsule acadienne (New Brunswick) — This locally-administered, non-profit fund provides loans and technical assistance to small business situated in the province's Acadian Peninsula.
Quebec
Aérocapital (Montreal, Quebec) — Created by the Fonds de solidarité de travailleurs du Québec (FTQ), this is one of several pools that deliver specialized risk capital to growing local firms in high technology sectors.
Le Groupe Forces (Shawinigan, Quebec) — This organization reflects a strategic combination of different pools with mandates for investing in small business and community development in this rural area.
Inno-Centre (Montreal, Quebec) — A unique business "incubation" centre, this institution helps young high technology companies in Greater Montreal prepare for successful investment.
Innovatech Sud du Québec (Sherbrooke, Quebec) — This is one of several venture capital institutions established to assist new and developing technology-intensive enterprises in key Quebec centres.
Ontario
Innovation and Technology Centre, Bank of Montreal (Mississauga, Ontario) — One of twelve such Canadian centres, this Bank of Montreal outlet offers specialized financing to local knowledge-based and technology-intensive firms.
OCEDCO's Specific Investment Opportunity Program (Ottawa, Ontario) — This unique program helps prepare Ottawa-Carleton entrepreneurs for potential matches with various investors, including local angels.
Prince Edward County Community Development Corporation (Ontario) — This locally-administered, non-profit fund provides loans and support services to small business situated in rural eastern Ontario communities.
Superior North Development Corporation (Terrace Bay, Ontario) — Focussing on remote northern Ontario communities, this locally-administered, non-profit fund supplies financing and technical assistance to small firms.
Waubetek Business Development Corporation (Birch Island, Ontario) — Aboriginal-controlled and non-profit, this institution delivers small loans to entrepreneurs in First Nation communities of northern Ontario.
Western Canada
Community Futures Development Corporation of Central Island (Nanaimo, B.C.) — A pioneer of its kind, this locally-administered fund provides loans and related support to small business situated in communities of the Central Vancouver Island region.
Community Futures Development Corporation of Strathcona (Campbell River/Comox Valley, B.C.) — Focussing on Interior rural communities of the province, this locally-administered, non-profit fund supplies financing and technical assistance to small firms.
Crocus Investment Fund (Manitoba) — Financing small business in provincial communities, this fund also offers several unique support programs, such as promotion of employee participation.
Exceptional Technologies Funds (Vancouver, B.C.) — Focussing on expanding knowledge-based and technology-intensive firms in Greater Vancouver, these are venture capital pools.
Saskatchewan Indian Equity Foundation (Saskatchewan) — This organization offers small loans and a range of other financing and support options to aboriginal entrepreneurs situated in various provincial communities.

IV Assessing the Impact of Local Investment Financing Models

Taken as a group, LIFMs are in a very early state of evolution and, consequently, most have track records that are too short for purposes of comprehensive evaluation. Nonetheless, the CLMPC derived considerable feedback from experienced case informants and from several capital market experts invited to review findings. Incorporating this feedback, it was possible to make several broad observations of the LIFM phenomenon using case study illustrations to make various individual points. These are intended to inform and provoke broader discussion.

(1) Local Orientation is Key

By establishing capital pools, financial techniques and infrastructure that are adapted to the particular needs and constraints of communities and regions, LIFMs offer a new mechanism for promoting economic development and jobs at the local level. In part, their strength lies in the cost and risk reductions achieved by localized, personalized and informed transacting.

(2) Local Priorities Must be the First Consideration

Canadian economic change and restructuring expresses itself with great diversity at the local level and, to be effective, LIFM activity must reflect this fact. Among the case studies, this is most evident in the different strategic investment objectives and innovations undertaken by urban-based examples as compared with their rural-based counterparts.

(3) Partnerships Result in New Pools and Sharing of Resources

Most LIFMs would not exist if it were not for extensive and continuous collaboration between diverse multi-sector actors and institutions over time. Such partnerships introduce new capital flows to communities and regions as well as strategic combinations for investment projects, often by drawing on the participation of local representatives of traditional constituencies (e.g., business, finance), but also non-traditional constituencies (e.g., aboriginals, labour).

(4) Co-investment and Syndication Can Guarantee Success

LIFMs actively engage in strategic investment partnerships as an important means for reaching small business and other projects that suggest above average costs and risks. Co-investments and syndications reduce the latter and maximize local opportunities in assorted ways, in part by introducing the value-adding capability of partners that possess investment-related attributes.

(5) Vital Risk Equity Supply is Distributed Across the Country

LIFMs are helping to give local new and developing small and medium-sized enterprises first-time access to key risk capital markets previously limited to central Canada. Several have specialized in delivering institutional venture financing while others have concentrated on matching entrepreneurs with angels or institutional investors.

(6) Long Time Horizons Make a Crucial Difference

For fast-growing innovative companies at the local level, several LIFMs provide a vital source of long-term capital supply and management-intensive support. This development is an important one for those regional economies in Canada that are engaged in extensive restructuring, in part through diversification of traditional industrial and employment bases to permit the emergence of new sectors.

(7) Government Plays an Important Role as Facilitator

Public policy, as practiced at different levels of government in Canada, has been instrumental in the establishment of the majority of LIFMs. To ensure autonomous evolution and performance, however, government has also tended to defer to local investment decision-making and professional management of new pools.

(8) CFDCs Support Partnerships Between Private and Public Sectors

CFDCs (Community Futures Development Corporations) have been of value in the leveraging and deployment of local capital resources, especially in rural and remote communities in Canada. Considerable potential exists for further investment financing opportunities brought about by private-public partnerships that utilize existing CFDC infrastructure.

(9) Deal-making Infrastructure is Important to Final Outcomes

Certain LIFMs (e.g., OCEDCO's SIO program and Inno-Centre) have concentrated on eliminating the often-underestimated structural barriers to successful demand-supply matches. Programs have been designed to effectively "prepare" entrepreneurs for introductions to potential investors, in part by making use of local business and financial advisors and mentors.

(10) Growth Management Skills are a Top Priority

An active capital supplier role in company development is often pivotal to its success in both the national and global economies. Several LIFMs have made a priority of acquiring professional managers who can instill high performance skills in investee firm personnel or who introduce the latter to experienced entrepreneurs in similar industrial fields as part of the investment process.

(11) Suppliers Must Specialize to Assist Certain Entrepreneurs

The emergence of new, value-added industries and new types of employment (e.g., home-based self-employment) has challenged financial institutions to adapt to the very specific needs of these clients. Several LIFMs reflect this trend in specialization, particularly in relation to enterprises in knowledge-based and technology-intensive sectors that feature new products and new productive merits.

(12) Specific Financing Barriers Require a Specific Response

The mandates of many LIFMs have been designed to respond to a variety of access to capital concerns at the local level, such as companies at different stages of growth or projects involving especially small dollar investments. Certain LIFMs have targeted particular non-traditional entrepreneurs facing an array of financing barriers, such as aboriginals, women and youth.

(13) Local Success Can be Adapted to Other Communities and Regions

There is considerable evidence that a positive LIFM experience in one community can be emulated in another, as long as particular local contexts are observed and addressed. Several of the CLMPC's case study subjects have already provided institutional and practical models for effective capital allocation and intermediary activity in communities and regions elsewhere in Canada.

V Conclusion

CLMPC case studies were undertaken in response to a perceived demand in Canadian communities and regions for information on "what works" among micro-level institutions and practices geared to reduce access to capital barriers. Consequently, *Capital, Community and Jobs* will be most useful as a resource in nation-wide information-sharing. A continuing cross-fertilization of ideas among Canadian communities and regions about different LIFMs should, in turn, generate increased emulation and adaptation of best institutional practices achieved through multi-level partnerships. The beneficiaries may well be those new and developing enterprises that are most likely to create long-term job and income opportunities in all parts of Canada.

II Introduction

In recent years both business and labour in Canada have raised concerns about issues pertaining to access to capital. Business has regularly expressed the need to secure financing for high value-added investment relevant to an era of economic change and restructuring. Above all, financing barriers for Canadian small business must be addressed. Labour considers investment financing to be a critical tool for lowering unemployment levels and promoting community and regional economic development across the country. Capital resources must be available to create and preserve "good" jobs and incomes that sustain healthy Canadian communities. Largely because of the interest of these two key constituencies, access to capital issues are clearly on the public policy agenda.

In response to these mutual concerns, the Canadian Labour Market and Productivity Centre (CLMPC) has undertaken considerable research and consultative work aimed at the reduction or elimination of barriers to capital. In its 1995 report, *Generating Growth: Improving Access to Capital for Small and Medium-sized Enterprises*, the CLMPC explored aspects of the incidence, character and dimensions of capital demand and supply. This report, along with others delivered to the federal Parliament, recommended to decision-makers in government and industry various initiatives that would address the financing problems encountered by the majority of small businesses in Canada.

The CLMPC has continued to monitor access to capital issues, and to consider fresh initiatives for improving supply to productive investment throughout Canada that will result in economic growth and job creation. An important new focus is the growing trend, in some communities and regions, to locate local solutions to their particular financing problems. Very recently, new and innovative micro-level institutions and practices have emerged based on the partnerships between local representatives of business, finance, labour and other community stakeholders, often with the support of government at different levels. This phenomenon offers interesting models for other Canadian locales facing particular challenges to financing their investment priorities.

In 1997, the Government of Canada’s four regional development agencies — the Atlantic Canada Opportunities Agency, the Federal Office of Regional Development (Québec), the Federal Economic Development Initiative in Northern Ontario and Western Economic Diversification Canada — agreed to work collaboratively with the CLMPC to consider examples of recently-established local investment financing models. The goal is to better understand the phenomenon, and see what lessons might be suggested to decision-makers and policy-makers in the private sector and government in other parts of Canada. As a first step, it was decided that the CLMPC should gather evidence and document the institutional features, operations and activities of several local models, drawn from diverse communities in all Canadian regions, that perform different mandates for strategically improving capital supply to entrepreneurs and firms.

Capital, Community and Jobs: Local Solutions for Financing Investment in a New Canadian Economy is the result of this CLMPC collaboration with federal regional development agencies. Several capital market experts and practitioners assisted the CLMPC in selecting from among the most unique and illustrative of recently-established local models for case study. Along with officials from the four federal regional development agencies, these included Mary Macdonald of Macdonald & Associates, Professor Barbara Orser of Ryerson Polytechnic University, Professor Allan Riding of Carleton University, and representatives of the Canadian Chamber of Commerce, the Canadian Bankers Association, the Canadian Venture Capital Association, Industry Canada, the Business Development Bank of Canada and several provincial government departments, as well as informed individuals elsewhere in the CLMPC's business and labour constituencies. It is due to their very helpful suggestions that the CLMPC is able to present, in the following pages, data and some analysis for eighteen case studies.

Capital, Community and Jobs is presented mainly as a resource document. Given how little is known about the experiences of local investment financing models, it was deemed critical to acquire solid qualitative information through case study. This first-hand reportage can, of course, be of value to further empirical analysis. In the immediate term, however, CLMPC case studies will probably be of most value to private and public sector representatives in communities and regions eager to learn about "what works" in the experiences of their counterparts elsewhere in Canada who have designed and experimented with local means and structures. Such approaches were developed through partnership, and aimed at reducing or eliminating small business financing barriers of different forms.

By presenting these case studies, and providing some general observations about their progress to date, the CLMPC and its sponsors and advisors hope to encourage a continuing dialogue and cross-fertilization of ideas among Canadian communities and regions. Such a process should lead to greater understanding and assessment of local approaches. That may, in turn, result in further identification and potential adaptation of best institutional practices in other communities and regions, in accordance with their specific economic development needs, constraints and opportunities. In short, CLMPC case studies should have practical, grassroots applications.

Capital, Community and Jobs is organized in three sections. Section I provides an overview of access to capital issues of significance in the new Canadian economy, addressed in the selected case studies. This section also provides a broad definition for the phenomenon of localized investment financing models, and, based on this definition, the criteria developed by the CLMPC and its sponsors and advisors for selecting and profiling the cases. Section II contains the eighteen case studies. Section III assesses the case study findings through observations by the researchers. The document concludes with some thoughts about next steps in putting case study findings to practical use in Canadian communities and regions.

III Background

In 1995, the CLMPC published *Canadian Business Speaks Out on Access to Capital*, the findings of a survey conducted by the CLMPC in co-operation with the Canadian Chamber of Commerce. This report found that over one-half of small and medium-sized respondents believed their investment financing circumstances to be either totally inadequate or only somewhat adequate. This research confirmed other academic, market and public policy research which found an apparent intractability in key financing barriers over the years. It further confirmed the presence of deeper and more complex dimensions to access to capital issues in a national economy experiencing profound, fundamental changes in a global context.

Today, we probably know more than ever before about what causes impediments in the flow of adequate, affordable capital to productive investment. This is important as industry and government search for more effective strategies and tools for dealing with specific market segments, or to close specific gaps. It is all the more important in particular communities and regions of the country that many traditional capital markets and financial institutions, and many macro-level policies and programs, have frequently tended to overlook.

The following is a brief overview of access to capital issues of current relevance in Canada, as well as a brief introduction to the concept of local approaches to developing solutions.

ACCESS TO CAPITAL: HOW MUCH AND FOR WHAT PURPOSE?

Most business leaders, economists and market analysts would agree that Canada's national economy has an abundance of available capital resources. Moreover, Canada has a financial system of bank and non-bank institutions that is internationally recognized for its efficiency, flexibility and effectiveness in delivering adequate financing to a vast range of productive investment goals.

Then why do barriers to financing exist? One reason appears to be that while overall supply conditions are strong, this may not be true with respect to provision in certain capital markets, especially those that are most critical to the demand needs of both new and established small and medium-sized companies. For instance, specific sources of private and public equity that are of immense importance to developing small business have experienced a very difficult — and in some cases, an incomplete — evolution over the years. Perhaps the best known of these is institutional venture capital which, thanks to extensive documentation and analysis by expert Mary Macdonald, is today better understood for its challenges of fluctuating supply. Another problem is an inadequate market mechanism comparable in scale and performance to that in the United States for public trading geared to young firms.

Constant, accessible sources of long-term risk capital are important. Without them, a small business following a growth path from seeding, start-up and early stage development to expansion, and perhaps eventually, public offering, cannot proceed to full potential. Important projects involving acquisition, restructuring or turnaround transactions may also encounter under-investment. Recently, increased attention has been placed on a shortage of financing felt at the lowest end of the demand spectrum. This includes small dollar equity investment, defined as amounts between $5,000 - $500,000 or in some examples, simply below $1 million (or in the case of debt, as amounts well below the lender average of $50,000). Because of the substantial costs and risks associated with these small-size deals, they tend to attract few (institutional) investors of either debt or equity.

Facilitating small business growth has always been necessary to a healthy and prosperous Canadian economy. Such growth is, however, even more significant today as Canada aims to adapt to, and perform in, a new and more competitive global environment. Despite this imperative, capital resources have not always been readily available to the on-going process of change and restructuring that permits industries, both traditional and non-traditional, to innovate and assume key competitive qualities such as knowledge, skills and technology. Moreover, because of associated financial risks, those “engines” of growth and job creation — new entrepreneurs and firms in emerging knowledge-based, technology-intensive and export-oriented sectors — have faced, and continue to face, the most formidable barriers of all. This circumstance was identified in the previously-noted CLMPC-Canadian Chamber of Commerce survey. Frequently, this occurs irrespective of highs and lows in capital supply trends.

It seems clear that current and future Canadian employment and income opportunities very much depend on our ability to lower barriers to investment financing that assists positive economic change and restructuring. In addition to improving and enhancing strategic supply sources, these sources must be directed, as American economist Michael Porter and others have argued, to value-added activity with the highest productivity potential.

If this is so for the economy in aggregate, it is doubly so for particular regional and local economies across the country. Generally speaking, difficulty in accessing capital for new and established small and medium-sized companies are exacerbated when those companies exist in communities situated at some distance from major Canadian financial centres. For them, crucial sources of private and public equity and debt available for high risk investing are especially remote. This is apparent in the evolution of both institutional and angel venture capital, which historically have been limited to central Canadian provinces. If these challenges were not enough, there is evidence to suggest that capital resources indigenous to disadvantaged communities and regions have even migrated elsewhere, rather than support local productive investment requirements.

Among the earliest efforts to create new localized pools for investment financing geared to current economic objectives occurred in Quebec under the auspices of such financial institutions as the Caisse de dépot et placement, the Desjardins movement and the Fonds de solidarité des travailleurs du Québec (FTQ). In fact, the Quebec network of local and regional pools has been highlighted as a potential model for other Canadian provinces by such bodies as the federal Parliament's Standing Committee on Industry (1994).

INVESTMENT FINANCING RELATIONSHIPS: WHEN PROBLEMS CREATE BARRIERS

It is not sufficient merely to provide capital to promising small businesses that demand it. Recent research has pointed to problems in the supply-demand nexus that can compromise investment financing opportunities. For instance, in its work comparing different national financial systems, the Harvard Business School found short-term time horizons to be a specific weakness of several North American capital markets and institutions. A likely result is under-investment in innovative firms on a rapid expansion path, given their need for long-term commitment and support. In short, they not only need capital, they need "patient" capital.

Another example on the supply side is the issue of financing intangible or "soft" assets. These assets, such as human resource skills and research and development, are immediately relevant to a new and changing economy, but are not always properly valued by traditional financial assessment criteria, such as those utilized by banks. In this case, debt financing may consequently elude all-important knowledge-based and technology-intensive enterprises. Concern that some lending institutions have not fully recognized the specialized nature of innovative product development further suggests that the latter also need "knowledgeable" capital.

In other words, possible deficiencies in supply side institutions and practices may contribute directly to financing barriers. Such structural deficiencies are as many and varied as there are capital markets. However, it is probably fair to say that recent attention to this question is encouraging financial practitioners to conduct internal re-examinations and develop innovative responses. For instance, some top Canadian lenders are aiming to develop more new economy expertise and techniques, adapt their risk management capability, increase their areas of specialization in aid of emerging sectors, contribute to venture pools, or partner with financial institutions with complementary strengths and resources. It is worth noting that the Organization for Economic Development and Co-operation is presently studying this matter in an effort to promote strategic change in advanced industrialized countries.

Of course, problems in investment financing relationships are not one-sided. Barriers to financing have also been linked to structural deficiencies in the operations of demand side clients. This is apparent in a widespread tendency of suppliers — from bankers to venture capitalists — to reject small and medium-sized applicants with inadequate business plans, insufficient management expertise and infrastructure, and related weaknesses. University of Western Ontario professors Larry Wyant and James Hatch have documented these in the case of creditor-borrower transactions, indicating that under-investment may be one result. In seeking external sources of capital, many firms, both new and established, have the attendant difficulty of limited information about matches appropriate to their demand. A long-standing dilemma of small business, for instance, is their difficulty in finding angel investors, as revealed by Professor Allan Riding.

Possible deficiencies on the demand side have led to a new focus on creating infrastructure to better match specialized small business needs with specialized or "niche" support offered by the right investor or syndicated investor group. As a prelude to matchmaking such infrastructure more and more includes programs that prepare entrepreneurs for a successful investment financing relationship. This is achieved by addressing such factors as the strengths and weaknesses of internal firm operations, the requirements equity providers may make of investee firms to help them grow, or the kinds of resources that may usefully accompany financing arrangements.

Facilitating access to capital by improving institutions and practices on both the demand and supply sides is significant for local and regional economies. In a sense, communities have their own specialized imperatives with respect to economic and financial conditions of which residents are obviously the most knowledgeable. In designing and implementing strategic means and structures, community actors are also in the best position to determine what works best, even if assistance comes from elsewhere. There is also a market basis for local approaches. In the case of private risk equity, for instance, transacting within geographic proximity is the norm, given a reliance on close personal relationships and networks. Where this is done effectively, transaction costs — an underrated barrier to financing — are kept to a minimum.

A significant example of initiative in this regard is the emergence of community-based investment models, proposed and designed for southwestern Ontario communities, among others, by such innovative suppliers as Gordon Sharwood (Sharwood & Company). Though in a state of relative infancy, such models promise to inject considerable local business and finance expertise and value-added in prospective entrepreneur-investor matches and, consequently, are being promoted by the federal government's Canada Community Investment Plan.

THE NEED FOR LOCAL SOLUTIONS

It is clear, then, that particular communities and regions in Canada have special challenges in making capital available for their productive investment priorities. Moreover, the nature and degree of these challenges vary according to local circumstances. Fundamental economic change and restructuring dictate a Canada-wide necessity to find solutions to access to capital problems. That necessity is felt all the more keenly in those regions which, historically, have not been the sites of particular capital market activity and its attendant infrastructure. Paradoxically, these are frequently the same regions that have especially substantial economic development, diversification and job creation agendas.

Nevertheless, these same localities frequently offer important economic and job opportunities and possess natural resources that can, with appropriate leverage and support, result in new and sustained capital flows. To an extent, this was the thinking behind the aforementioned establishment of local and regional pools in Quebec in the late 1980s. In many cases, these pools were provided seeding by several major provincial financial institutions that, in turn, leveraged local sources. The smallest, known as Sociétés locales d'investissement dans le développement (SOLIDEs), are municipally-based.

Quebec pools were among the first of what this CLMPC project describes as local investment financing models (LIFMs). In the very broadest sense, **LIFMs refer to a strategic effort to create local, micro-level institutions and practices that help alter or enhance capital supply conditions for the benefit of locally-determined investment priorities and economic change mandates.** So defined, LIFMs may be said to address one or both of the following imperatives:

- the need to create locally (in a specific community or communities in a specific region), or secure local access to, a permanent source of long-term risk capital (equity or debt or both) for certain developmental uses; and

- the need to create mechanisms and structures that reliably instill certain key qualities, such as expertise, information, networks and specialization, where requisite in local investment financing relationships.

Most frequently, LIFM inception takes place at the behest of local, provincial and/or national stakeholders, from the private sector, government and/or non-government sector, acting in partnership.

A good illustration of a LIFM can be seen in the newly-incepted ACF Equity Atlantic (see case study #1). Communities in the three Maritime provinces and Newfoundland and Labrador are situated at considerable distance from Canadian financial centres. In particular, they have had very little consistent access to risk capital that will foster innovation in traditional industries or permit the emergence of new ones. Furthermore, a historical reliance on conventional collateralized debt indicates that small businesses in these Atlantic Canadian communities have not been able to gain experience or develop conditions that allow the use of financial alternatives.

To deal with this set of circumstances, ACF was initiated. In addition to creating a stable pool of venture capital, achieved through (repayable or share-based) contributions by private lender and government partners, this institution was given professional management, perhaps not otherwise obtainable in the region. At the same time, investment decisions are independent and local. Finally, ACF aims to help change the financial culture of Atlantic Canada by increasing the utilization of equity in deals and by providing infrastructure that links local entrepreneurs to national and global markets.

Different LIFMs do different things. A model of fairly high profile is the Specific Investment Opportunity (SIO) program of the Ottawa-Carleton Economic Development Corporation (OCEDCO) (see case study #10). The mandate in this instance is comprehensive preparation of regional entrepreneurs for matches with potential suppliers, such as difficult-to-find angel investors, and strategic alliances. Another example is specialized banking units, conceived by such lending institutions as the Bank of Montreal (see case study #9), to adapt traditional credit, and extend it, to high technology companies in selected urban settings. Still another is the Community Futures Development Corporation of Central Island (formerly the Colville Investment Corporation, see case study #14), British Columbia, which is a long-standing pioneer of small lending and technical support to under-invested socio-economic groups, and an early model for today's Community Futures Development Corporations.

Many existing LIFMs in Canada reflect initial design and experimentation with unique financial innovations geared to local needs, constraints and opportunities. Several are quite young and in an early development phase. Yet, they feature practices and techniques that are getting initial results and attracting attention. Not surprisingly, there appears to be growing interest in such models among capital experts and practitioners throughout Canada, and an eagerness to learn more, perhaps for the purpose of emulation in other communities and regions. This point was emphasized by business and labour members of the CLMPC's Task Force on Access to Capital in their 1995 report *Generating Growth*.

In the next section, eighteen LIFMs are illustrated through brief case examination. It is readily acknowledged that the CLMPC has "cast the net widely" to highlight diverse access to capital concerns expressed by diverse economic regions of Canada. To assist the CLMPC and project sponsors and advisors in selecting individual cases, criteria (along with a sample questionnaire for LIFM informants) were established at the project's outset. The following is a summary of those criteria.

(1) Operation at the Local Level

Cases were chosen where the essential site for an LIFM and its capital allocation or intermediary activity is a given community, or communities within a given region. To represent cross-country balance, case studies were selected from provinces in western and eastern Canada, Ontario and Quebec.

It was also intended that research cover both the urban and rural experiences with LIFMs, as these can be very different. Partly as a means for ensuring a balance in this respect, several federally-sponsored, non-profit Community Futures Development Corporations (CFDCs) located in rural or remote areas of Canada were included. CFDCs have evolved through various federal government programs since the 1970s and assumed their existing form, broadly speaking, beginning in 1986. The particular CFDCs represented here were also chosen to illustrate certain innovative features and partnerships at work.

(2) Partnership Arrangements

Cases were also selected where they demonstrated, through inception and/or continuing administration and operation, a mix of partners at various levels, and especially partnerships that bring together government, non-government and private sectors in a shared objective. Indeed, the vast majority of LIFM case studies in the following section reflect multi-level, private-public partnership arrangements.

While some role for government is essential in the life of many LIFMs examined here, it is important to note that this role is mostly facilitative. Another key quality of LIFMs, as described in this CLMPC project, is the relative independence of decision-making processes and structures, without which local orientation is impossible and market-based expertise and information sources are compromised. This is true in all cases, including federal-assisted CFDCs that are intended to permit local autonomy in deciding and implementing strategic mandates.

(3) Strategic Focus on Financing Barriers

Finally, cases were also chosen which paid special attention to solving certain local capital availability problems. For instance, LIFMs profiled in the next section either exclusively or predominantly focus on the needs of new, developing and established small and medium-sized firms. Most utilize criteria that are beneficial to small dollar investment projects. Each LIFM also makes use of unique means and/or structures for ensuring long-term, knowledgeable and well-supported capital flows to targets of interest to them, such as knowledge-based and technology-intensive firms, aboriginal or women entrepreneurs, in their community or region.

For general reference, LIFMs profiled in this document touch on the sorts of questions raised under the previous sections, “Access to Capital: How Much and For What Purpose” and “Investment Financing Relationships: When Problems Create Barriers.”

The majority of LIFMs illustrated here can be said to engage in activity that reflects above average financial costs and risks. As a consequence, the case studies show pre-eminent use of risk capital in different forms, such as equity or quasi-equity (i.e., venture capital), debt characterized by some of the same features as equity, and debt not always readily available from mainstream market sources. Even in “casting the net widely”, it was not possible to cover a full cross-section of capital markets, institutions and financial instruments. Other varieties will no doubt appear as the phenomenon of local financial innovations and partnerships in Canada becomes better known.

A key determinant of LIFMs, in many instances, is the nature and extent of economic change and restructuring in each community and region, and related growth and job creation challenges and opportunities. Where possible, relevant information about LIFM inception and impacts in relation to these contextual issues is provided. It should be noted, however, that given the relatively short history of most LIFMs, extensive data and analysis pertaining to local results achieved, etc., are not currently available.

Using the above criteria, the CLMPC undertook in early 1997 a consultation process with several capital market experts and practitioners. As identified in the Introduction to this document, these include Mary Macdonald, Professor Barbara Orser and Professor Allan

Riding, sponsor advisors, and representatives of the Canadian Chamber of Commerce and other private sector organizations and government agencies and departments. It is perhaps a measure of the evolution of best institutional practices at the local level that several case selections were repeatedly recommended by this group of consultants, including OCEDCO's SIO program, Calmeadow, the Bank of Montreal's Innovation and Technology Centres, certain CFDCs, and all four of the Quebec illustrations.

IV Case Studies — Atlantic Canada

Case Study #1: ACF Equity Atlantic Inc. (Newfoundland and Labrador, New Brunswick, Nova Scotia and PEI)

1. *Brief Description*

ACF Equity Atlantic Inc. (ACF), created by eight lending institutions and five governments, delivers risk equity capital to high growth small and medium-sized companies in Atlantic Canadian provinces.

SOME HIGHLIGHTS

- **This fund offers patient equity capital in a region of Canada facing long-standing barriers to productive investment financing.**
- **It acts as a locus for venture co-investment and syndication among diverse financial actors and institutions operating both from within and outside of Atlantic Canada.**
- **ACF will, on a continuous basis, identify emerging knowledge-based and technology-intensive industries and job sectors in Atlantic communities.**
- **It will assist local entrepreneurs in using equity alternatives to collateralized debt.**
- **Investment targets will include firms at all stages of development, from start-up to rapid expansion as well as small dollar projects.**

2. *Background*

Like some other Canadian regions, the economies of Atlantic Canada have frequently been disadvantaged by their geographic remoteness from financial centres. This is especially true concerning venture capital supply, which historically has resided in central Canada. Consequently, risk financing activity in support of new economy enterprises for many years has been near dormant in the area. Recently, the Atlantic Provinces Economic Council (APEC) recognized this and pointed to interdependent problems of supply and inexperience among local investors and entrepreneurs in participating in equity-backed projects. In addition, APEC saw a need to join new capital sources with existing ones, such as angels (which are estimated to invest up to $10 million per year in the region). One proposed solution was ACF Equity Atlantic Inc. (ACF), created in 1996.

3. Mandate

This $30 million fund is an independent, professionally-managed institution designed to help fill a local capital gap by making venture investments in small and medium-sized firms in New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. To the degree possible, ACF will co-invest with other local, national and international financial institutions, including other regionally-active venture investors, such as labour-sponsored investment funds and angels. The fund aims to be a locus for private and public sector partnerships in risk equity delivery, in part, by comprehensively identifying, and then linking, a full range of regional investors and prospective growth opportunities which may not be well known.

4. Decision-making Process

As an independent entity, the fund is administered by a Board of Directors composed of eight business leaders representative of the four Atlantic provinces (plus the ACF Chief Executive Officer). An investment committee of the Board provides further advice to fund officers. The government and private suppliers of the fund — the latter consisting of the Canadian Imperial Bank of Commerce, the Bank of Montreal, the Bank of Nova Scotia, the Hongkong Bank of Canada, the National Bank of Canada, the Royal Bank of Canada, the Toronto Dominion Bank, and *La Fédération des caisses populaires Acadiennes* — leave decision-making to directors and officers, having approved the mandate and investment plan. A reporting mechanism has been established however. (see below)

5. Role of Government

The fund was initially capitalized by the Atlantic Canada provincial governments and the federal Atlantic Canada Opportunities Agency (ACOA) in co-operation with the private sector. ACOA's contribution is repayable, while those of the provincial governments and the lending institutions reflect on-going share capital in ACF. In total, government (federal and provincial) supplied two-thirds of the total amount. Accountability to public policy requirements (as well as those of lending institutions) is maintained by annual reports to a four-member investor committee.

6. Investment Criteria and Process

Long-term investment targets for ACF include small and medium-sized companies at all stages of development, from start-up to rapid expansion. These can be situated in both traditional and non-traditional sectors in eastern Canada, with the exception of real estate and retail outlets. The fund is especially interested in new, growth-oriented knowledge-intensive firms in such industries as biotechnology, information technology, marine technology and medical-related goods. Financings can occur from $250,000 to $3 million, though fund officers will attempt to begin with small size transactions. ACF has a policy of trying to secure 25 percent co-investment with other investors for each deal. No more than 20 percent of the amount invested by ACF, on a continuous basis, will go to transactions in which co-investment guidelines are not satisfied.

7. Investment Infrastructure

ACF provides infrastructure building strategic linkages between regional business and financial interests for the purposes of high risk deals. This includes connecting these with national and global capital markets to create new co-investment and syndication opportunities. At the outset, the focus will be on establishing an investors' network and identifying top enterprises and potential projects in the four provinces. As one of its goals is to broaden financial options available to Atlantic entrepreneurs beyond the use of debt, the fund will develop educational tools, such as forums on the nature of equity investing. Complementary programs and services may follow. The fund itself offers the region a resource in the expertise of its venture managers.

8. Investment Activity

ACF made its first commitment of $1.5 million in a co-investment with two other venture capital institutions (Bank of Montreal Capital Corporation and Capital Alliance Ventures) in August, 1997. The company, Formal Systems, Inc., is a high technology entity operating in Fredericton, New Brunswick. Several more potential ACF investments are currently underway.

9. Results Achieved

Given its short history, no formal evaluation of ACF has as yet been undertaken. It is included as a case study because of its unique investment mandate and structure and the significance the fund may potentially have in eastern Canada. As a private-public partnership, ACF has been initiated using one of the few known methods for permanently locating and deploying venture capital in a region of the country with limited history of such activity. This, and its concentration on financing and supporting new and developing enterprises, may make an important contribution to long-term diversification of the four provincial economies.

Case Study #2: BCA Holdings (Sydney, Nova Scotia)

1. *Brief Description*

BCA Holdings is a community venture finance company operating on Cape Breton Island. It raises money from private and institutional investors to invest in locally-controlled and owned small businesses that would have been bypassed by traditional investors.

SOME HIGHLIGHTS

- **BCA Holdings addresses a capital supply shortage by tapping various funding sources including individuals, church organizations, government, and the co-op movement.**
- **It works in a partnership arrangement with the federally-funded Enterprise Cape Breton Corporation (ECBC), which provided a significant loan to the corporation.**
- **It makes its more speculative equity investments through a subsidiary as a means of spreading risk.**
- **It relies upon semi-volunteer staff in order to keep operating expenses low.**
- **Its Board is made up primarily of experienced business people, who apply sound business principles to investment decision-making.**

2. *Background*

BCA Holdings Ltd., located in Sydney, Nova Scotia, was established by a coalition of local organizations and individuals which included business people, a community development corporation, and a co-op insurance group. Unemployment was (and still is) running high, job creation was dormant, and there was a concern that investment dollars were not readily available for local businesses. It was thus felt that a locally-based investment corporation would provide a partial answer to the need for risk capital and employment creation. The group first met in 1989 and, after undertaking a feasibility study and trying out several partnership approaches, was able to secure a major loan for its investment fund in 1992.

3. *Mandate*

The corporation's main mission is to create jobs and keep ownership of businesses in local hands by providing loan and equity financing to local small businesses. The corporation is the majority owner of BCA Venture Capital, which makes equity investments in selected local ventures. BCA Holdings limits itself to relatively safe investments and more than 50 percent of its investment portfolio is in real estate. Its venture capital subsidiary, on the other hand, makes equity investments considered more high-risk. Since its inception, it has raised money from local groups, individuals, and government for combined assets of $1.3 million (composed of repayable loans made to the corporation and preferred shares purchased from its subsidiary).

4. *Decision-making Process*

All BCA Holdings investment decisions are made by the eight-member Board of Directors, following a favorable recommendation and a presentation by the corporation's manager. The Board meets bimonthly, on average. Six Board members come from the local business community and one of the other two represents a community development corporation — New Dawn Enterprises — which possesses an impressive track record in community investing and development. Since all Board members are very active in the community, they possess an intimate knowledge of local conditions and proponents, which may help reduce uncertainty and risk.

5. *Role of Government*

The federal government has played a useful role at both the start-up and development stages of the corporation. In 1990, the Atlantic Canada Opportunities Agency provided funding for the feasibility study that allowed the coalition of local groups to get a better sense of the market potential of their idea. In 1992, BCA Holdings successfully negotiated a $500,000, five-year interest-free loan from ECBC to be used for investment purposes. This formal partnership has meant that, starting in 1997-98, the corporation must start repaying the loan (at a competitive interest rate). It is worth noting, however, that BCA Holdings has never received grants or contributions for its operating expenses.

6. *Investment Criteria and Process*

Project applicants are required to submit a detailed business plan, but only after going through a successful interview with the corporation's manager. The business plan must contain the standard information and it must demonstrate the project's commercial viability. Beyond that, BCA Holdings applies a unique set of criteria for selecting suitable investment projects. All eligible projects must demonstrate that they: (1) can be commercially viable; (2) will make a positive contribution to the community; and (3) are majority locally-owned and controlled with more than one owner. These criteria are viewed by the organization's supporters as an effective way to achieve community objectives while applying conventional business methods.

7. *Investment Infrastructure*

Since it operates without any operating grants, and since its investment portfolio is small, the corporation functions with minimal staff — one part-time manager and one part-time accountant. This lean structure has meant that, since its inception, BCA Holdings has covered its operating expenses entirely from its investment income. This minimal structure has also meant that the corporation is not in a position to offer its clients specialized business or after care services. However, both board members and the general manager provide informal counselling to their investees on the basis of their extensive business experience.

8. Investment Activity

BCA Holdings currently holds interest in five locally-based ventures: a cable manufacturer, a hotel, a radio station, a plumbing and heating company, and a ski hill. The corporation has invested more than $1.2 million in these ventures, representing approximately 80% of its capital base (close to two-thirds of which is in the form of debt financing; see Appendix A). Losses to date have amounted to approximately $100,000 while the assets have gained $300,000, for a net portfolio appreciation of $200,000. This net gain is impressive considering the size of the portfolio and the risky nature of several of the corporation's investments.

BCA Holdings investment in East Coast Rope typifies the community orientation of its activities. What was then called Scotia Rope, a high-strength fiber manufacturer, went bankrupt in the early 1990s. A Louisiana company won the bid to buy the machinery, intending to bring it back to the United States. With the help of BCA Holdings' $250,000 equity investment, local business shareholders fought back and were able to secure the assets to eventually re-open the company in Sydney. Today, at least 30 people are employed, on an around-the-clock basis, and the company has recently opened a warehouse in Seattle. Another specialty rope company, projected to employ 50 people, is being built as an East Coast Rope spin-off.

9. Results Achieved

Together, BCA Holdings' investees provide the equivalent of 111 full-time positions. According to an unpublished study, the indirect and induced impacts of their operations account for an additional 42 full-time jobs. While the corporation cannot be credited for all of this employment maintenance or creation, the incremental nature of these investments is nonetheless high given that several of them were rescue operations and all of them are still in operation today. From this perspective, it appears that the corporation has met its objective of preserving and enhancing local employment. Furthermore, the corporation's ability to operate on the basis of its investment income alone — in the absence of a large investment portfolio — testifies to the importance of volunteer contributions and community roots for small and remote investment companies.

Appendix A

Breakdown of BCA's Holdings' Portfolio

Type of investment	Amount $	Percentage of total %
Equity	550 000	39.5
Loans	600 000	43.2
Mortgage	240 000	17.3
TOTAL	*1 390 000*	*100.0*

Appendix B

Source of Funding for BCA Holdings's Capital Base

Source of Funds	Amount $	Percentage of total %
Church organizations	340 000	28.3
Co-op insurance	10 000	0.9
Government	500 000	41.6
Individuals	351 000	29.2
TOTAL	*1 201 000*	*100.0*

Case Study #3: Calmeadow Foundation/Royal Bank of Canada (Halifax, Nova Scotia)

1. *Brief Description*

Calmeadow Nova Scotia is a community-based corporation involved in micro-lending activity. Throughout Nova Scotia, it provides micro-loans to self-employed entrepreneurs and offers them specialized support services that match their special needs.

SOME HIGHLIGHTS

- **Calmeadow Nova Scotia targets self-employed individuals and home-based businesses, one of the fastest-growing segments of the economy.**
- **It is the result of a partnership between a Toronto-based foundation, the Royal Bank, and communities across Nova Scotia.**
- **The organization supplies very small loans to self-employed individuals, a group that is normally overlooked by conventional lenders.**
- **It also acts on the demand side of the market, by providing training, group and individual counselling to loan applicants.**
- **By applying a community-based lending approach, it has limited its risks and maintained a high repayment rate in spite of its clients' limited track record.**

2. *Background*

The origin of Calmeadow Nova Scotia dates back to 1991, when Calmeadow, a Toronto-based foundation, and the Royal Bank established a pilot micro-credit fund in Shelburne County, N.S. This partnership was established as a means to help self-employed people who are denied business credit because they lack collateral, a credit history or they require a loan that is too small to interest traditional financial institutions. The success of the joint venture — known as Partnership Assistance for Rural Development (PARD) — combined with the need to achieve self-sufficiency, led to the expansion of the project to other parts of Nova Scotia in July 1994. The need to achieve greater self-sufficiency and to respond to the needs of more established entrepreneurs propelled the corporation to reorganize and broaden the range of its financial services in 1996. As of March 31, 1997, five funds combined had lent over $335,000 to 211 clients.

3. *Mandate*

The mandate of Calmeadow Nova Scotia is to deliver, on a self-sustaining basis, micro-credit to small-scale business operators located throughout Nova Scotia. Loans are granted following a sliding scale, starting at $1,000 for a first-time borrower up to a maximum of $5,000. The loans are offered at prime plus 7.5%, and must be repaid between three and twenty-four months. Borrowers must join a *business credit group*, which meets monthly to provide support and assess each member's loan application. The group also acts as a strong peer pressure system that contributes to a high repayment rate, since in the event of a member defaulting on his loan, no other members can access future credit until repayment is made. Recently, the organization has been amalgamating its operations, and its mandate has been expanded to include direct delivery of individual business loans.

4. *Decision-making Process*

The decision-making process has been transformed recently. Prior to September 1996, the five community-based loan funds were responsible for managing lending operations. Each fund had its own Board of Directors and part-time co-ordinators, and loan approval decisions were made locally. Since then, the local funds have dissolved their boards and the new model involves part-time Calmeadow representatives traveling the region under the supervision of the central office. However, business credit groups still represent the first line of decision-making authority, thereby ensuring a high degree of local control.

5. *Role of Government*

The federal or provincial governments do not play any visible role in this micro-lending venture. In the case of some of the local funds, local governments have contributed by providing infrastructure support (use of facilities, animators, etc.) to the fund's organization. Nonetheless, most of the support for the loan fund has come from the private sector. Notably, the Royal Bank agreed in 1994 to provide $500,000 for five years to cover operating costs, while other private partners raised the same amount.

6. *Investment Criteria and Process*

The most interesting aspect of the project selection process is that capacity and character, as opposed to assets and collateral, are the main criteria utilized for loan approval. Loan delivery also follows a unique process. The first step is for a borrower to get the loan application reviewed and approved by his or her business credit group. Successful applications then go to a Calmeadow Nova Scotia staff member to ensure compliance and eligibility. Once this verification is complete, the Royal Bank of Canada is notified, and the borrower can collect the loan money after signing a promissory note. Loans are guaranteed by Calmeadow Nova Scotia and the Royal Bank. No particular industrial sector is given priority, and the track record suggests that individuals who require social (peer counselling and support) and technical assistance tend to be more attracted to this model than other types of entrepreneurs.

7. *Investment Infrastructure*

The central feature of Calmeadow Nova Scotia's loan structure is the use of the business credit group as the conduit for project assessment and development and loan approval. In order to ensure reasonable expertise, local Calmeadow representatives provide training to each member of these groups; the training relates primarily to the use of tools for the assessment of "character loans." Logistical and technical support to the credit groups and to individual borrowers is provided by the corporation's manager and two account managers (one for the rural areas and the other for the urban area), and by part-time, local representatives who seek community support and approval for micro-lending and identify potential borrowers.

8. *Investment Activity*

The expansion of Calmeadow Nova Scotia into individual business loans is very recent, and data on these activities are currently unavailable. Peer lending statistics, as of March 31, 1997, show that there are currently 34 active lending groups comprising 141 clients (Appendix A). The average loan size is $1,079, and $335,595 has been loaned so far by the organization. The actual composition of the loan portfolio is as follows: 50% in services; 40% in crafts; and 10% in retail sales and manufacturing. The fund performance has been relatively good to date, with losses amounting to $24,195. Delinquency (payments in arrears over 30 days) rate is a low 1.3% while the default (loans written off) rate is currently standing at 7.2%.

Beyond these statistics lie stories of personal success. One such story is that of Hugh MacKay, of Shelburne, who started MacKay Plumbing with a $500 loan in November, 1995. He used the money to purchase a drill and a torch, and by January, 1996, he was working full time. A second loan, worth $1,000, was used during the same month to repair a truck bought from reinvested profits. Three months later, business was so good that Mr. MacKay hired a part-time worker. Thanks to timely loans and the support from fellow credit group members, he was able to grow at a rapid pace and even become an employer.

9. *Results Achieved*

A 1993 impact assessment of PARD (the precursor to the present organization) indicates that 42% of PARD borrowers had started new businesses with their loans. For nearly all of them, the business represented their primary source of income. Although job creation data were not available, the same study indicates that twenty new businesses had been created, six of which had moved from a home to an office location, and three had hired part-time employees. These results suggest that, although its level of investment activity remained small, the corporation was addressing the need for start-up capital for micro-enterprises. Another potential benefit is that it provides small business owners with a loans track record, thereby allowing them to build or rebuild their credit history.

On a different note, a 1997 internal planning document concluded that the organization would not meet its target number of borrowers by mid-1999 under its (then) current structure. These findings suggested that there was a need for a more flexible loan access structure, more diversified financial products, and a more cost-effective delivery vehicle. As a result, local funds were rolled over into one fund, fees for loan services were increased, and new products such as individual business loans and lines of credit were offered. While it is too early to assess the impacts of these measures, the initial response from borrowers has been positive.

Appendix A

Loan Fund Statistics
As of March 31, 1997

Description	Number
Actual number of business credit groups	34
Cumulative number of business credit groups	46
Actual number of borrowers	81
Actual number of clients	141
Cumulative number of clients	211
Cumulative number of loans	311
Description	**$**
Cumulative amount loaned	335,595
Average loan size	1,079
Initial group loan size	1,000
Maximum group loan size	5,000
Maximum individual loan size	15,000
Losses to date	24,195
Delinquency rate	1.3%
Default rate	7.2%

Case Study #4: SADC de la Péninsule acadienne (New Brunswick)

1. Brief Description

The *Société d'aide au développement des collectivités de la Péninsule acadienne* (SADC) is a non-profit corporation providing loans and technical services to individuals and businesses located in New Brunswick's Acadian Peninsula. It also provides assistance to young entrepreneurs and those wanting to become self-employed.

SOME HIGHLIGHTS

- **SADC's strategy of offering flexible financing assorted with a range of support and technical services squarely fits local needs.**
- **Thanks to its close ties with the local business community, it functions effectively with sweat equity and a small staff.**
- **It fills an important gap by focusing on small businesses requiring capital for expansion or consolidation purposes.**
- **Its goal of becoming self-sufficient is slowly being fulfilled thanks to its strategy of reinvesting all of its investment income.**
- **Its close partnership with the Atlantic Canada Opportunities Agency and the Province of New Brunswick allows it to access fee-for-services contracts.**

2. Background

The Acadian Peninsula is a region characterized by high unemployment and seasonal employment patterns. In September, 1985, a group of local businesspersons met with federal and provincial government representatives to set up a new business development corporation. At the time, the demand for debt financing and specialized technical services exceeded the capacity of the region's (then) only existing development corporation. There was also a strong sense that something had to be done to remove barriers to access to capital such as the lack of strong institutional investors and of managerial expertise. The group succeeded in obtaining a federal Community Futures (CF) designation for the area, and the Business Development Centre (SADC) and CF Committee were formed in 1986.

3. Mandate

The SADC's mandate is to provide capital and technical services to businesses located in the Acadian Peninsula. The provision of financing is seen as a means to leverage other funding sources, maximize employment creation, and generate interest income as a way to achieve financial self-sufficiency. Before 1995, the CF Committee was also providing community development and strategic planning services for the area in conformity with the objectives of the Community Futures program, but these activities have been dropped for lack of financial resources and are currently performed by the Regional Economic Development Commissions in New Brunswick.

4. *Decision-making Process*

SADC's lean managerial structure — one director, one business analyst, and an executive assistant — means that investment decision-making is straightforward. As a first step, either the director or the analyst screens and selects suitable projects, for which they prepare detailed proposals. Suitable proposals are then submitted to SADC's Credit Committee for approval. The Committee is composed of five persons selected from the twelve-member Board of Directors. The full Board provides ratification for all loan proposals.

5. *Role of Government*

Since the SADC represents a corporation funded under the CF program, it receives financial compensation from the federal government for managing the loan fund. In addition, the corporation has entered into a fee-for-services agreement with the provincial government to undertake the development and the financial assessment of proposals under two programs — the Small Entrepreneur Capital Assistance Program and the Self Employment Benefit Program. It has also started delivering the SEED CAPITAL program, a loan program for youth, on behalf of the Atlantic Canada Opportunities Agency. Thanks in part to its small payroll, these various contracts provide the corporation with enough revenue to cover a large portion of its non loan-related expenses.

6. *Investment Criteria and Process*

The SADC's investment criteria follow the pre-established standards set by the Community Futures program. No sector is excluded *a priori* from consideration. In practice, however, projects in real estate and saturated sectors are not supported by the Board since it is felt that they would simply displace other economic activity. Preference is given to projects in manufacturing or to those in other sectors with high potential for job creation. Due diligence is conducted following fairly standard practices, although the corporation tends to be more flexible than traditional financial institutions in terms of required guarantees and taking second position on security when required, which reflects its role as a catalyst for other investments.

7. *Investment Infrastructure*

In addition to providing direct financial assistance in the form of loans, the SADC provides a range of technical services on a (partial) cost-recovery basis. Services range from market and financial analyses, to preparing pro-forma statements. The corporation charges on average $250 per client for these services, which does not cover its full cost of providing the services. Thanks to its extensive business network and to the local business community's volunteer participation, it can function effectively with only three staff and act as an intermediary between its clients and other providers of financing and business services of a more specialized nature.

8. *Investment Activity*

The SADC's investment track record is enviable. Since its inception ten years ago, it has made 254 loans valued in excess of $7.3 million. These loans have leveraged an additional $12.7 million. The average loan size is $29,078. Loans written off, so far, have amounted to 2.6% of total loan value, which is generally considered a good performance for this type of fund. The investment fund's base has grown steadily through the regular infusion of public money and re-investment of interest income (which, according to Treasury Board guidelines, must be entirely re-injected into the fund); it now stands at $4.23 million but more than 75% of it is currently invested. A look at the SADC's track record shows that, over ten years, it has shifted its assistance from start-ups to firms at the maturing phase of their life cycle (Appendix A).

One firm that has benefited from the earlier focus on start-ups is *Les Produits côtiers Pigeon-Hill Ltée*, a fish processing plant located in Pigeon-Hill. The SADC was instrumental in helping eight local fishermen establish the company in 1988 as a way to process and market their own catches. Today, the expanded enterprise has twelve owners, eighteen boats, one hundred employees, and a processing plant. Its products are sold as far away as Japan. The firm was one of the first SADC clients to receive both capital and technical service assistance.

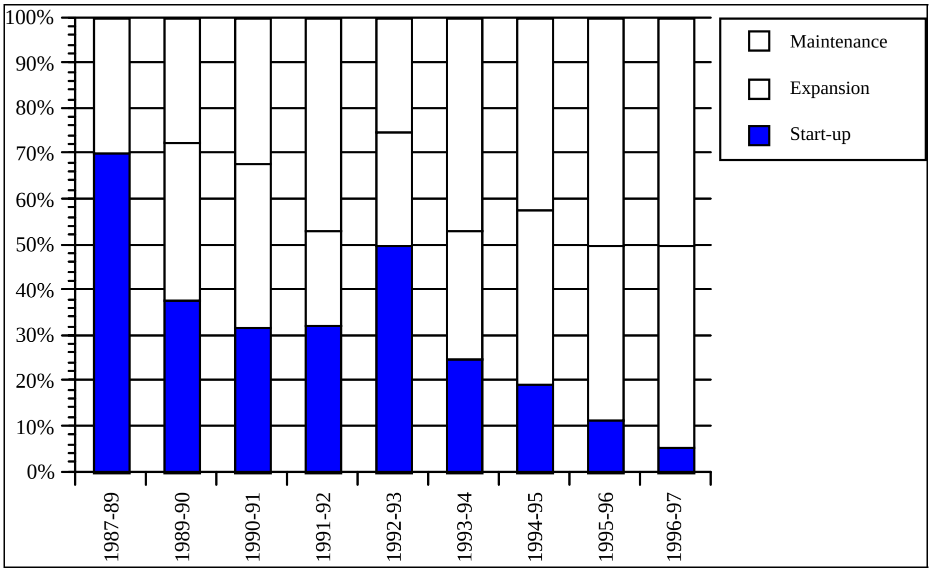
9. *Results Achieved*

Assessment of the SADC's track record suggests that it has been relatively successful at meeting its financing and employment creation objectives. The corporation has been able to increase dramatically the size of its capital base while serving the financing needs of over 250 enterprises. In the area of job creation, it claims to have created 396 jobs — seasonal, full and part-time — and maintained an additional 1,017 jobs (half of them full-time) over ten years. The SADC has also made significant progress on the road to self-sufficiency. Its gross interest income has exceeded its operating expenses in five years out of the last six (Appendix B) and the cumulative value of this income (since the company's inception in 1985) represents today approximately 40% of the investment fund's value. Key to this success has been the commitment of volunteers sitting on the Board, since they have brought a "grass root" knowledge of their communities and local decision-making. However, the corporation has been less successful in its equity ventures. One of the two equity investments it ever made failed and, as a result, it no longer pursues this type of investment. The corporation's recent shift into delivering a broader range of government programs, its focus on firms at the expansion or consolidation stage, and the growth of its capital base indicate that the SADC is set to remain a major player in the Peninsula's economic arena.

Appendix A

Distribution of Firms Assisted*

1988-89 to 1996-97

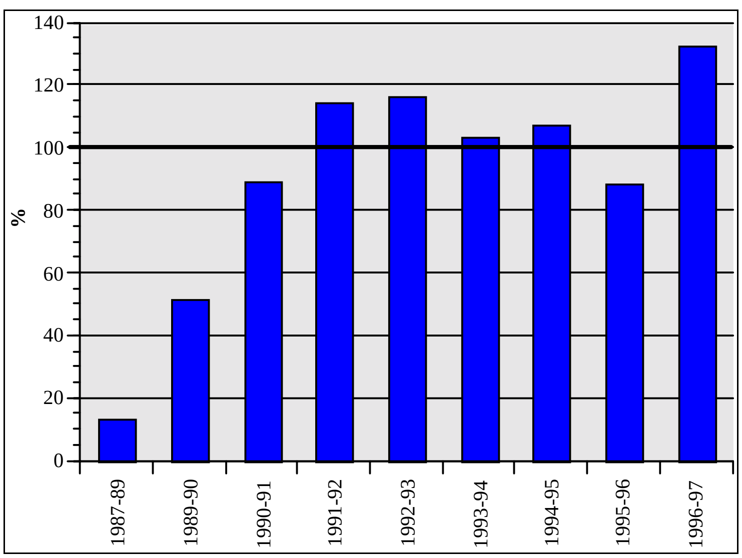


* According to the three types of projects; expressed as a percentage of the total number of firms.

Appendix B

Gross Financial Self-sufficiency Ratio*

1988-89 to 1996-97



* Percentage of loan fund interest income over operating expenses; does not account for loan fund costs such as loan losses, loan losses provision, and depreciation of equity investments.

Case Study #5: Aérocapital (Montreal, Quebec)

1. Brief Description

Aérocapital is a Montreal-based investment corporation specializing in the financing of emerging enterprises in the aeronautical and communications industries. It provides equity and quasi-equity financing to start-up or rapidly expanding firms.

SOME HIGHLIGHTS

- **Aérocapital invests primarily in the "engines" of new economic growth, which traditionally have difficulty attracting venture capital.**
- **Its due diligence is geared toward the assessment of "soft" assets such as human resources and technological innovation.**
- **It offers specialized assistance through its core team which combines technical knowledge with extensive managerial experience.**
- **It favors a risk-reducing approach by capping its investments and by entering into joint investment ventures with both private and public partners.**
- **It promotes flexible financing options by offering a wide range of financial products designed to meet the changing needs of its clients.**

2. Background

Aérocapital was originally conceived as a joint project between the *Fonds de solidarité des travailleurs du Québec* (FSTQ) and the *Société générale de financement*, a provincial government-backed investment corporation, in the fall of 1992. These two organizations shared the view that a sophisticated, specialized investment mechanism was needed to meet the capital needs of emerging firms in the aeronautical industry. Such firms often have difficulty attracting venture capital because they have more "soft" assets — an innovative technology and highly skilled human resources — than other forms of collateral. However, since the FSTQ had already acquired an expertise in specialized funds, it then became the sole sponsor of Aérocapital, providing it with a $10 million capital base and a fee-for-service management contract.

3. Mandate

Aérocapital’s central mission is to invest in the development of the aeronautical and communications sectors by focusing on firms which are at the very early stage of their product life cycle. As a matter of internal policy, the corporation limits its participation to $1 million in any given project, and it targets those projects valued between $1 and $5 million. This policy derives from Aérocapital’s desire to spread risk and expand its business network, and it implies that most projects will involve co-syndication.

4. Decision-making Process

Initial proposal screening and more detailed analyses are carried out by Aérocapital’s staff and partners, but final investment proposals are vetted by the corporation’s *Investment Committee*, in which the FSTQ plays an important role. Since the FSTQ provides Aérocapital’s capital base, two of its representatives sit on the three-member committee (the other member being one of Aérocapital’s three partners). This structure allows the FSTQ to play a relatively hands-off role while maintaining with Aérocapital a direct line of communications and accountability for Aérocapital.

5. Role of Government

According to Aérocapital representatives, government’s main contribution to its operations has been its support of the R & D tax credit program. The program has allowed young high-tech firms to emerge and develop their products to a stage where they could go out and seek capital for market development. The credits have thus helped reduce the financial risks associated with marketing emerging technologies. In addition, both the federal and the Quebec governments have participated as co-investors in several of the corporation’s investments through their investment arms (such as the Development Bank of Canada, the *Caisse de dépôt et placement du Québec,* and *Innovatech du Grand Montréal*).

6. Investment Criteria and Process

Qualifying clients will typically be start-up or expanding firms possessing either a working prototype or a commercial version of their products, as well as a core team of managers who can demonstrate managerial and technical expertise. Due diligence follows a structured process which starts with a detailed analysis of the business plan by a corporation’s counselor or associate (see below). This analysis focuses on markets, technological advantage, quality of the management team, and potential for profitability. On the basis of a suitable plan, company visits and meetings with Aérocapital’s staff will follow and result in a formal letter of intent. Once accepted, this letter will lead to a more detailed and final evaluation of the business plan before the plan goes to the Investment Committee for final approval. In all, investment decisions may take three to six months.

7. *Investment Infrastructure*

Aérocapital's core team is composed of three partners and three counselors. The partners combine an engineering background with extensive managerial knowledge acquired through graduate studies and direct business experience. The counselors specialize in either the financial or the technical area. Members of the team directly interact with potential or active investees in a number of ways. Team members can work with prospective investees on their business plan, and they can direct them to other investment sources. Companies requiring additional managerial support are directed to organizations such as *Inno-centre*, with which Aérocapital has established a close working relationship. Aérocapital staff also support investee firms through participation on their Board of Directors and regular, monthly meetings with the firms' managers.

8. *Investment Activity*

As of August 22, 1997, Aérocapital had committed $7.6 million (of which $5.8 million has been spent) in nine companies (since then, it has liquidated its participation in two of them). Since most of its investments are part of co-investment deals, the corporation's investment activities act as an effective lever, since it is the lead investor in approximately 75% of the projects, for investments in the targeted sectors. Approximately 65% of the portfolio is currently made up of equity investments, and the rest is considered to be quasi-equity (convertible debentures combined with royalty revenues). All of the portfolio is considered high-risk, since approximately half of it is invested in start-up companies and the other half involves firms which are expanding into new geographical or product markets. As shown in Appendix A, the portfolio currently includes seven investments distributed between aeronautical (60%), electronics (20.5%), and communications (with 19.5% of the portfolio's value).

The investment leadership role played by Aérocapital can best be appreciated through its involvement with Softplane Inc. (a fictitious name), an avionics software company established in 1987. In the early 1990s, Softplane had sales of $10 million but it needed risk capital for market and product development. Following successful screening, Aérocapital led a consortium of local investors who contributed half of a $5 million equity investment, the other half being financed by foreign investors. However, twenty months after this investment, the company experienced a severe cash crunch as a consequence of rapid market development, resulting in the lay-off of 50 of its 110 employees. Aérocapital then led another investor consortium, this time two thirds local and one third foreign, who injected $1.5 million in convertible debentures. Two years later, Softplane was profitable and more stable, its sales had reached $10 million, and its work force had increased to 80 employees.

9. *Results Achieved*

No formal evaluation of Aérocapital exists, but its short track record suggests it has been an effective investment vehicle. Its investments in firms with little track record, a limited client base, at the early stage of their product life cycle, and producing non-standardized products fill an important market gap. Through its extensive network of contacts and its own internal expertise, Aérocapital has been able to reduce risk and lever additional funds by systematically seeking co-investment deals and acting, more often than not, as a lead investor. To this end, it has established close relationships with large, sophisticated institutional investors such as the *Caisse de dépôt et de placement du Québec* and *Innovatech du Grand Montréal*. While it is too early to assess Aérocapital's employment impact, firms in its targeted sectors are generally known to experience exponential employment growth after only a few years of operation.

From the standpoint of sustainability, it is uncertain whether or when the corporation will reach the critical mass that will enable it to generate enough investment revenue to cover its operating expenses. Its current efforts at consolidating its investment portfolio and at seeking other sponsors (for Aérocapital 2) represent a positive step in this direction.

Appendix A

Sectoral Distribution of Investments
As of May 30, 1997

Sector	Number of investments	As a % of total portfolio value
Aeronautical	3	60.0
Electronics	2	20.5
Communications	2	19.5
TOTAL	*7*	*100.0*

Case Study #6: Le Groupe Forces (Shawinigan, Quebec)

1. Brief Description

Le Groupe Forces, located in Shawinigan, Quebec, is a non-profit corporation that provides loan and equity financing, in addition to a range of community economic development services.

SOME HIGHLIGHTS

- **Building on several private and public partnerships, Le Groupe Forces is a one-window response to a broad range of business and community development needs.**
- **It achieves economies of scale by combining and co-ordinating independent local pools of capital.**
- **Its investment portfolio builds on the traditional economic strength of the area as well as on emerging sectors associated with the "new" economy.**
- **The Mouvement Desjardins is a regular partner in the corporation's co-investments.**
- **Its relatively low delinquency rate results from a strategy of co-investment and decentralized decision-making.**

2. Background

In 1991, two investment funds located in an old industrial area of the Mauricie region — the *Fonds de développement économique Laprade St-Maurice* and the local Business Development Centre — merged with the existing Community Futures Committee as a way of reducing operating expenses. Between then and 1995, further organizational restructuring brought together these organizations, plus two others, under one corporate roof. The new structure — Le Groupe Forces — blends a community development corporation, the investment funds, and another organization which oversees special community events. It unites federal, provincial and municipal government actors, local financial institutions, and local interest group representatives in one organization. This integration was designed as a way to create a single, highly visible organization that, through co-ordination and the provision of specialized services, would reverse industrial decline and contribute to employment creation.

3. Mandate

The mission of Le Groupe Forces is twofold. First, it provides financing and technical assistance to innovative projects with a view to creating long-term jobs. Second, it aims to promote community economic development initiatives in collaboration with other partners. The organization achieves its mission by co-ordinating the human, physical, and financial resources of its five member organizations. To this end, it has implemented a number of sector-based (social and economic) committees and oversees the activities of a broadly-based council responsible for regional strategic planning. This 23-member orientation council establishes multi-sector partnerships and promotes region-wide socio-economic projects. In addition, Le Groupe Forces acts as an incubator for a small number of research and development projects.

4. Decision-making Process

All investment decisions are currently made by the Investment Committee. The eleven-member Committee has strong local and regional representation. Seven of its members come from the local business community, one is a human resource development expert, another represents the federal government, and the others are selected from the organization's staff. The Committee is supported in its role by Le Groupe's General Manager and the loan officers, who work closely with every client in order to ensure adequate business plan preparation. This decision-making process is currently being revised so that the General Manager will have approval authority for projects up to $20,000.

5. Role of Government

Le Groupe Forces represents a good example of a multi-faceted public – private partnership. All three levels of government are closely involved in the financing and other activities of Le Groupe. For instance, Le Groupe manages a SOLIDE, which is a locally-based public and private sector-sponsored loan fund. It also administers a loan fund as a (federal) Community Futures Development Corporation, as well as a special regional development fund (the Laprade fund). Le Groupe collects management fees to the order of $280,000 a year for managing these funds, and for delivering economic development services within its territory.

6. Investment Criteria and Process

Projects from the high technology, tourism, and environment sectors receive high priority, but no sector is excluded from the list of admissible industries. However, every project must demonstrate innovation and employment creation potential. Project development follows a strict procedure. The first step is for a new client to meet with an assigned officer, who will screen and assess the proposal and then work with the client in order to prepare for a site visit by a multi-disciplinary team (the team combines expertise in human resource development, marketing, finance, and production management). The purpose of this visit is to complete the financial, physical, and organizational analyses of the client's proposal. For projects that receive a favorable assessment, the last stage will involve a presentation by the client of the project before Le Groupe Forces' Investment Committee.

7. *Investment Infrastructure*

Le Groupe Forces' investment support functions are assumed primarily by the officers and by the multi-disciplinary team. Every officer is a Certified Management Accountant and the team includes experts from different business fields. Depending on the nature of the projects, government program personnel and local financial institutions can become actively involved. Support to the community economic development initiatives that the organization promotes is provided by a full-time facilitator. The facilitator works with community-based interest groups on specific projects (one such project is the launching of a Fund for Amateur Athletes) and calls upon other experts from the organization as needed. This flexible structure allows Le Groupe Forces to meet a wide range of business and community development needs while keeping its operating expenses low.

8. *Investment Activity*

From a capital base of $6 million, Le Groupe Forces manages three loan and equity funds. The value of the corporation's investment portfolio currently stands at $2.7 million, out of a capital base of approximately $6 million. Of interest is the fact that close to 50% of that invested money is directed at firms in manufacturing (Appendix A). Loans make up 80% of the portfolio and the rest is divided between equity financing — 4% of the investments made by the two main funds — debentures, and loan guarantees. For the two main funds, delinquency rates remain under 5%, which is respectable given that investments are geared primarily toward high-risk ventures. Several of Le Groupe's investments represent co-investments in which the Mouvement Desjardins is a regular partner.

Le Groupe's lead role is visible through the example of *Les confections St-Élie*, a clothing manufacturer first established in 1976 in Saint-Élie-de-Caxton. In 1991, the company went bankrupt because of a business association turned sour, resulting in the lay off of its 250 employees. Soon after, a team formed by ex-employees tried to obtain financing from traditional financial institutions, but they were turned down, owing to a difficult economic climate and to the fact that the company operated in a "soft" sector. Le Groupe Forces then stepped in, contributing $150,000 in shares and subordinated debt. This commitment was enough to allow the team to go back to the financial institutions and successfully access an additional $850,000, allowing it to salvage the company. Today, *Les confections* employs one hundred employees and is on an expansion course.

9. *Results Achieved*

Le Groupe Forces' drive to amalgamate five organizations into one as a way of reducing operating expenses and increasing visibility has been largely successful. Although it still receives public funds for covering some of its operating costs, the organization's investment activities have become self-sustaining over the past year. External funding is thus now used primarily for economic development purposes. Le Group's employment impact is substantial, given the area's long-standing industrial decline: 807 jobs have been created and an additional 1,654 maintained through Le Groupe's investment activity, according to internal estimates. Above all, this case demonstrates that through concerted and well-targeted efforts, regional development and investment functions can be combined for maximum impact.

Appendix A

Statistics of the *Groupe Forces* Funds

*(active files as of March 31, 1997)**

Category of fund	Type of financing (% of total)			
	Loan	Equity	Debenture	Guarantee
Laprade St-Maurice Fund	81	4	6	9
Soficar Fund	85	4	7	4
SOLIDE Fund	47	-	53	-

	Sectoral distribution of financing (% of total)		
	Manufacturing	Tourism	Business services
Laprade St-Maurice Fund	46	1	53
Soficar Fund	52	1	47
SOLIDE Fund	61	28	11

	Delinquency rate (%)
Laprade St-Maurice Fund	4.2
Soficar Fund	4.1
SOLIDE Fund	0.0

	Investment Portfolio ($)		
	Loan/debenture	Equity	Guarantee
Laprade St-Maurice Fund	1 162 415	49 000	100 000
Soficar Fund	1 115 594	40 000	40 000
SOLIDE Fund	140 000	-	-

* except for the Investment Portfolio data, which are dated May 13, 1997. The different time periods explain the slight discrepancy between *type of financing* and *investment portfolio* data.

Case Study #7: Inno-centre (Montreal, Quebec)

1. Brief Description

Inno-centre, a business incubation centre located in Montreal, provides a unique blend of mentoring, training and access to business services to selected companies operating in the information and bio-technology sectors.

SOME HIGHLIGHTS

- **Acting as an entrepreneur incubator, Inno-centre does not provide funding but offers young high tech firms specialized planning and business management skills.**
- **Key to the program is access to mentors and advisors from the local business and scientific community, ensuring long-term industry – finance relationships.**
- **Its success depends on partnerships with government, which provides some core funding; and with private sector companies and universities, which form its advisory and technical network.**
- **It also acts as a deal-making structure by linking mentored companies to the financial markets, relying upon its extensive business network.**

2. Background

The mayor of Boucherville, a Montreal suburb, provided the impetus for the creation of Inno-centre in 1987. The initiative was part of an incubator-creation trend prevalent in much of Quebec at the time, a trend fuelled by a perception that deficiencies on the demand side — such as lack of market knowledge and specialized managerial skills — needed to be addressed. The corporation moved to a Montreal location two years later in order to gain better access to its private and public sector partners. From its inception, Inno-centre has benefited from the support of large private sector companies such as Bell Canada and Hydro-Québec. Over the course of the centre's history, the clients with whom it deals have tended to become slightly older and more sophisticated. This trend has been paralleled by an increasing use of equity capital as a means of financing the early development stage of assisted firms.

3. Mandate

Inno-centre's mandate is to support the development of emerging, innovation-based high-tech companies in Quebec. The centre's success rests squarely on the active involvement of private sector, government, and university partners. Such involvement takes the form of participation in *advisory committees* (firm-specific committees providing individual guidance to mentored firms), sectoral councils (sector-based committees providing advice and trend analysis to the centre's staff), and selection committees (designed to select participants in Inno-centre's programs), or the provision of core funding (particularly in the case of government). Together, this extensive network of more than 200 counselors and collaborators provides Inno-centre with expertise in financing, management, and market and scientific research and development.

4. Decision-making Process

Inno-centre's two-year business development program includes the direct involvement of a private counselor, access to an advisory committee, training activities, and access to the corporation's extensive business and scientific network. The selection of the 15-17 firms that participate each year in the program follows a fairly structured process. After an initial screening, a counselor is assigned to a prospective firm and works with this firm's managers in order to develop a short prospectus. This prospectus will, in turn, be used as a basis for assessing the firm's potential for market acceptance. The final selection is accomplished by an external selection committee. The committee, made up of external market and technical resource persons, will typically spend two hours reviewing a firm's candidacy. During this period, the prospective firm's managers, its assigned counselor, and other key stakeholders will discuss the case and a final decision will be made by the selection committee. Upon acceptance, the firm will enter into a two-year contractual agreement with Inno-centre.

5. Role of Government

Throughout its history, Inno-centre has benefited from financial assistance from government. The centre currently receives funding from all three levels of government, representing approximately 60% of its revenue. Of interest is the fact that much of this funding is tied (through contract agreements) to meeting specific objectives in terms of number of firms assisted and ratio of self-sufficiency achieved. Three government representatives also sit on the board of the corporation, thereby providing guidance and feedback on technology-related issues. Recently, the corporation has set for itself the goal of dramatically increasing its financial autonomy over the next few years. To this end, it has taken such measure as increasing the fees it charges to its clients, on the basis of a formula which includes a fixed management fee and a small participation in its clients' equity, and entering into fee-for-services arrangements with both private and public partners.

6. Selection Criteria and Process

Given the corporation's mandate to expand the technological base of Quebec, priority is given to firms that operate in high value-added, information or bio-technology intensive sectors. The firms must also demonstrate that their proposed products embody leading-edge technology and are ready for market acceptance.

7. *Infrastructure*

The provision of business development services remains Inno-centre' *raison d'être*. These services are structured around the concept of the two-year business development program, within which each client is assigned a counselor. The counselor meets weekly with a firm's managers with an eye to developing a business plan within six months of the firm's initial participation in the program. The advisory committee, composed of Inno-centre's counselor and up to four external advisors from the business and scientific communities, meets with the firm's managers on average once a month to discuss strategic planning and other issues relevant to the firm's development. Training is optional and tied to the specific needs of the firm's managers. Inno-centre's broad networks cut across both the financial and scientific communities. It provides an effective conduit for accessing the capital and knowledge required by the assisted firms.

8. *Investment Activity*

Inno-centre does not provide funding *per se*. Instead, it relies on its extensive financial network to match mentored companies with investors. The vast majority of assisted companies end up accessing one form or another of capital; over the course of the centre's ten-year history, the average financial package has fluctuated between $500,000 and $1.5 million. Of the 40 or so Inno-centre "graduates", only five have received equity financing, although it is expected that approximately half of the upcoming graduates will access this type of financing. Such a low level of equity financing is explained by the fact that, in Quebec, equity investors have only recently been willing to invest in young, high-technology firms.

One firm that has turned Inno-centre's support into growth is Wavesat Inc., a designer and manufacturer of wireless telecommunications and microwave systems established in Montreal in 1993. Wavesat became an Inno-centre mentored company in October, 1994, at a time when its sales did not exceed $50,000. The company "graduated" from the incubator program at the end of 1996. Through Inno-centre's business network, it was able to obtain close to $2.2 million in financing. At the end of fiscal 1996-97, its revenues had reached $1.9 million, partly on the strength of its global market.

9. *Results Achieved*

An independent evaluation carried out by KPMG in 1996 concluded that Inno-centre does a good job at targeting and supporting firms of the "new economy" (see Appendix A). More importantly, KPMG observed that Inno-centre has contributed significantly to easing access to first-time financing to start-up, high-tech firms, a financial market segment traditionally absent from the capital scene. Another interesting aspect of Inno-centre's history is its move towards financial self-sufficiency (Appendix B). Growth in self-generated income has risen steadily since the corporation's inception, reflecting its drive to forge business-like relationships with its public and private partners and clients. On the whole, Inno-centre appears to be playing an important demand enhancement and financial deal making role.

Appendix A

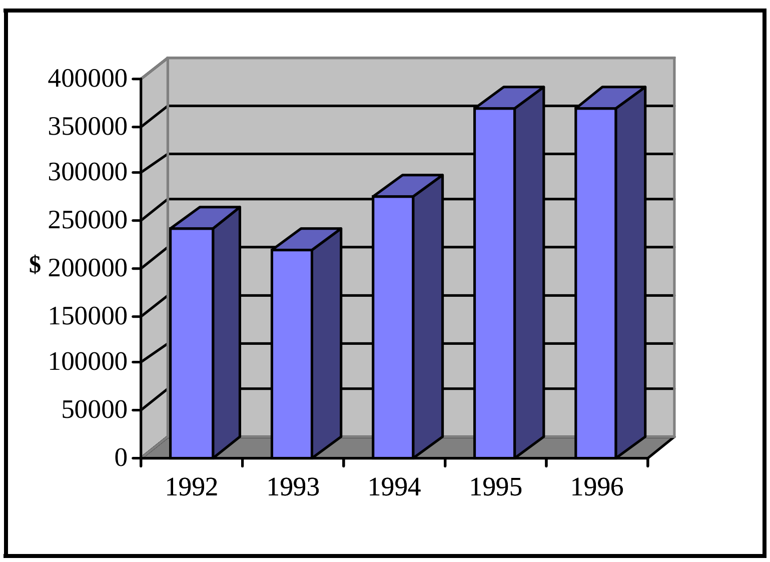
Profile of Firms Assisted Between September 1993 and 1995

Sector	Number of firms
Communications, computer science and software	5
Informatics and software	13
Tele-communications	4
Bio-technology	2
New materials	3
TOTAL	*27*

Source: KPMG, *Étude sur Inno-centre*, Montréal, January 1996.

Appendix B

Growth in self-generated income



Source: Inno-centre, *Annual Reports 1993 to 1996.*

Case Study #8: Innovatech Sud du Québec (Sherbrooke, Quebec)

1. Brief Description

Innovatech Sud de Québec (ISQ) is a publicly-supported, independently-managed venture capital corporation that concentrates on investments in emerging high technology enterprises crucial to a changing provincial economy.

SOME HIGHLIGHTS

- **ISQ supplies wide risk financing options that may not be otherwise available to new economy firms.**
- **Its investment mandate is linked to a broad and concerted strategy for modernizing the economy of an area south of the Quebec City – Montreal axis.**
- **A key strategy of ISQ is to co-invest with a wide range of local and regional suppliers.**
- **Investment decision-making draws on the expertise of local business, research, and academic representatives knowledgeable of target industries.**
- **ISQ helps identify specialized support for clients.**

2. Background

ISQ is one of three Innovatech corporations recently formed by the Quebec government to support and promote the development of high technology in the province. It originated in the south of Quebec in 1994 when the *Groupe d'action pour l'avancement technologique de l'Estrie*, an informal grouping of business people and research scientists, lobbied the government in order to obtain support for their local initiative. The group's objective was to transform the local economy — hitherto dependent on "traditional" sectors such as furniture-making, mining, pulp and paper, and textiles — into a modern economy based on emerging, technology-based activity. The group felt that a specialized development tool was required to undergo such a transformation. Partly as a result of these efforts, ISQ was created by an Act of the Assemblée nationale in May, 1995 and provided with a five-year, $40 million budget. It serves an area south of the Montreal – Quebec City axis which contains 12 regional municipalities.

3. Mandate

ISQ's mandate is to promote and support initiatives aimed at increasing the local economy's capacity for technological innovation. This mandate is consistent with the view that the infusion of technological innovation will lead to increased competitiveness and higher quality jobs. In order to carry out its mandate, the corporation goes beyond playing a strictly investment role. It also seeks to establish joint ventures with private and public partners, to increase the population's awareness about the importance of technological innovation, to financially support non-commercial initiatives aimed at promoting technological innovation, and to advise the Quebec government on pertinent innovation strategies.

4. Decision-making Process

Investment decision-making rests squarely with ISQ's Board of Directors. Board members come from the business, research, and education sectors. The nine-member board, which also includes a government observer, has the power to approve investments of up to $5 million. Proposals between $5 and $10 million require ministerial approval, and anything beyond $10 million must receive the Council of Ministers' consent. Investment projects are approved during monthly board meetings on the basis of short presentations made by the corporation's project directors, but only after board members have had a chance to review summary reports prepared by the corporation's staff.

5. Role of Government

The Quebec government has played a key role in ISQ's establishment, and it is currently responsible for the corporation's core operations funding and for its investment capital base. As discussed earlier, it also plays a decision-making role for investment proposals of more than $5 million. However, the provincial government provides the corporation with a considerable degree of freedom in terms of the types of projects, types of investment, and economic sectors that it might favor. The government is also indirectly involved in some of the co-syndication agreements that ISQ has entered into, since these agreements may involve financial institutions partly supported by government tax credits, such as Quebec's *Fonds régionaux de développement*.

6. Investment Criteria and Process

ISQ's broad mandate implies that its range of eligible projects is wide. Proposals are assessed primarily on the basis of their capacity to increase the level of, or capacity for, technological innovation in the area, and on the potential for commercial viability of the technology. The corporation will also consider the project's impact on economic growth and employment levels, the presence of other financial partners, and the state of development of the technologies concerned, in addition to the economic and financial criteria normally considered by financial institutions. The investment process is guided by two project directors who are responsible for initial proposal screening, for undertaking detailed financial and market analyses, and for presenting completed proposals to the Board of Directors. Turnaround time for well-developed proposals is a relatively short two to five months.

7. *Investment Infrastructure*

The corporation's small staff provides basic business support to its clients through the involvement of project directors but it does not offer specialized technical services. Thanks to its extensive network within the local business, institutional, and research community, ISQ plays an important role in helping clients access additional sources of technical expertise or funding. On occasion ISQ has helped small clients negotiate financial agreements with large institutional investors, thus ensuring a level playing field.

8. *Investment Activity*

ISQ's charter provides it with considerable freedom in terms of types of financial participation. It can make loans and debentures, take equity positions, and even make non-repayable contributions, as long as it limits its participation to 40% of eligible expenses for businesses and 75% for non-profit organizations. Given the corporation's brief history, its investment track record is short. To date, it has invested more than $7.6 million in 13 projects; these projects have generated an additional $41.4 million of investment. An analysis of the corporation's portfolio reveals that it tends to favor equity financing, which represents 76% of the portfolio's current value (Appendix A). Approximately 82% of the investments have been made in the bio-technology, information technology, electronics, and environment sectors.

ISQ's recent investment in *Studio Explomédia*, a firm specializing in the production of multimedia software for the education market, typifies the kind of partnership that it is actively pursuing. ISQ has invested $400,000 in this $1.25 million project, in partnership with a regional (public-private) investment fund and a large high technology company. The project is set to create between 15 and 20 highly-specialized jobs over the next three years.

9. *Results Achieved*

In light of ISQ's two-year history, it is too early to assess the sectoral or regional impacts of its investment activity or its effectiveness as a tool for promoting technological innovation. However, even this short track record suggests that it has been effective at forging joint ventures and supporting the growth of high tech industry in the region. Investments so far realized by ISQ (referred to as *signed investments* in Appendix A) enjoy a 1:4.7 leverage factor, that is, the corporation has so far invested only one dollar for every $4.70 worth of investment. The leverage factor value goes up to 1:7.3 for committed but not realized investments. These results indicate that ISQ is being recognized as an active partner in technology-related investing. The corporation's impact in the area of job creation is also likely to be felt shortly. It estimates that the unrealized projects in which it is committed to invest will create 180 jobs within the next two to three years.

Appendix A

Investment Portfolio Statistics

As of July 21, 1997

Description	Signed	Engaged	Total
Value of portfolio	2 480 000 $	5 133 500 $	7 613 500 $
Number of investments made	6	7	13
Total value of projects	11 666 000 $	37 325 890	48 991 890 $
Leverage ratio	1:4.7	1:7.3	1:6.4
Types of investment	**% of portfolio value***		
	Signed	**Engaged**	**Total**
Equity participation	36	95	76
Debentures	28	1	10
Repayable loans and royalties	17	4	8
Grants	18	-	6
TOTAL	*100*	*100*	*100*
Sectoral breakdown	**% of portfolio value**		
	Signed	**Engaged**	**Total**
Bio-technology and health science	20	62	49
Information technology	16	1	6
Electronics	16	19	18
Environment	29	-	9
Others	19	18	18
TOTAL	*100*	*100*	*100*

* Due to rounding, totals do not always equal 100 percent

Case Study #9: Innovation and Technology Centre, Bank of Montreal (Mississauga, Ontario)

Brief Description

The twelve Bank of Montreal (B of M) Innovation and Technology (I & T) Centres located across Canada offer loans and other specialized banking services to non-traditional knowledge-based and technology-intensive firms.

SOME HIGHLIGHTS

- **The Centres' loan managers go through a rigorous, specialized training program.**
- **Their services are specifically tailored to meet the needs of firms which often lack both tangible assets and a track record.**
- **Through special arrangements, they frequently co-invest with B of M's venture subsidiary, thereby spreading the risk and providing flexibility.**
- **The Centre's lending procedures and due diligence are specially adapted to small high technology firms.**
- **They work closely with venture capital corporations, government program managers, and other partners in order to offer a wider range of services.**

2. Background

The impetus for establishing Innovation and Technology Centres in 1994 came from the Bank of Montreal's President, who recognized that knowledge-based firms were part of the fastest-growing segment of the economy. He also recognized that these firms faced specific barriers in accessing capital that required innovative solutions. Traditional banking services and methods did not, in his view, fully meet the needs of these rapidly-growing companies. Based on this recognition, an internal process led to the establishment of twelve I & T Centres throughout Canada, the first one in Mississauga.

3. *Mandate*

The mandate of the I & T Centres is to provide specialized banking services to knowledge-based firms. Targeted firms are those applying high technology to market goods and services with demonstrable potential for rapid and sustainable growth. The Centres meet their central objective by offering the *Transforming the Economy* loan program (which is their main loan program) and by easing access to venture capital through a B of M subsidiary, the Bank of Montreal Capital Corporation. They also offer innovative services such as contract financing, bridge financing for R & D tax refunds, and specialized export financing.

4. *Decision-making Process*

For loan applications placed at the Centres' own loan fund, the approval process follows innovative banking practices (see below). Loan applications are generally assessed by a designated account manager and then forwarded to the Centre's credit manager for authorization. For clients who require equity or subordinated debt financing, the Centre's staff acts as an intermediary between them and the B of M Capital Corporation (which provides equity financing through its two specialized programs).

5. *Role of Government*

While public moneys were not used to fund the I & T Centres, provincial and federal governments participate in their activities through several partnership structures. For instance, the Bank of Montreal is a partner in *North Star Trade Finance*, which, together with the B.C. government and the (federal) Export Development Corporation, provides term financing in support of Canadian exporters. In Quebec, the I & T Centre, together with the Bank of Montreal's Capital Corporation, has established a loan program with the federal *Bureau régional de développement économique*.

6. *Investment Criteria and Process*

The I & T Centres have developed an innovative credit assessment process that focuses primarily on the managerial skills, market potential and acceptance, and products offered by the applicant. As a result, due diligence is more "forward looking" than usual. Thanks to their close ties with the venture capital industry, the I & T Centres will often piggyback on a venture capital corporation's due diligence for clients involved in co-investment projects (at the Mississauga Centre, approximately 80% of the Centres' clients have received venture financing from a third party). From time to time, the Centres will also rely upon external expertise in assessing more complex proposals. The Centres target the information technology, advanced manufacturing, and biotechnology sectors.

7. *Investment Infrastructure*

While the I & T Centres have built their expertise around the *Transforming the Economy* loan program, their involvement in various partnerships have meant that they can offer their clients other business services. For instance, they play a valuable networking role through their affiliation with *MetNet*, a network of universities and small businesses. As a founding member of *Connect IT* (which promotes market development), they assist clients being referred to them for market access assistance. The I & T Centres also perform a monitoring function, which involves regular meetings with assisted firms' managers, and which takes the form of a systematic review of and follow-up on the firms' milestones.

8. Investment Activity

The *Transforming the Economy* loan program is innovative since it will consider, for instance, firm contracts from buyers, foreign receivables, and R&D tax refunds as important components of a loan application. No aggregate information on the loan performance of I & T Centres exists but unpublished data reveal that the oldest one — the Mississauga I & T Centre — has committed more than $100 million in loans, primarily to early-stage companies, since its inception. This record is impressive in light of the fact that, so far, its delinquency rate has been nil. In addition, it should be noted that between 75 and 80% of these loans were combined with some equity financing provided by private venture capital corporations. Much of this investment activity is directed at firms in the early stage of their product life cycle.

SLM Software, a transaction management software company established in 1985, best exemplifies how I & T Centres can respond to the needs of firms of the "new" economy. After twelve years of growth and steady profits, the company approached an I & T Centre in July, 1996, seeking additional capital. Rapid growth and the high foreign content of the company's receivables meant that it could not meet its financial needs from a traditional bank. The Centre was able to assemble a $3.75 million financial package that allowed SLM Software to fund its growth and complete a successful Initial Public Offering. As a result, the company's work force is currently expanding from 80 to a projected 160 positions over the next year.

9. Results Achieved

No formal evaluation of the I & T Centres exists. However, this case illustrates how a major financial institution can respond to the evolving needs of one of the fastest-growing segments of the national economy. Much of the success of the I & T Centres can be attributed to the following factors: a national program (twelve centres disseminated throughout the country, staffed with specially-trained professionals); an innovative credit assessment method underlying a tailor-made lending mechanism; the ability to call upon public and private partners to deliver other, non-financial services; and a direct link to equity financing (through a subsidiary of the parent company).

Case Study #10: OCEDCO's Specific Investment Opportunity Program (Ottawa, Ontario)

1. Brief Description

The Specific Investment Opportunity Program, sponsored by the Ottawa-Carleton Economic Development Corporation, connects local enterprises to potential investors and/or strategic alliance partners and prepares them for transacting.

SOME HIGHLIGHTS

- **This program matches specialized demand (e.g., knowledge-based and technology-intensive enterprises) with a wide range of specialized supply options.**
- **It locates and profiles angel investors operating in the Ottawa-Carleton region.**
- **It provides crucial investment infrastructure support, such as mentoring, training and related resources.**
- **It helps local entrepreneurs to prepare for financing by concentrating on such crucial factors as business plans and management capability and systems.**
- **In many of its support programs for small business, the program draws heavily on the experience and expertise of business and finance volunteers in the community.**

2. Background

In 1989, the Ottawa-Carleton Economic Development Corporation (OCEDCO), a private-public partnership institution, created the Specific Investment Opportunity (SIO) Program as one of several initiatives that give particular attention to access to capital as an essential tool of regional economic development. Among other aims, the SIO sought to nurture emerging, growth-oriented industries, such as high technology industries, partly by working collaboratively with successful Ottawa Valley angel investors. This activity was all the more critical following more than a decade of federal government fiscal restraint that placed downward pressure on regional public employment levels.

3. Mandate

The SIO program features a unique mandate of investee-investor matchmaking that is supported by services designed to increase the opportunity for successful deal-making and value-added. The program aims to assist firms with growth potential located in Ottawa-

Carleton. In general, such companies will require risk equity or a strategic alliance with counterparts that possess complementary capabilities and resources. Such strategic alliances, which may involve joint partnerships in areas of mutual interest, like research and development, may also involve capital supply. SIO addresses these needs by helping to direct clients to potential partners and/or angels, venture capital institutions (labour-sponsored investment funds) and corporate/institutional investors and by preparing both sides for transacting.

4. Decision-making Process

As an enabling mechanism, SIO does not get directly involved in investment decisions. Rather, once the parties have been introduced to one another, the process of negotiating and determining an investment or partnership agreement is left to them, with program officials filling a facilitation role (see below). Though limited, this role is often important to successful conclusion of agreements.

5. Role of Government

The $2 million OCEDCO is originally a creation of the regional government which also supplies most program funding. In partnership with corporate and non-governmental financial contributors, regional and municipal leaders from the Ottawa-Carleton area determine OCEDCO policies and programs, and by extension, the SIO Program, through a Board of Directors and committee system.

6. Investment Criteria and Process

The SIO program has targeted new and developing firms, chiefly start-ups and early stage entities. This represents a change from the past when SIO also assisted the financing needs of larger and more mature establishments. Client firms can come from various Ottawa-Carleton industries, with the exception of real estate and retail, though the program is chiefly interested in such growth-oriented, export-driven high technology sectors as computer software, electronics, environmental goods and services, health technology, multimedia products and specialized manufacturing and telecommunications. Sizes of investment presently range from a minimum of $150,000 to a maximum of $1.5 million.

7. Investment Infrastructure

Matchmaking is achieved using a network of regional, national and global financial institutions and investors. This includes access to local angels. An essential preliminary step to matchmaking is SIO preparation of clients. For instance, a program officer will examine, and where necessary, help to improve a firm’s business plan and offer. This is done as part of a review and needs assessment by an advisory committee made up of a cross-section of local business and financial practitioners. One service that may be recommended is mentoring relevant to the ability of a company to attract risk equity. For instance, volunteer mentors may focus on enhancing internal business and financial management skills and systems relevant to investor risk concerns. Once a client is deemed ready, a listing is placed in the SIO portfolio (along with financing requirements, et al) and promoted on the investor network. Program officers will also initiate contacts and facilitate introductions, where appropriate. Additional processes and resources are made available by SIO for enterprise development, investor awareness of specialized needs, information exchanges, etc. A similar approach will be taken to forming strategic relationships.

8. Investment Activity

Since 1990, the SIO program has been directly responsible for forty-five matches between local enterprises and investors, worth approximately $20 million in new investment in the Ottawa-Carleton economy. In 1996 alone, it leveraged $4.5 million. Program officers report that these reflect a full range of network suppliers, including local angels who have, to date, participated in approximately 10 percent of total dollar matches.

9. Results Achieved

OCEDCO's SIO Program was one of the very first to recognize the necessity of strategic support in bringing financing demand together effectively with supply. Another SIO accomplishment is its enjoining of local angels. In this respect, the SIO has succeeded where previous entrepreneur-angel matchmaking efforts have often failed, largely due to its methodical approach to making the former "investor ready." Consequently, as a provider of value-added investment financing infrastructure, the SIO is widely regarded as a groundbreaker in Canada. An internal evaluation of the program, conducted in 1996, found that capital supply trends in the region had changed markedly in recent years. Consequently, OCEDCO made the decision to have the SIO concentrate on small deal sizes involving smaller (e.g., 25 employees or less) and younger enterprises, for whom financing barriers are most pressing.

Case Study #11: Prince Edward County Community Development Corporation (Ontario*)*

1. Brief Description

The Prince Edward County Community Development Corporation (PECCDC) provides financing, counselling, and community economic development services to small businesses and community organizations located in the Prince Edward County of Ontario.

SOME HIGHLIGHTS

- **PECCDC provides mainly small loans and is currently setting up a micro-lending program, confirming its presence at the low end of the capital market.**
- **On the basis of fee-for-services agreements with local, provincial, and federal governments, it delivers a range of programs and services.**
- **It provides entrepreneurship training, business plan writing assistance, and follow-up, thereby playing a significant demand-enhancing role.**
- **Industry Canada is the corporation's main funding partner.**
- **Its dual community and business organizational structure reflects its mandate to pursue both community and business development goals.**

2. Background

The PECCDC started life as two distinct federally-funded organizations: the *Community Futures Committee* established in 1986, and the *Business Development Centre*, begun in April, 1987. At the time agricultural activity, then the backbone of the local economy was declining, and there was a need to boost economic diversification. A lack of consensus on what direction economic development should take led to difficult relations between the two corporations and in 1990-91 resulted in the creation of a working committee which combined the two organizations' boards. One of the committee's main tasks was to increase community representation and participation, and to establish partnerships with more sectors of the regional economy. The 1995 government-imposed amalgamation of the two corporations into one Community Futures Development Corporation formalized the integration of their functions and activities.

3. *Mandate*

The corporation's mission is to "stimulate social and economic development" by way of job creation and maintenance; enhancement of quality of life; promotion of economic stability; support to cultural growth; fostering of a positive community spirit; and support to community economic development projects. This orientation is reflected in the PECCDC's organizational structure. An Investment Committee and an Area Development Committee have been permanently established and operate under the guidance of the Board of Directors.

4. *Decision-making Process*

The organization functions with four permanent full-time staff: a general manager, an account manager, an office manager, and a receptionist. It is governed by a ten-member Board of Directors, which encompasses a mix of geographical and sectoral interests. Overall guidance to the organization is provided by the Board and influenced by the annual *Pathways to Progress* meetings. These meetings, in which 60 to 70 community members gather to undertake economic development planning, result in the identification of new economic development projects and the selection of high priority initiatives.

5. *Role of Government*

Both the federal and local governments contribute financially to the operations of the corporation. Under the Community Futures Program, Industry Canada provides $200,000 for managing the loan and equity fund and for providing support to small businesses and local organizations. An additional $100,000 in public funds is used to administer the program's Self-Employment Assistance (SEA) component. Locally, the County has entered into a fee-for-services contract with the PECCDC for the delivery of economic development services. As well, the corporation helps administer the budget of the County's Marketing Committee (a grouping of economic development actors).

6. *Investment Criteria and Process*

Given its broad mandate, the PECCDC offers financial assistance and guidance to new, expanding, or restructuring businesses in all sectors — even real estate — although in recent years personal and business services have tended to be favored. Project selection follows a structured procedure. After an initial screening by either the general manager or the account manager, a more detailed financial and managerial appraisal is performed. The appraisal includes an analysis of the project and of the company's strengths and weaknesses. Proposals that meet the standard requirements for collateral, character, capacity, and market potential are then submitted to the Investment Committee for final approval. The Committee, made up of six members (including four board members), meets once a month and examines on average 45 proposals a year.

7. *Investment Infrastructure*

The corporation's staff play an important role in providing financing and guidance services to small businesses. They provide one-on-one counselling, access to the corporation's video and library resources, assistance for business plan writing, and follow-up. In addition, the PECCDC delivers an entrepreneurship training program for youth on a cost-recovery basis. The corporation also taps into its extensive business and community networks, an important source of information and personal contacts, for both business and community development projects. In addition, it provides approximately $30,000 a year in direct funding to not-for-profit organizations for community development projects.

8. *Investment Activity*

The PECCDC has invested almost $5 million in loans, loan guarantees, and equity financing during the last ten years, out of a $2.7 million loan and equity fund. Much of this capital went into loans, since equity investments have been largely unsuccessful (see below). Loans have varied in size from $500 to $75,000 (the government-imposed limit), with the average loan size being $25,000. Total investments have fluctuated widely from a low of $219,000 in 1987-88 to a high of $1.069 million in 1992-93 (Appendix A). This level of activity has allowed the corporation to generate interest income totaling $1.038 million, which has helped meet the corporation's operating expenses, although it has not been able to cover all of them. Recently, the corporation has set aside $10,000 to establish a micro-lending fund, which will target home-based businesses.

PECCDC's support system is evidenced by the story of one former social assistance recipient. In 1992, she received assistance from the corporation under the SEA program to open a Picton-based delicatessen business. By 1995, sales were so good that the company had two employees, in addition to the owner and her husband, working full time. In early 1996, she obtained debt financing from the PECCDC for expanding the business and later that year, she sold it at a handsome profit.

9. *Results Achieved*

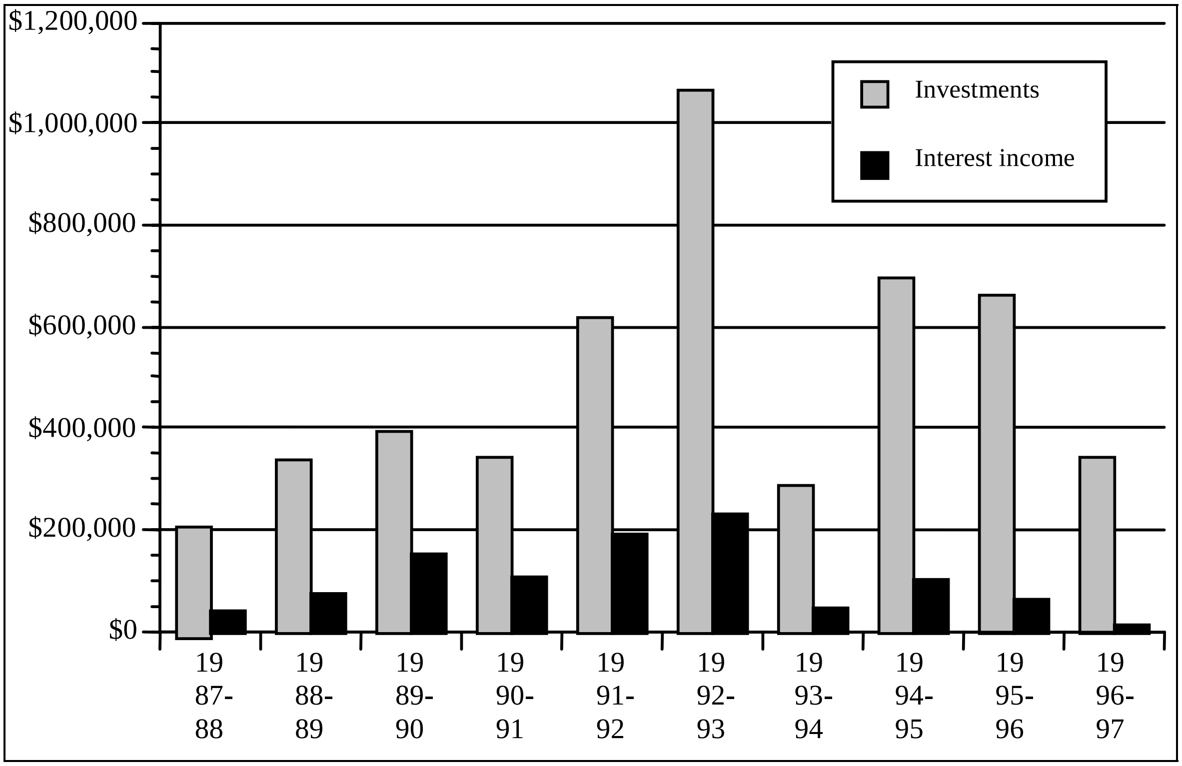
Over the course of its ten-year history, the corporation's investment performance has been mixed. It has so far written off more than $611,000 out of almost $5 million in investments, which would be considered high by most standards. It should be noted that more than half of the losses derived from a small number of equity investments. The lack of specialized expertise of all the partners involved largely explains this write-off. For the time being, the corporation has thus decided to keep away from further equity investing. As for employment impacts, the PECCDC estimates that it has created 266 jobs (of which 195 are full-time) and contributed to the maintenance of an additional 466 full-time and 115 part-time jobs over the past ten years.

A complete assessment of the PECCDC must take into account its broader development role. From that perspective, it appears that the corporation has been very effective at developing, launching, nurturing, and generally gathering support for a wide range of community economic development projects. The range of formal and informal partnerships in which it has engaged, as well as the broad level of public and private support it receives, is evidence of the PECCDC's effectiveness at combining a financing and a development role.

Appendix A

Investments Made and Interest Income Generated

Annual – Fiscal 1988 to 1997



Case Study #12: Superior North Community Development Corporation (Terrace Bay, Ontario)

1. *Brief Description*

The Superior North Community Development Corporation (SNCDC) is a Community Futures Development Corporation (CFDC) which provides debt financing and business and community planning services to small businesses and individuals located in one area of Northern Ontario.

SOME HIGHLIGHTS

- **SNCDC fills an important gap in the small-scale debt financing market of this remote Ontario region.**
- **It accesses strategic information through its extensive community network, thereby reducing some of the risks associated with making small investments.**
- **Partnerships with FedNor and with other government agencies have resulted in access to core funding and to fee-for-services contracts.**
- **Its dual business and community development membership allows the corporation to apply strict business principles while meeting community goals.**
- **Its investments run the gamut from tourism to manufacturing, reflecting the need to respond to local economic conditions and strengths.**

2. *Background*

In 1987, a group of local officials, federal government representatives, and business people met in Terrace Bay to find ways of increasing local employment, following major downsizing at two large local employers. A year later, a non-profit community development corporation was formed under the auspices of the federal government's Community Futures program. The same program facilitated the establishment a year later of a business development centre, which provides loans and business services. It was felt that a locally-based organization which combines a business and a community development role could best solve the area's unemployment situation. In 1993, concerns about financial sustainability led the two groups to take alternative measures such as using free community labour and purchasing a commercial building. The 1995 federal government-imposed amalgamation of the two organizations into one CFDC further contributed to financial autonomy while allowing the corporation to maintain a joint business — community focus.

3. *Mandate*

SNCDC's mandate is to provide financing and business and community development services to residents of an area of Ontario defined as Superior North. To meet these objectives, the corporation has established an *Investment Committee* to approve investments, and a *Development Committee*, which is responsible for community planning and development. Each committee assigns four of its members to the organization's Board of Directors, thus striking a balance between business and community development priorities. Given its current focus on local job creation, SNCDC views as priorities the creation of local partnerships and providing support to local businesses and individuals on both the supply and the demand side.

4. *Decision-making Process*

All investment decisions are made by SNCDC's Investment Committee, on the basis of detailed business plans developed jointly by the client and the corporation's staff. The committee comprises twelve members, with strong representation from major local employers, the small business community, tourism, and government. The general manager can make investment decisions on projects valued under $5,000 but she has preferred not to use this power so far. The corporation's Board of Directors does not normally become involved in individual investment projects except for cases where clients are in arrears. Overall, this allocation of decision-making power is seen as the optimal division of labour between the staff, the Investment Committee, and the Board.

5. *Role of Government*

Government has played and continues to play a funding and an advisory role in SNCDC's activities. Since the corporation was originally established, it continues to receive federal funds for its core operations and for developing its investment fund. In addition, the provincial government plays an advisory role through its involvement on the corporation's Board of Directors. The corporation now gets $200,000 annually from FedNor (Industry Canada's *Federal Economic Development Initiative in Northern Ontario*) to meet its operating expenses and to carry out its community development mandate. It is seeking an additional $500,000 to increase its capital base so that it can meet the currently unsatisfied demand for loans. SNCDC has also entered into agreements with the federal government for delivering the Self-Employment Benefit program and for providing Employment Counselling Services. Since its inception, the corporation has successfully accessed several provincial and federal programs on behalf of its clients for training, business, and community development purposes.

6. Investment Criteria and Process

Given its broad mandate, SNCDC accepts proposals from all sectors of the local economy, although projects in retailing, restaurants, and forestry are less favorably assessed. Projects from youth and from Aboriginal entrepreneurs are given special attention. The corporation uses a mix of criteria in reviewing projects, but long-term viability and local employment impacts are considered most important. In the latter case, an average of $10,000 to $15,000 of investment per job is used as a yardstick. Project appraisal follows a fairly standard procedure, since all applicants are required to present a detailed business plan that must contain, among other things, break-even analysis, three-year forecasts, and the like.

7. Investment Infrastructure

In order to meet its business and community goals, SNCDC employs four full-time staff: a general manager, community developer, financial analyst, and administrative assistant. The staff provides direct support to community organizations and business people, the latter having access to a whole range of services including business plan write-up, individual follow-up, bookkeeping, marketing, and networking. In 1996-97, 213 clients accessed such services. It is significant that most of these services are provided free, although a project to start charging for business plan writing is currently being studied.

The corporation is also very active in community development. Activities in this area are carried out by the community developer and represent more than a third (about $100,000) of the annual operating budget. SNCDC has established strong links with local and regional organizations, and it plays an active leadership or support role for development initiatives such as regional marketing campaigns, business directory, community forums and meetings, sectoral development strategies, and the like.

8. Investment Activity

Although SNCDC can provide equity, it has so far provided only debt financing, claiming a lack of demand for the former type of investment. Given its relatively small capital base of just over $2 million, the corporation’s investment income is insufficient to cover all of its operating expenses. Nevertheless, its investment data show that SNCDC has filled an important gap in the small debt financing market. Since its inception, $5.1 million has been invested in 168 projects (for an average of $30,610), mainly in service industries. Together, these investments have helped generate an additional $9.1 million of investments. Loan losses so far have amounted to only $47,272, or less than one percent of the total value of the loans.

The case of the Serendipity Gardens Cafe, established in Rossport in 1990, is typical of the type of responsive support provided by SNCDC. After an unsuccessful attempt to obtain bank financing, the owner secured a $30,000 loan from the corporation and $10,000 from a relative to convert her house into a one-season-only restaurant. Five years later, the business had grown into a seven-month operation and was making profits, but it still could not get the loan it needed for expansion because of insufficient collateral.

SNCDC then provided the required $30,000, which has now been fully repaid. The cafe currently provides five permanent full-time and 8 seasonal (full and part-time) jobs, and has made more than $65,000 in profits for each of the past two years.

9. Results Achieved

No formal evaluation of SNCDC exists, but a cursory examination of the corporation's performance suggests that it has been an effective conduit for business and community development. First, it is worth noting the estimated 934 jobs that have been created or maintained through the corporation's investment activity, given its mandate to reduce unemployment. More importantly, the corporation's ability to keep a low loan loss ratio even though it regularly runs out of funds to invest indicates that there is a strong demand for viable, small-scale debt financing which is not being met by traditional means. To be sure, the corporation has not yet been able to cover its expenses out of investment income alone, but this has much to do with the fact that its capital base is small and that it uses a significant share of its resources for non-profit community development purposes.

Appendix A

Breakdown of Investments
1989-90 to 1996-97

Type	Value $	Number of transactions	Percentage of total value
Loans	4 953 309	155	96.3
Equity	0	0	0.0
Guarantees	60 000	3	1.2
Other	129 300	10	2.5
TOTAL	*5 142 609*	*168*	*100.0*

Appendix B

Sources of Levered Funds
1989-90 to 1996-97 (up to August 31, 1997)

Source	Value $	Percentage of total
Government*	2 226 000	24.4
Financial institutions	2 004 500	21.9
Owner equity	2 924 630	32.0
Private	1 356 600	14.9
Other	625 750	6.9
TOTAL	*9 137 480*	*100.0*

- other than the federal government's investment in the SNCDC's own loan fund

Case Study #13: Waubetek Business Development Corporation (Birch Island, Ontario)

1. *Brief Description*

The Waubetek Business Development Corporation (WBDC), located in Birch Island, Ontario, is an Aboriginal-controlled Community Futures Development Corporation (CFDC) that delivers business services and loan financing to Aboriginal people on Manitoulin Island and the north shore off Lake Huron.

SOME HIGHLIGHTS

- **By targeting Aboriginal entrepreneurs and small businesses located in remote areas, WBDC fills an important capital market gap.**
- **It often plays the role of first funder, in order to ease access to capital from other funding sources.**
- **Its outreach business services represent an answer to demand deficiencies existing in remote locations.**
- **It boasts one of Canada's lowest default rates for community business development corporations, thanks to its local and personalized financial appraisals.**
- **It works in partnership with several federal government departments, delivering services and programs on a fee-for-services basis.**

2. *Background*

WBDC started out as a community initiative almost ten years ago. The *Waubetek Development Group* was formed in 1988 by seven Aboriginal communities located in the Manitoulin area of Ontario as a way to address the economic, business, and employment needs of community members. At the time, unemployment rates in the communities hovered between 45 and 60%. In addition, there was no effective lending vehicle for First Nations, as most commercial lenders are reluctant to lend on reserve since the Indian Act states that on-reserve property cannot be secured as collateral for loans. One year later, the group launched WBDC with the assistance of the federal Community Futures (CF) program, thereby establishing an "Aboriginal-exclusive" CF corporation. For its first year, it was provided with a loan fund of $150,000 and $135,000 for operating expenses. The fund has since been expanded to more than $1.55 million with assistance from FedNor, which administers the CF program in Ontario. The corporation has also been delivering Human Resources Development Canada's (HRDC) Self-Employment Assistance for several years.

3. *Mandate*

The corporation's main goal is to improve the economies of member First Nations through the provision of business and economic services. Originally conceived as a loan vehicle, WBDC gradually broadened its activities due to requests from its constituencies. It now acts as a one-window shop to various economic development programs; it delivers entrepreneurship training; it provides support to communities' economic development officers; and it offers outreach business services to outlying communities, sending its staff to such communities bi-weekly. WBDC also plays an important entrepreneurship development role. Every year, it organizes workshops on various business topics on a cost-recovery basis. Youth are given special attention, since the corporation manages an Aboriginal Youth Business Fund and organizes an annual Aboriginal Youth Challenge which requires teams of high-school students to submit elaborate business plans (winning teams are sent on "business trips" in Toronto). It will soon launch an intensive two-week youth entrepreneurship course.

4. *Decision-making Process*

Approvals for loans of more than $5,000 are made by the corporation's nine-member Board of Directors during their monthly meetings. The corporation's staff prepare detailed business analyses on each loan proposal, which are then sent to board members prior to the meeting. Board members, who usually have a business, finance, or management background, are appointed by their communities. The general manager and one member of the board's executive committee make decisions on smaller loan applications.

5. *Role of Government*

Since WBDC was originally conceived as a CF corporation, it has received federal funds for some of its operating expenses through the CF program ($1.31 million over the last eight years) in addition to the $1.55 million for the loan fund (Appendix B). The corporation also receives money from Human Resources Development Canada for administering the Self-Employment Assistance program and from Industry Canada for delivering Aboriginal Business Canada's (ABC) programs. It is worth noting that the Aboriginal businesses that have accessed ABC programs through WBDC have received an additional $3.3 million in loans and grants. WBDC has also played a key role in accessing federal funds (approximately $14 million) from other departments for community projects.

6. *Investment Criteria and Process*

WBDC does not restrict loan eligibility to a few targeted sectors, reflecting the fact that member communities still require businesses to provide basic products and personal services. Assessment of loan proposals follows a relatively standard procedure, starting with a client meeting and following up with the development of a suitable business plan. The plan is reviewed by one of the two business development officers. The review includes a credit and risk rating, an analysis of market potential and managerial capacity, a quantitative assessment of collateral, and an analysis of operational aspects. A four-to-six page business analysis form serves to summarize the results of the review.

7. *Investment Infrastructure*

The relationship between the corporation and the member communities' economic development officers is such that, together, they form a network of information, capital, and technical resources available in each community. The economic development officers will often act as a front line, identifying opportunities and directing entrepreneurs in need of more specialized assistance to WBDC. There, in addition to debt financing, the general manager and the two business development officers provide business counselling, as well as facilitating access by their clients to ABC programs.

8. *Investment Activity*

From a capital base of $1.55 million, the corporation has made 178 loans valued at more than $3.6 million over its eight-year history. A sectoral break-down of the cumulative loan portfolio shows that nearly 60% of the loans went to projects in the areas of personal services, retail, and forestry. WBDC's track record in terms of loan losses is remarkable, with losses amounting to only 0.3% of cumulative loans. WBDC's management attributes this enviable record to its strict proposal review process and to the close formal and informal relationships it keep with clients. Average loan size is $20,787, a small amount, which partly explains why the corporation has not yet made any equity investment. This level of loan activity has allowed the corporation to generate more than $440,000 in interest income, but that income has still been insufficient to cover all of the corporation's operating expenses. WBDC is currently negotiating with FedNor to increase its capital base.

The diverse range of projects supported by Waubetek is apparent through the following examples: *Wikwemikong Tipi Co.*, which started making custom-made tipis in 1992 and now has clients in North America and Europe; *First Nations Crematorium and Removal Service*, a Sagamok First Nation-based company providing funeral services in Northern Ontario; and *Wabuno Fish Farm*, a fish farming business established in Sucker Creek First Nation in 1992, and now set to become one of Ontario's major suppliers of rainbow trout.

9. *Results Achieved*

WBDC's enviable track record in terms of loan loss, community involvement, entrepreneurship promotion, and program delivery is being recognized both locally and nationally, to a point where the corporation is now perceived as a model for Aboriginal business development corporations. However, the corporation's broad financing and employment creation mandate has made it difficult for it to achieve financial self-sufficiency. To be fair, the impacts of WBDC's activities should not be judged solely on the loan portfolio's rate of return. Indicators such as rate of business creation, employment creation, and the communities' capacity to meet their own basic needs should also be considered. In the area of employment impact, for instance, WBDC affirms that its investment activity has so far contributed to create or maintain 434 jobs (including full-time, part-time and seasonal jobs), which is a large number in the context of chronic high unemployment.

Appendix A

Loan Fund Statistics

As of June 01, 1997

Description	Results
Capital base	$1,550,000
Cumulative amount loaned*	$3,613,949
Cumulative interest income	$440,689
Cumulative number of loans	178
Average loan size	$20,787
Average interest rate**	8.61%
Losses to date	$12,175
Losses to date as a percentage of loan portfolio	0.3%

* represents actual disbursements; loans approved to date amount to $4,395,592
** not a weighted average

Appendix B

Sectoral Distribution of Loan Portfolio

Cumulative, 1989-90 to 1996-97

Sector	Percentage of total portfolio value
Personal services	27
Retail	17
Forestry	15
Construction	9
Manufacturing	9
Foods and beverages	9
Transportation	7
Agriculture/aquaculture	5
Tourism	2
TOTAL	*100*

Case Study #14: Community Futures Development Corporation of Central Island (Nanaimo, B.C.)

1. Brief Description

The Community Futures Development Corporation of Central Island (CFDCCI) is a non-profit corporation which provides financial and technical assistance, as well as community economic development services, to individuals, businesses, and organizations of the Central Vancouver Island region.

SOME HIGHLIGHTS

- **By targeting youth, neighborhood and equity groups, and social assistance and employment insurance recipients, CFDCCI fills an often-neglected capital market gap.**
- **Its specialized resource room, free basic counselling services, and other business infrastructure are designed to address deficiencies on the demand side.**
- **One of its four investment funds is a specialized community-based fund managed in partnership with a local credit union.**
- **It has entered into partnership agreements with various government agencies for delivering loan programs and other initiatives on their behalf.**
- **It combines an investment and business support function with a central co-ordinating role for local economic development projects.**

2. Background

The Nanaimo Community Employment Advisory Society (NCEAS) is a community initiative that was launched in April, 1975, in an effort to fight the region's high unemployment and stabilize its economic base through economic diversification. At the time, the forest industries were the foundation of the economy, which meant that employment trends followed the boom and bust cycle typical of resource-based economies. The Society later created the Colville Investment Corporation, a wholly-owned subsidiary, as a way to carry out its investment function. In June of 1987, the NCEAS was selected to act as the federally-funded *Business Development Centre* (BDC) of the then newly-established *Central Island Community Futures Committee* (CICFC). In 1995, CFDCCI was established as a result of the CICFC's amalgamation with the BDC. The Colville Investment Corporation remains its wholly-owned subsidiary, but its investment portfolio is currently being rolled over into the parent's own loan and equity portfolio.

3. Mandate

The CFDCCI's main purpose is to support sustainable employment and economic development by building partnerships with other community organizations, and by providing training, capital, technical advice, and business skills development to individuals, businesses, and not-for-profit groups. It currently manages four loan funds — its own loan fund, the nearly phased-out CIC Fund, the Youth Fund, and (in partnership with the Nanaimo Credit Union) the Community Partnership Fund — and a leasing company which leases commercial and industrial equipment. Loans are normally provided at prime plus 3.5%. In addition, the CFDCCI operates a salmon hatchery under contract from Fisheries and Oceans Canada and delivers the Self-Employment Assistance component of the Community Futures program.

4. Decision-making Process

Demand for loans is such that, in an average month, the business analyst screens 80 formal and informal requests, retaining 15 to 20 for further analysis. Due diligence is applied to this reduced set of projects. Generally, it takes the form of phone and in-person sessions with the client, resulting in a short list of suitable proposals (six to eight). At this stage, some of the corporation's directors might assist the business analyst in developing a detailed business plan with the client. The plans are then circulated among the corporation's BDC Committee members and, as a last step, this committee will adjudicate the loan proposals during one of its bi-weekly meetings. Such a decision-making process means that, once an adequate business plan is developed, loan approvals can take as little as two weeks.

5. Role of Government

Funding for the CFDCCI comes from a variety of public and private sources, including three federal departments, the City of Nanaimo, and the local credit union. Much of this funding is applied to fee-for-service management contracts. Funding from one of the main sources, Western Economic Diversification, has been cut and continues to decrease, which is driving the corporation to allocate an increasing share of its investment income to finance its operations. Various government agencies and representatives at all levels are also involved with the corporation either as board or committee members, or as partners in its various undertakings.

6. *Investment Criteria and Process*

While the corporation tends to favor members of its target groups — youth and the long-term unemployed — it does not limit eligibility to these groups. Selection criteria, however, will vary according to the particular loan fund being accessed. For example, the Youth Fund will provide loans up to $10,000 to youth between the ages of 19 to 24 years; other loan funds provide up to $75,000. Due diligence follows standard practice by considering the three C's of character, capacity, and collateral. In addition, priority is given to the assessment of a project's long-term potential viability, the reason being that the CFDCCI, as lender of last resort, will often need to provide loans that are only marginally secured.

7. *Investment Infrastructure*

The corporation's investment and business support functions are assumed by the BDC Committee and by several staff persons, including the general manager, the business analyst, the accounts officer, and the administrative assistant (all full-time positions). In an effort to meet its development goals, the CFDCCI currently provides approximately 2,500 hours a year of basic business counselling services at no charge to those most in need. Other consulting and training services, however, are delivered on a fee-for-service basis. The corporation has also established a *business development resource room,* which provides computers, fax, photocopier, books, databases, and internet access on a cost-recovery basis. Overall, the corporation expects to provide business-related products and services to 12,000 individuals over the next three years.

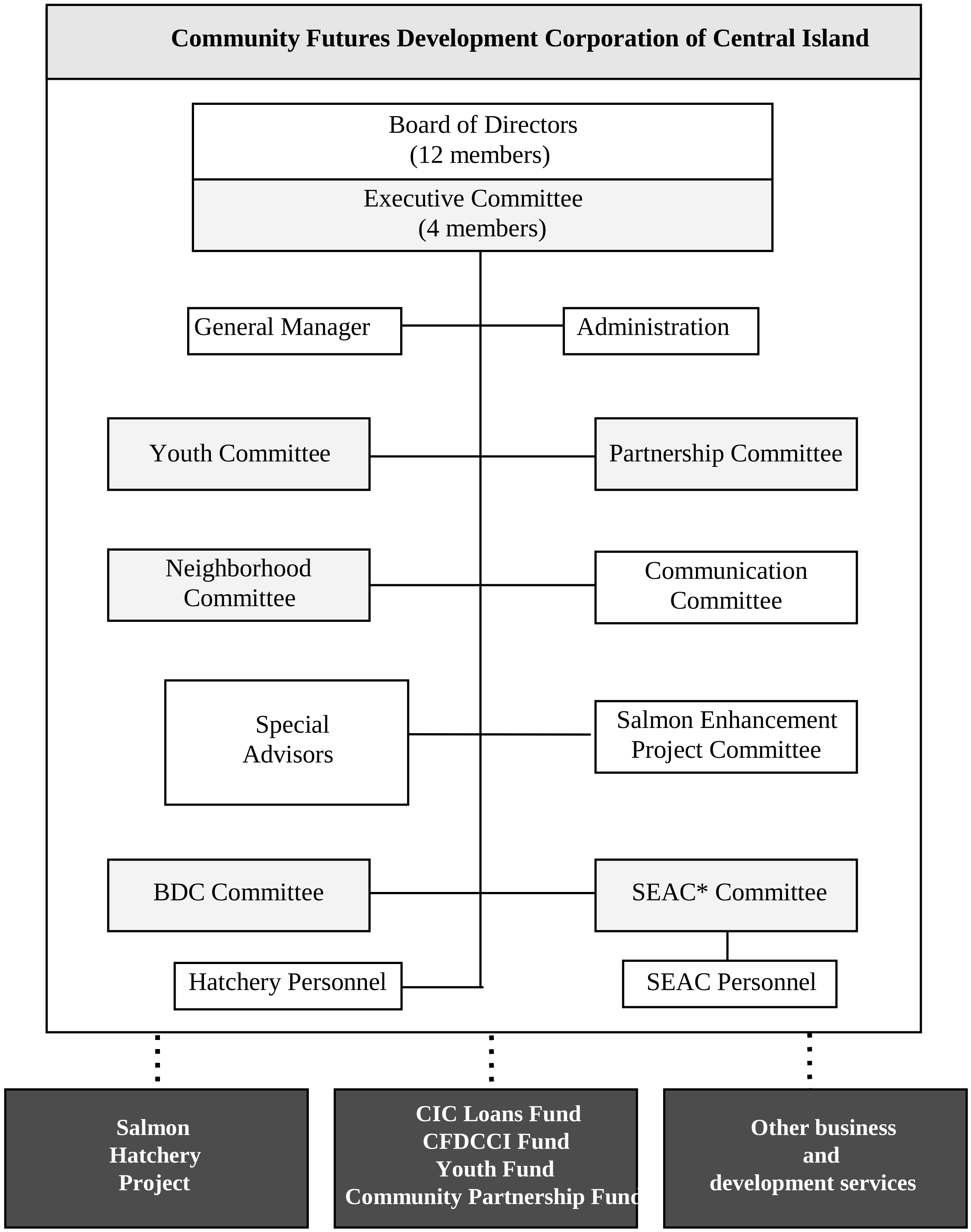
8. *Investment Activity*

Since 1975, it has provided more than $9.75 million in debt and equity financing to over 920 businesses, and has levered an additional $18 million from other sources. During fiscal 1996-97, 49 new loans were approved and disbursements of $886,300 were made. A majority of these loans formed part of co-investment projects involving an additional $1,368 million of investment (primarily from private sector sources). As it now stands, the four funds under the CFDCCI management amount to 104 active accounts and a value of $1,906 million. Almost all of this amount is made up of loans, since loan guarantees account for only $130,000. Currently, no equity investment is included in the corporation's investment portfolio. Arrears (late payments and doubtful accounts) currently stand at approximately $80,000, representing 4.2% of total portfolio value; just three accounts are responsible for half of this delinquency record. Given its role as a lender of last resort, the corporation's loan loss performance can be considered acceptable.

9. *Results Achieved*

No recent evaluation of the CFDCCI exists, but a 1989 case study of CIC concluded that the investment activity of this precursor to CFDCCI provided net positive economic and social benefits to the region and to government, even when a whole range of economic and fiscal costs was considered. The study left open the question of whether the corporation’s market area was large enough to allow it to attain financial self-sufficiency. Today, government revenue still represents a large share of the corporation’s revenue, but its range of activity goes much beyond that of a traditional financial vehicle, to include essential economic development functions. On the employment creation front, the CFDCCI estimates that its $9.75 million of investment has created approximately 2,200 jobs. By and large, its relatively low delinquency rate and the heavy use of its services suggest that it has been an effective and visible player in the region’s development financing arena.

Appendix A



* Self-Employment Assistance

Strategic Committees

Case Study #15: Community Futures Development Corporation of Strathcona (Campbell River/Comox Valley, B.C.)

1. Brief Description

The Community Futures Development Corporation of Strathcona (CFDCS) provides loan and equity financing, self-employment assistance (SEA), and community economic development services to residents of the Comox Valley and Campbell River areas of B.C.

SOME HIGHLIGHTS

- **The CFDCS targets small businesses as well as youth, women, displaced workers, single parents, and people with disabilities.**
- **One of the corporation's salient features is its ability to offer specialized financial products from externally capitalized funds, thereby reducing risk and increasing flexibility.**
- **It works in close partnership with a broad range of local organizations to deliver business and community development services and programs.**
- **It operates two internal loan funds, and administers three additional loan funds and one loan/lease fund.**
- **The federal government plays a positive role, contributing to on-going expenses and capitalization, while deferring investment decision-making to local ownership.**
- **Its specialized funds encompass investment criteria designed to address specific capital market gaps.**

2. Background

In 1986, the Comox Valley and Campbell River areas of B.C. were selected as a Community Futures region, exactly one year after the area's Business Development Centre (BDC) had been established. High unemployment and a desire to diversify the area's resource-dependent economy provided the rationale for establishing these federal government-sponsored organizations. The CFDCS results from the amalgamation by the government, in April 1995, of the Community Futures Development Society and the BDC. The organization currently operates two offices in the two distinct areas (one of which is characterized by high unemployment and high rates of single parent families and social assistance recipients), in order to better serve the needs of those areas' residents.

3. *Mandate*

The CFDCS's central mandate is to facilitate, support, and deliver community economic development planning, projects, and programs, focusing on intervention directed at marginalized groups. The corporation promotes multi-faceted partnerships as a means of providing its clients with a full range of financial, business and development services. Its main activities are loan financing, leasing, and strategic planning with community groups. By targeting special groups while paying close attention to the cash flow requirements of assisted companies, it strives to balance community economic development objectives with financial sustainability considerations.

4. *Decision-making Process*

For investment decisions, the normal approval route starts with the loan officer or the investment fund manager reviewing an application and writing up a project summary. For loans up to $20,000, the general manager and the investment fund manager will grant authorization. Loans over that amount require review of the application and summary by the loans committee of the Board of Directors for approval. Equipment leasing proposals follow a different procedure, with leases less than $15,000 being authorized by the General Manager; leases between $15,000 and $75,000 are approved by the loans committee. Loans and leases over $75,000 require approval from the Board of Directors.

5. *Role of Government*

Various provincial government agencies and the federal government are involved in the financing of the corporation's core operations, as it delivers programs on their behalf. Since the CFDCS is a creation of the federal government's Community Futures Program, it receives approximately $200,000 a year in federal money for operating expenses and an additional $144,000 for managing the SEA program. The CFDCS is currently negotiating with the B.C. government to act as the delivery agent for an SEA-type program.

6. *Investment Criteria and Process*

Since the CFDCS delivers six different funds, project selection criteria differ from one fund to another. Some funds are targeted at specific groups, sectors, or types of business — namely the *Youth Fund*, the *Segregated Loan Fund* and the *Forest Community Business Loan Fund.* However, all loan applications must meet basic eligibility criteria, and collateral are normally required for loans. Retail business, restaurant, and personal services proposals tend to be less favorably received than those which add significant value to local resources such as forestry. In addition, the corporation gives high priority to projects presented by its target groups (youth, women, displaced workers, single parents and people with disabilities), making approximately 40% of its loans to members of these groups.

7. *Investment Infrastructure*

The CFDCS works closely with its clients to help them prepare their business plans. It also plays an important mentoring role, since many of its target group clients have little business experience. More specialized services such as feasibility analysis, financial management, equipment leasing, and assets management are provided to the various client groups by the organization's subsidiaries on a cost-recovery basis. In addition to its investment activity, the corporation plays a supporting role in community economic development. It has built strong links with other local development agencies and provides community services such as in-kind (volunteer time and access to facilities) and direct financial contributions, business planning and advocacy services, and feasibility analysis. It has offered various types of assistance (financial contributions, loaning of staff, and use of the corporation's infrastructure) to initiatives ranging from a cultural centre, to a business data base and a forestry-related industrial park.

8. *Investment Activity*

The CFDCS currently operates two internal loan funds, and administers three additional government-backed loan funds and one loan/lease fund; it collects management fees for delivering these brokered funds. Loans, which are normally made at prime plus 3%, have ranged in size from $400 to $291,000. Each fund targets a different group. The organization's internal funds have to date invested more than $5.2 million in loans and equity (approximately 5% of that amount in equity), using up nearly all of the capital base. The *Youth Fund* has loaned $126,547 to entrepreneurs aged 18 to 24 years old; the *Forest Renewal Fund* has provided loans up to $524,444 (96.7% of its asset base) for value-added projects in forestry; the *Segregated Loan Fund* has provided $211,383 for higher-risk projects (out of a capital base of $215,226); and $424,766 has been expanded as loans or leases on behalf of the Working Opportunity Fund (a labour-sponsored venture capital corporation).

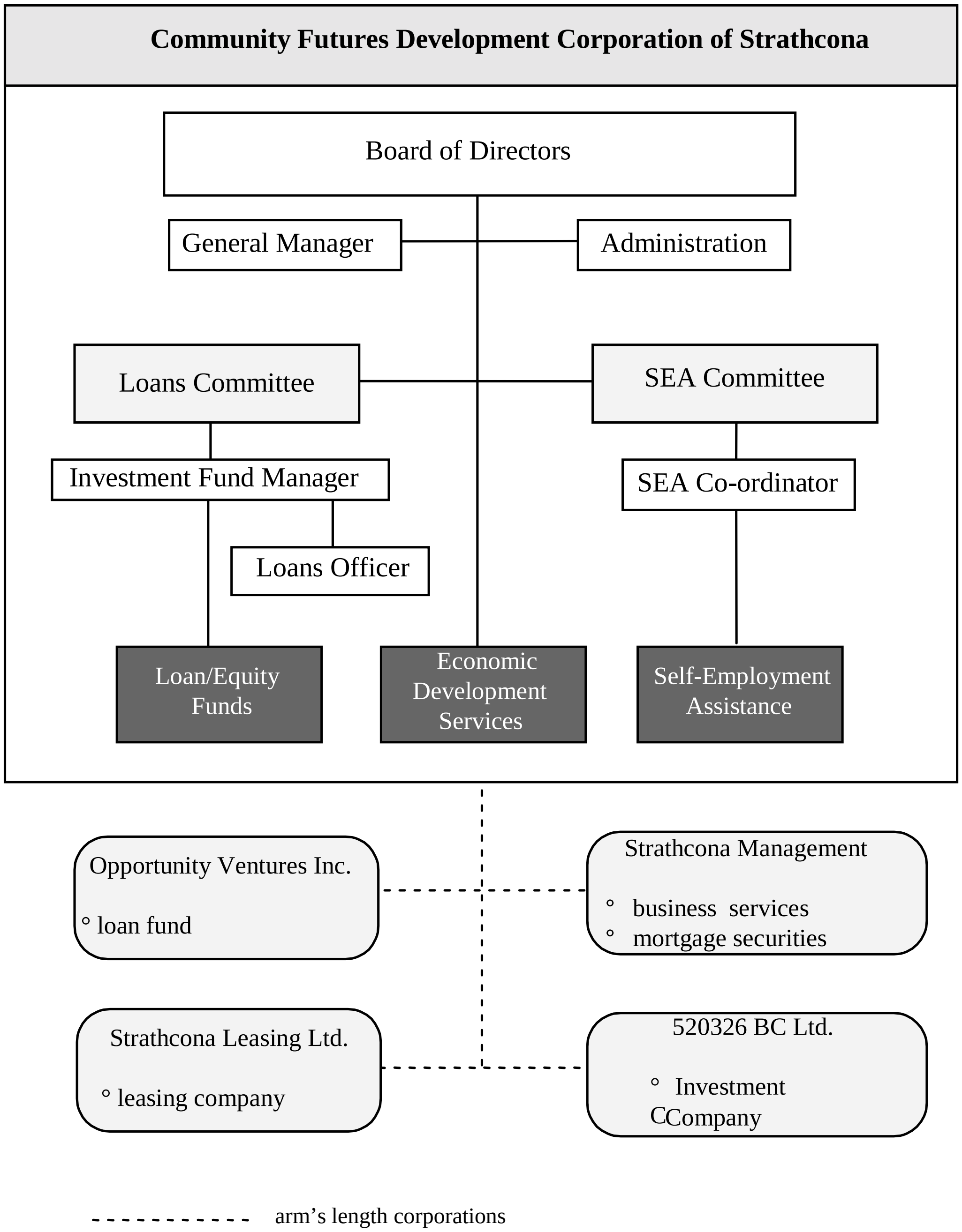
CFDCS flexible financing is apparent in the case of one youth client of the *Youth Entrepreneurship Fund*. In 1994, the young woman was unemployed and dreaming of opening a store that would sell "one-of-a-kind" clothing. One year later, she successfully applied for SEA and, thanks to SEA's financial assistance, training, and technical assistance, she was able to open her store. After two years, sales were steadily increasing and she was running out of space. She thus realized that additional funds would be required to buy computer equipment and make physical improvements to a newly-located store. She then approached the corporation and was able to access the youth fund for her required financing. The young entrepreneur attributes part of her success to the broad range of technical and financial assistance, and continuing personal support, she received from the CFDCS.

9. *Results Achieved*

No formal evaluation of the CFDCS exists, but partial data suggest that it is making a small dent in the area's unemployment situation. In 1996-97, for example, its investments have been credited with creating or maintaining 345 jobs. However, one of the corporation's most striking characteristics is its ability to offer specialized financial products from externally capitalized funds. The CFDCS has demonstrated to its numerous partners that it can supply financing in small, sometimes risky market segments in a sustainable and cost-effective manner. Another important feature is the corporation's use of arm's length subsidiaries for performing a broad range of capital market supply and demand functions. Through its number company, for instance, the CFDCS has been able to take an equity position in projects where loan financing alone was deemed insufficient for long-term sustainability. More importantly, by providing leasing, managerial, and investment services via several arm's length subsidiaries, the corporation can reduce risk and increase flexibility.

Appendix A

Organizational Structure of the CFDCF



Case Study #16: The Crocus Investment Fund (Manitoba)

1. Brief Description

The Crocus Investment Fund, Inc., finances new and traditional small enterprises in such a way as to promote provincial economic and job development as well as worker ownership in Manitoba.

SOME HIGHLIGHTS

- **The Crocus Fund taps new and varied sources of local patient capital, such as worker financial participation and institutional investors, for local use.**
- **It introduces unique high value-added programs to ensure productivity-enhancing investment, job quality and labour-management co-operation.**
- **The fund involves unions and workers in investment decision-making, as well as representatives of other Manitoban community groups.**
- **Top priority is given to small business investment opportunities that emphasize job creation, value-added and continuing provincial ownership.**
- **It supplies financing projects of particularly small dollar size.**

2. Background

In the 1980s, Manitoba unions urged creation of a labour-sponsored investment fund similar in design to the *Fonds de solidarité des travailleurs du Québec (FTQ)*, which was set up in 1983. The primary concern of both labour and government was to encourage economic growth, job creation and protection through a strategy of retaining and redeploying capital in the province. This was seen as crucial since, historically, Prairie capital markets, particularly those geared to private equity investment, have been limited or subject to severe cyclical stress. Also, it was perceived that some of Manitoba's capital stock was actually migrating. Consequently, legislation was introduced in 1991 to create the Crocus Investment Fund, Inc. (CIF).

3. Mandate

The CIF mandate is to support employment by long-term investing in new and established small and medium-sized companies. To do this, the fund draws on new and multiple sources of capital in Manitoba, such as tax-supported, long-term contributions from the public (especially union members) and institutional investors (e.g., credit unions, pension and strike funds). In addition, the fund aims to support positive workplace change through investment, partly by facilitating firm-based employee financial participation and ownership. In so doing, another capital source is also tapped.

4. *Decision-making Process*

Fund decisions about investment and related operations are made by a Board of Directors, most of whom are nominated by the Manitoba Federation of Labour. Common shareholders, institutional investors and government are also represented. The Board solicits further input on decisions from an advisory body of provincial business and financial leaders.

5. *Role of Government*

The Government of Manitoba determines the fund's statutory framework and, along with the federal government, provides tax credits and other incentives for capital-raising and program development. Provincial authorities are also shareholders. Guiding rationales for this support include the need to improve conditions for a provincial venture capital market and to give unions and workers a role in productive investment decisions.

6. *Investment Criteria and Process*

The CIF targets sectors featuring job-intensity and high value-added production and refrains from investing in other sectors, such as resource-based industries, banking and real estate. Where possible, it also facilitates Manitoba-based ownership of companies. The fund is legally required to commit a majority of its assets to investment projects that reflect some measure of employee participation and ownership. Within this context, eligible deals begin at a size of $100,000 and can be located in any community or region of the province. A portion of fund capital is committed to small investment projects (i.e., less than $1 million).

7. *Investment Infrastructure*

An essential aspect of the CIF is the programmatic support it brings to the investment process. For instance, the fund makes available to all investee firms an Organizational Effectiveness Procedure which enables the design and implementation of high performance workplace techniques. A social audit, conducted by CIF officers for potential projects, also emphasizes innovative practices, such as work re-organization, quality standards, training and co-operative employer-employee relations. Of further assistance are resource materials developed for investee firm managers and workers to promote participative management. In addition, the fund has established roundtables for firm owners/managers to share information on strategic approaches to long-term development. Using these and other programs, the CIF attempts to increase productivity and quality jobs at the enterprise level.

8. *Investment Activity*

By the middle of 1997, the CIF portfolio consisted of seventeen projects at a value of $25 million. Investee companies are situated in diverse industries, including high technology, specialized and traditional manufacturing, and services, found in both urban and rural settings. All utilize some combination of the programs and services described above.

9. *Results Achieved*

No formal CIF assessment (e.g., by the provincial government) has been done to date. However, the fund itself reports that, as of the middle of 1997, portfolio projects have initially resulted in at least 3,000 jobs created, protected and maintained, of which nearly 2,000 reside in Manitoba, as well as other economic benefits. These projects have also facilitated employee ownership or empowerment for approximately 50 percent of the workforces of investee firms. The fund has been recognized for its unique strategic approach to investing. For instance, a 1995 study by the CLMPC noted that employers familiar with value-added programs similar to those of CIF reported substantial performance benefits. A companion study also showed that the fund has been successful in establishing a large and durable source of venture capital for local investment opportunities that did not previously exist.

Case Study #17: Exceptional Technologies Funds (Vancouver, B.C.)

1. Brief Description

The Exceptional Technologies Funds (ETFs) are venture capital companies which provide equity financing to young B.C. firms in high technology and knowledge-based sectors.

SOME HIGHLIGHTS

- **The ETFs channel private venture capital to small and developing firms of the “new” economy.**
- **They provide investees with targeted financing, networking and specialized business services that allow them to grow rapidly.**
- **They are managed by a team which combines technical expertise with extensive managerial experience.**
- **Their growth has been fueled in part by the B.C. government’s provision of tax credits and their eligibility under the Registered Retirement Savings Plan.**
- **They strive to move their investees to a stage where they can become publicly-traded companies.**

2. Background

The Discovery Capital Corporation (DCC), a B.C. investment firm established in 1984, created two ETFs under the (B.C.) Small Business Venture Capital Act (SBVCA). One of the SBVCA’s goals is to increase, for B.C. firms, the supply of risk capital which has traditionally been concentrated in Ontario and Quebec. ExFund 1 was established in 1992 and ExFund 2 two years later. The two funds were merged in 1996 under the name of ExFund Capital, the same year that ExFund 3 was launched. ExFund Capital has a capital base of $10 million and ExFund 3 has one of $5 million (each fund, including ExFund 1 and 2 before the merger, has under the SBVCA a maximum allowable cap of $5 million). The funds are designed to attract individual equity investors looking for reduced risk by investing in a pool of hand-picked companies, while providing a source of sophisticated financing for small, high value-added firms.

3. Mandate

The ETFs’ mandate is to invest in small, technology-based firms that are ready to start producing and marketing their products. The funds raise capital by registering under B.C.’s SBVCA, which allow investors to claim a 30% provincial tax credit and other savings through an RRSP. The typical investor in the funds is an individual earning at least $100,000 a year and investing $25,000 in the ETFs. Investors get in by buying shares into the funds, normally at a minimum of $25,000. Unlike more traditional equity funds, the funds will try to sell their equity position in a company after 1 or 2 years of ownership and reinvest as rapidly as prudently possible, in order to achieve high rate of asset growth. So far they have failed to attract institutional investors since corporations are not eligible for the B.C. tax credit.

4. Decision-making Process

In a typical year, the fund managers will review between 400 and 500 business proposals before selecting a handful of projects. In those few selected projects, an ETF normally limits its participation to under 20% of a company's shares. Investment and other fund-related decisions are made by the three-member Board of Directors (two of whom are co-founders of DCC). The decision-making process is informal and all investment decisions are arrived at by consensus. The three Directors combine expertise in corporate finance, engineering, high technology development and marketing, and legal and regulatory environments. External or local expertise such as software consulting or engineering is often sought on an as-needed basis for reviewing investment projects in sectors unfamiliar to the Directors. On average, one in four proposals will come under the scrutiny of an outside expert.

5. Role of Government

The B.C. government provides the regulatory and statutory environments for the ETFs through provincial securities legislation, which governs offerings, and the SBVCA. Together with the federal government, it also contributes financially by way of tax credits ($3 million in provincial credits under the SBVCA) and personal incentives under the RRSP legislation. As a condition to granting access under the SBVCA, the B.C. government undertakes qualitative reviews of the ETFs at various stages of their activities.

6. Investment Criteria and Process

The SBVCA restricts ETFs' investments to small B.C.-based firms operating in targeted industries and with at least 80% of their assets located in B.C. The funds apply even more restrictive rules, since they seek only companies that are technology or knowledge-based, have proprietary technology, and offer a suitable time-frame for liquidation. By internal rule, the funds will not finance companies at the research and development stage of their product life cycle, or whose shares are already publicly traded. Due diligence is conducted informally through technical and financial feasibility studies, as well as through interviews with managers.

7. *Investment Infrastructure*

While no formal programs or services are included in the financial package offered to investees, Discovery Capital Corporation delivers strategic planning, business planning, and other business services on a fee-for-service basis. In addition, the investees benefit from the direct, personal involvement of the ETF Directors. Through their extensive knowledge of the technology and investment industries, the Directors provide the guidance, networking, and managerial expertise deemed important to firms experiencing rapid growth. The Directors sit on the Board of Directors of approximately two-thirds of all their investee firms.

8. *Investment Activity*

After three years, almost all of the ETFs' capital base has been invested. As of March 31, 1997, the combined ETFs had made 22 investments totaling $11.6 million in fourteen companies. These investments' current value is estimated at $14.5 million, or a 24.6% increase over the initial investment cost (not all of the funds' investments, however, have gained in value). Average investment size is more than $500,000. A 1996 report showed that, in decreasing order, the medical/informatics, telecommunications, biotechnology, and information technology sectors attracted most of the investments made by the funds. It is worth noting that although the funds have operated for only a few years, almost all of their capital base (95%) has been invested and they have already paid four stock dividends to their original shareholders.

The case of ALI Technologies, a Richmond-based software developer of medical image management for ultrasound applications, demonstrates the possible impacts of ETFs' investments as measured by increased revenues, employment, and returns to shareholders. ETFs' first investment in ALI was made in early 1994, and three additional investments were made up to March, 1996. In total, more than $1.6 million was injected into the company. During that same period, ALI's revenue increased by 383%, its work force went from 21 to 45, and the share value jumped by 364%. Given this performance, ETFs have since partially divested from their financial involvement in order to reinvest in other small businesses, consistent with their investment philosophy.

9. *Results Achieved*

Given the ETFs' short history, no formal evaluation of their activities has been conducted. However, the present review suggests that the ETFs possess some attributes that set them apart from other venture capital corporations. For instance, the funds' practice of maintaining their investments for only one to two years, and of investing in companies at the stage of their highest rate of growth makes them different from more "traditional" investors. Their respectable value growth rate and dividend payment record over such a short period of time indicate that this approach has been effective. In terms of employment impact, it is worth noting that aggregate employment in ETFs' investees has increased by 61% from the time of the original investment in these companies to today. While the ETFs do not attempt to fill any particular gap in the venture capital market — in fact, they tend to invest in firms which would probably be able to get financing elsewhere — they have arguably made a significant contribution to the development of B.C.'s technology sector by offering targeted financing coupled with specialized services, and by getting individual investors to invest in these firms.

Appendix A

Portfolio Overview

As of March 31, 1997

Description	Results
ExFund Capital Inc.	
Number of investments	17
Investment cost	$8,597,066
Current value of investments	$10,683,532
Increase in value over cost	24%
Average size of investments	$505,710
Additional investments made in investees by third parties*	more than $80 million
Proportion of assets invested*	95%
ExFund 3.	
Number of investments	5
Investment cost	$2,761,506
Current value of investments	$3,964,206
Increase in value over cost	44%
Average size of investments	$552,301
Proportion of assets invested (projected)*	95%

- Based on a March 29, 1996 financial report.

Case Study #18: Saskatchewan Indian Equity Foundation (Saskatchewan)

1. Brief Description

The Saskatchewan Indian Equity Foundation (SIEF) provides debt financing and other business services to Aboriginal entrepreneurs and organizations located throughout Saskatchewan.

SOME HIGHLIGHTS

- **SIEF exclusively targets Aboriginal entrepreneurs, firms, and organizations, which have traditionally had difficulty accessing capital.**
- **In partnership with the T-D Bank, it has created the First Nations Bank of Canada, the country's first Aboriginal bank.**
- **Its ten-year track record shows it has been a major player in the business start-up segment of the capital market.**
- **A close partnership with the federal government has provided SIEF with the capital base it needs to generate enough income to cover its operating expenses.**
- **Strict attention to due diligence and decentralized investment decision-making have translated into a low loan loss rate.**

2. Background

SIEF was established as a non-profit corporation in 1982, but its investment activities only started in 1986. The corporation is the result of a joint initiative promoted by Indian Affairs and Northern Development Canada (INAC) and by the Federation of Saskatchewan Indians (FSIN). It was designed as an Aboriginal-controlled financing institution aimed at removing the barriers facing Aboriginal entrepreneurs in need of financing. Up to that time, debt financing was only available from INAC's own loan fund, but its poor track record — losses amounting to 60% of the portfolio in some years — called for a different approach. SIEF thus became the first *Aboriginal Capital Corporation* to be incorporated. More recently, the corporation recognized the need for Aboriginal people to access a broader range of financial products, and it became a major shareholder of the First Nations Bank of Canada (FNBC), the first Aboriginal financial institution to offer a whole range of banking services, in partnership with the Toronto-Dominion Bank.

3. *Mandate*

SIEF's main mission is to provide debt financing to Saskatchewan-based Aboriginal clients and to provide these clients with individualized business services on a need basis. The corporation's structure is unique in that its Board of Directors reflects geographical, sectoral, and, to some extent, cultural concerns. Specifically, seven Tribal Council representatives, one legal advisor, one financial expert, and one FSIN representative make up ten of the twelve voting positions, the two currently unoccupied ones being reserved for government representatives. Two Aboriginal elders also hold honorary Board positions. Such Board membership ensures that local needs and conditions are taken into account and that information on local economic conditions and opportunities can be effectively disseminated.

4. *Decision-making Process*

The need to maintain a high degree of Aboriginal control and to serve a clientele spread out over a large territory has led to a fairly decentralized decision-making structure. The corporation currently oversees three separate offices. Each office's general manager may make investment decisions for projects valued at up to $150,000. Larger proposals must be approved by SIEF's Loan Committee, which is comprised of four of the corporation's regular Board members.

5. *Role of Government*

SIEF has received $7.3 million as contributed equity from INAC; the Saskatchewan government has provided $200,000 for the same purpose. An additional $1 million was recently received from Industry Canada to be used as an equity contribution into the FNBC, along with more than $500,000 toward the bank feasibility study that led to FNBC's establishment. During its first year of operations, SIEF also received funds from INAC to cover part of its operating expenses, but this is no longer the case. Overall, government has proved to be an important partner.

6. *Investment Criteria and Process*

Eligible proposals must come from Aboriginal individuals or organizations, and they must demonstrate commercial viability. Projects from all sectors except real estate are considered, although agriculture-related projects such as rice harvesting and fresh-water fish farming are less favourably received, owing to a history of successive losses. Due diligence follows standard business practices, in that detailed business plans are required of all project proponents.

7. *Investment Infrastructure*

In addition to its debt financing activities, SIEF provides direct support to its clients in the areas of mentoring, business plan write-up, pre-feasibility and feasibility studies, and 'after-care' support. Such support is provided on a cost-recovery basis by SIEF's wholly-owned subsidiary, *SIEF Business Consulting*. Project assessment and informal support for project development are also provided free of charge by SIEF staff operating out of three locations. Two of the three offices are staffed by a general manager, a loan officer, and an administrative assistant; the third one has only a manager and an assistant. However, a downsizing effort currently underway might lead to the closing of one or two offices, as a result of increased competition from other loan funds operating in the province.

8. *Investment Activity*

The corporation's ten-year track record indicates that it has thus far made more than 2,100 loans for a cumulative value of $3.2 million. The average loan size is $27,000, and loan losses have so far averaged 2.8% of the portfolio's value. It is worth noting that SIEF has used $2.0 million of its $8.3 million capital base to buy shares of the First Nations Bank of Canada. A sectoral breakdown (Appendix A) of the loan portfolio shows that the corporation has invested in those sectors which are deemed important to local economies. *Transportation* (commercial and school bussing) takes the lion's share with 40% of the portfolio, followed by *Other services* and *Retailing.* Together, primary and secondary industries account for less than 20% of the portfolio's value.

9. *Results Achieved*

An external 1993 evaluation of SIEF lending activity concluded that SIEF plays an important complementary role to other forms of financing by focusing more on business start-ups. The study also found that, in general, projects resulted more in employment and income maintenance than in the creation of new wealth. In addition, the evaluation pointed out that SIEF has displayed flexibility in loan requirements for its clients, perhaps reflecting the particular nature of Aboriginal financing. Overall, the company estimates that its financing efforts have so far generated 7,000 direct and indirect jobs.

This positive assessment is echoed by the assessment of loan fund performance (Appendix B). Loan loss rates for the past six years have hovered between 5.2 and 1.8%, showing a marked downward trend over that period. A crude measure of financial self-sufficiency (Appendix B) indicates that SIEF has more than covered its expenses out of loan interest income (without counting other sources of income) for four of the past six years. Less positive results in the past two years can be explained by increased temporary expenses. By and large, one might conclude from these results that SIEF has been playing an important role in addressing the financial gap experienced by Aboriginal entrepreneurs and firms located in Saskatchewan.

Appendix A

Sectoral Breakdown of Loan Portfolio
1986-87 to 1996-97

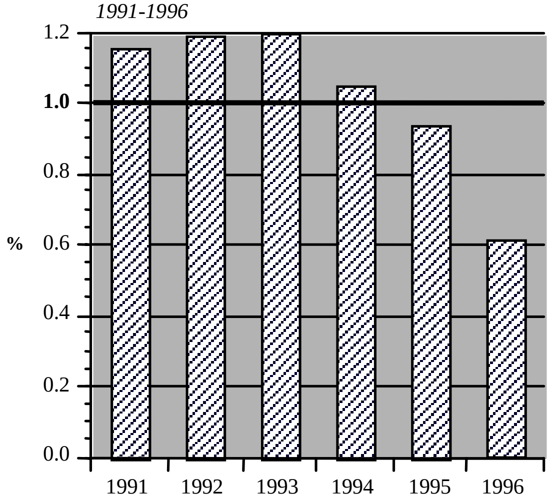
Sector	As a percentage of portfolio
School bus transportation	25
Other services	21
Transportation	15
Retailing	15
Construction	10
Forestry	5
Manufacturing	4
Tourism	2
Native organizations	2
Other	1
TOTAL	*100*

Appendix B

Loan Performance Data

Ratio of Financial self-sufficiency *

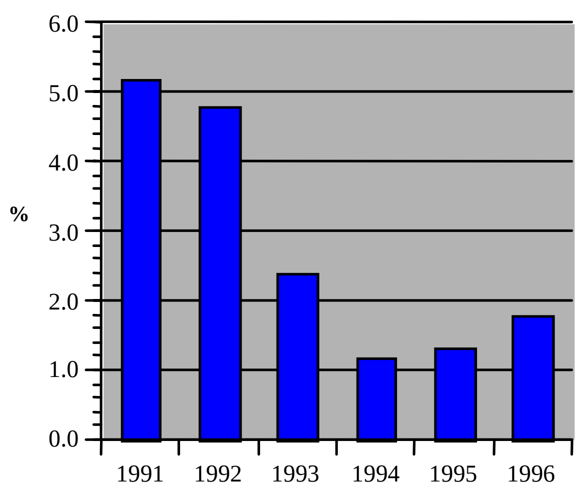
1991-1996



* A crude measure defined as the ratio of loan interest over total expenses

Loan Loss Rate

1991-1996



V Assessing the Impact of Local Investment Financing Models

LIFMS: WHAT LESSONS ARE TO BE LEARNED?

Taken as a group, LIFMs are in a very early state of evolution. Most existing LIFMs are young and reflect only initial formation and experimentation in those communities or regions where they have emerged. Consequently, most have very short track records by which they may be evaluated. This is indicated in the "Results Achieved" section at the end of each individual case profile, only a few of which refer to formal performance assessments done to date. In one or two fledgling cases, there is virtually no track record, though these LIFMs were included because their unique means and structures suggest innovation in addressing financing barriers, which could be of interest to other Canadian locales.

In other words, LIFM data is limited for the purposes of overall analysis and conclusions. For this reason, prudence should be observed in seeking to identify potential lessons to be learned from LIFM case studies. However, a good deal of commentary was provided by key case informants who were, for the most part, very experienced lenders, investors and financial intermediaries in the private and public sectors. Such individuals possess considerable knowledge of "what does — and does not — work, and why" in local experience. Based at least in part on their feedback, certain very general observations about LIFMs can be made.

The CLMPC also returned to several individuals in its consultative group of capital market experts and practitioners to obtain their feedback on case study findings. Incorporating many of their thoughts, the following are thirteen observation categories about the LIFM phenomenon, as it is revealed in certain case illustrations. Researcher observations are intended to inform and provoke broader discussion and, hopefully, may be of use in further research and consideration of the real and potential impacts of LIFMs in the promotion of community and regional economic development and jobs in Canada.

SOME OBSERVATIONS DRAWN FROM THE CASE STUDIES

(1) Local Orientation is Key

Capital availability barriers are frequently exacerbated for the economies of specific communities and regions in Canada. Past public policy efforts to rectify this situation by direct and tax expenditure programs, though well intended, have not always resulted in sustained improvements at the local level. Cases examined here suggest that LIFMs offer a viable alternative in the creation of capital pools, financial techniques and infrastructure that are adapted to the particular needs and constraints of communities and regions.

Localized models draw on, and re-inforce, key investment financing relationships. This, in turn, often helps to restrict or reduce transaction costs and risks that may otherwise impede supply.

Close proximity is meaningful to all LIFMs, but especially to those that are venture capital institutions, such as Aérocapital and BCA Holdings; or that interact with local angel investors, such as OCEDCO's SIO program, given the high stakes of assuming risk equity positions in start-up and fast-growing enterprises. Proximity is also meaningful to federal CFDCs. In the case of the Waubetek Business Development Corporation, for example, regular communication and informed relationships among local aboriginals on both sides of the creditor-borrower nexus is critical to micro-projects. In such instances, sustained LIFM operations can help permanently alter the local environment for allocating capital and ensure that sources of expertise are well-known and readily accessible to entrepreneurs.

The relatively low number of small loan defaults among several federal CFDCs, such as Waubetek and SADC de la Péninsule acadienne, or the Saskatchewan Indian Equity Foundation, is possibly another indication of the efficiencies attainable in local, personalized and informed transacting. The role played by character-based financial evaluation as a supplement (or in some LIFMs, such as Calmeadow, a substitute) to conventional collateral security considerations, is an important illustration of what can be achieved only in a loan procedure that is essentially local.

It is worth noting that most LIFM case study informants reported a relatively strong flow of quality business deals. This occurs even in those regions that have historically experienced difficulties in retaining or attracting risk capital, such as the Prairies, Atlantic Canada and northern or remote/rural communities in all provinces, due to the perception that they lack investment opportunities of high quality. Indeed, several CFDCs, such as the Community Futures Development Corporation of Central Island and Superior North Development Corporation, reported insufficient total supply for available opportunities, a claim that has been echoed by other financial institutions operating in disadvantaged areas of the country. In 1997, the Ontario association of CFDCs created a pooling mechanism whereby short-term surpluses of some CFDCs can be redistributed to assist the short-term shortfalls of others.

(2) Local Priorities Must be the First Consideration

LIFM cases were chosen under a broad rubric that tried to take into account diverse circumstances across Canada for those seeking to improve capital flows in their communities and regions. On-going change and restructuring trends, however pervasive they are in the Canadian economy overall, affect individual localities differently. By extension, different solutions, emanating from the marketplace or public policy or both, will be required.

An illustration of this is seen in the comparisons and contrasts in urban and rural experiences. In general terms, much urban economic change is currently being expressed in investment in emerging and non-traditional knowledge-based and technology-intensive industries. Much rural economic change instead focuses on traditional primary and secondary industrial bases, such as resource extraction and processing, or that facilitates diversifying sectors, such as tourism, environment-related production and services. In both instances, the most productive investment is directed to innovation that builds on, or diversifies from, existing and inherent industrial strengths.

The point is this: local solutions to access to capital problems are necessarily expressions of local economic and job priorities. Community and regional economic development strategies rely on locally-conceived and integrated investment financing strategies attuned to clear, interrelated goals. In an urban setting, this is apparent in Innovatech Sud du Québec that functions with a mandate for giving local industry a higher degree of technological production. "Techno-centres" are also the objective of other Innovatech divisions in Montreal and Quebec City. The same holds true for Aérocapital, which aims to support spin-off activity from Montreal's well-established aeronautical sector.

In a rural setting, an alternative approach is seen in the Community Futures Development Corporation of Strathcona which has created a multi-faceted investment strategy intended to take advantage of optimal economic and job opportunities in this resource-dependent interior region of British Columbia. Part of this strategy is to add substantial new value in the form of knowledge, skills and technology to traditional industries, such as forest products, through such separately-capitalized pools as the Forest Community Business Loan Fund. To the same end, Strathcona has established a partnership with the diversification-oriented venture investor, the Working Opportunity Fund. Enhancing value-added in resource production is also part of the mandate of the Prince Edward County CFDC, with respect to agriculture, as well as SADC de la Péninsule acadienne, with respect to fishing.

Among those LIFMs with particularly broad mandates, such as the CFDCs, it is interesting to observe those that have determined to refrain from investing in sectors perceived to reflect low productivity or poor job creation potential. Examples include passive real estate activity, sectors where established firms are unlikely to have difficulty obtaining financing, or capital-intensive producers engaged in resource exploration and extraction.

(3) Partnerships Result in New Pools and Sharing of Resources

Many of the LIFMs studied here give evidence of the value of partnerships between government, non-government and private sectors. Indeed, it is fair to say that the majority of LIFMs would probably not exist without extensive and continuous collaboration between diverse multi-sector actors and institutions over time.

For instance, ACF Equity Atlantic was provided seeding by seven banks, la Fédération des caisses populaires acadiennes, four provincial governments and the federal Atlantic Canada Opportunities Agency. Not only is this joint supply important to a venture capital pool of sufficient depth, it also gives a range of national and regional private and public sector institutions a long-term stake in ACF's success. Inno-Centre is another model that has been supported by federal, provincial and municipal governments, Quebec-based financial institutions, as well as such large companies as Bell Canada and Hydro-Quebec, though this intermediary's success has resulted in it gradually moving towards financial autonomy.

One of the best examples of multi-sector partnering can be observed in Le Groupe Forces, an institution that reflects a strategic combination of various suppliers of debt and equity in the Mauricie region of Quebec. Le Groupe Forces not only created economies of scale for a collection of otherwise independent local pools, it provided a mechanism whereby existing capital resources can be utilized more effectively, and very often, in co-ordinated and targeted investment activity where stakeholder interests overlap. Similarly, in the strategy of BCA Holdings, business groups, community organizations, financial institutions, and governments joined to consolidate and concert local resources as a means of improving their ability to effect, through investment, major changes in the Cape Breton economy.

Like Le Groupe Forces and BCA Holdings, one of the oldest LIFMs (currently known as the Community Futures Development Corporation of Central Island) began in the 1970s on Vancouver Island through an aggregation of local programs and services to promote economic and employment diversification. This included an investment financing mechanism as one of several tools. The process continued in the old model's recent integration with a local federally-sponsored pool.

In all of these LIFMs, original inception of a capital pool appears to lead to further leveraging of community and regional resources. In some cases, like the Crocus Investment Fund, previously untapped sources, such as worker financial participation and corporate/institutional investors, are introduced into new flows. In addition, these private-public partnership arrangements introduce complementary resources that, though non-financial, are just as critical to successful supply of high-value added investment. Examples of the latter are detailed below.

Finally, partnering is evident in the introduction of broad community participation in the administration and decision-making processes of some LIFMs. Along with soliciting local business, finance and municipal/regional government representatives, several LIFMs have also sought to include representatives of non-traditional groups, such as aboriginals, labour, and women. The inclusion of unions and workers in decision-making, for instance, reflects an increased interest on the part of that constituency for facilitating productive investment that creates or protects jobs and thus contributes to community stability. While inclusion of this kind may yield substantial benefits to any financial institution, it has particular meaning where an LIFM mandate is to respond to the access to capital concerns of specific clients in a community.

(4) Co-investment and Syndication Can Help Ensure Success

Partnering is also relevant to individual investments. Increasingly, the need to offset the costs and risks of certain financing deals, as in the case of especially young or small companies, is attained by bringing different financial institutions together in project-specific collaboration. While this practice may be commonplace in central markets, it is not in regions where access to capital problems may be more complicated and entrenched. Particularly in rural and remote communities, CFDCs are sometimes sole suppliers. In the past, this has often been the situation for Superior North Development Corporation in its daunting task of supplying micro-financing to very small communities in northern Ontario. This is of concern since co-investing with other financial institutions, in both the private and public sectors, as is actively sought by LIFMs like the Prince Edward County Community Futures Development Corporation, is an important means for maximizing local opportunities.

In some cases, syndications are the rule. For instance, ACF Equity Atlantic has a policy of requiring co-investment for a portion of all of its investment deals. In those parts of Canada where high risk equity investing is not widespread, this may be a prudent strategy.

Very recently, national and provincial lending institutions – banks, credit unions and caisses populaires — have initiated large-scale co-investment strategies for micro-level application that, in some instances, target small business in specific communities, regions or value-added sectors. Several of the top banks, for example, have done this in partnership with federal regional development agencies sponsoring CFDCs. Illustrations are provided in the strategic program of the Royal Bank of Canada and the Business Development Bank of Canada whereby investment agreements have been established with the Federal Office of Regional Development (Québec) and the Federal Economic Development Initiative in Northern Ontario. Under the terms of these agreements, long-term loans are supplied to expanding small borrowers, such as those in targeted knowledge-based and technology-intensive sectors, in whatever urban or rural communities they may be found.

Co-investment also involves strategic combinations of risk capital. Very high risk deals often depend on initial supply of a so-called equity “kicker”, usually by a venture capitalist, that acts as leverage for supplementary supply, such as much lower risk, low-yield debt. An innovative illustration of this practice may be seen in the Bank of Montreal’s Innovation and Technology Centres which occasionally co-invests with the bank’s venture subsidiary. Indeed, these two bank operations maintain close working contacts for the purpose of supporting knowledge-based and technology-intensive enterprises in selected urban centres (e.g., originally in Kitchener-Waterloo and, in this case, in Mississauga, Ontario). A primary task of Innovatech Sud du Québec is also to act as a lead investor for many high technology co-investment transactions.

Of course, co-investment and syndication yield more than just money. Of equal value are the less tangible resources that diverse financial actors and institutions bring to a given project, such as experienced and skilled personnel, specialized expertise and information sources, and networks in national and global markets. These accompanying resources can add substantial value to investee firm development and, to the extent they are introduced by LIFMs, represent an integral support to investing in communities and regions. This was in evidence in the co-investment activity in several case profiles.

(5) Vital Risk Equity Supply is Redistributed Across the Country

Today, the institutional venture capital market in Canada is around $7 billion in size, and available angel venture resources probably stand at a total of between $10-20 billion. (Allan Riding estimates annual flows of angel capital to be around $300-500 million, with much more left to be adequately tapped). As impressive as these overall amounts are, supply of venture financing (and other forms of risk equity, such as direct institutional investment) has evolved over time only by overcoming substantial challenges. Until recently, institutional supply has fluctuated severely and, despite the best efforts of government and national business organizations, much angel supply has remained elusive. Moreover, supply of both markets has tended to exist only in major financial centres in Ontario and Quebec.

Several LIFMs considered here are helping to change this situation. Large, stable venture pools created with ACF Equity Atlantic and the Crocus Investment Fund should, for the first time, provide steady flows to communities in their respective eastern and western regional economies. BCA Holdings, Exceptional Technologies Funds, Innovatech Sud du Québec are doing the same for the communities of Sydney, Nova Scotia, Greater Vancouver, and Sherbrooke, Quebec, respectively. In effect, this represents new channels of institutional venture capital distributed to small business outside of central Canada. In addition, intermediation performed by OCEDCO's SIO program represents one of the few successful models of entrepreneur-angel matchmaking, evident in the 10 percent of SIO projects where such links were established. Emulation elsewhere in Canada, if similarly assisted by up-front technical support, may further open up this important source of capital.

Risk equity sources remain among the most relevant to new and developing small and medium-sized firms, particularly those innovators introducing qualities of knowledge, skills and technology to Canada's industrial base. For such "engines" of new economic growth and job creation located in communities and regions across the country, LIFM activity in this area is of paramount interest.

(6) Long Time Horizons Make a Crucial Difference

In recent years, several national business organizations, such as the Canadian Chamber of Commerce, have argued for greater incidence of "patience" in the financial system. For this to be meaningful to capital-hungry new and developing small business, such "patience" must be visible in investment and financing behaviour that is system-wide and that embraces an exponential number of private sector actors and institutions. This said, the long-term investment horizons that are a feature of many of the LIFMs examined here represent an important step forward.

As discussed earlier, patient investing is a prerequisite for aiding innovative firms on a rapid expansion path, and especially those with product ideas that are new or that involve unfamiliar market segments. These so-called "dynamic" entrepreneurs and firms, also known as "gazelles", are responsible for a disproportionate amount of new economic growth and job creation that can mean sustainable prosperity wherever they are situated. However, to get to this point, "dynamic" business requires, among other things, a long-term commitment from external suppliers of debt or equity. Indeed, much established small business is also experiencing transition in this era of economic change, and must innovate to accomplish new aims. They too require "patient" capital. Both examples are clients of LIFMs.

The increased presence of venture capital in communities and regions by means of certain LIFMs is one measure of this demand being met. Such capital is distinguished by its residence in deals for long duration, usually three to ten years, and sometimes even longer.

Of course, the time horizons of small loans and micro-credit delivered by CFDCs and other debt-oriented LIFMs are frequently and quite naturally much shorter (though a significant amount of term loans made by CFDCs can last as long as five years). This said, it is interesting to note the increasing use of longer-term equity instruments by some of these same financial institutions. At present, a relatively small fraction of CFDC transacting across Canada is performed using equity, though it is anticipated its role will most likely increase in future.

(7) Government Plays an Important Role as Facilitator

Over time, government — federal, provincial and territorial — has performed a major role in enhancing supply conditions in a variety of debt and equity markets on behalf of under-invested small and medium-sized business. Direct intervention on different fronts is observable in the multi-faceted mandate of the federal Business Development Bank of Canada that also treats as a priority the financing challenges facing disadvantaged communities and regions. Indirect intervention is seen in provincial and federal statutes and tax incentives supporting labour-sponsored investment funds.

The indirect approach is assumed in the vast majority of LIFM case studies. In many instances, government has contributed to seeding LIFM design and experimentation and has helped set original parameters for investment mandates, criteria and programmatic approaches. Government has also contributed to pools and, in some instances, shares in on-going administration and general direction as a permanent shareholder. This said, government has frequently seen fit to defer to local ownership of the investment process and decision-making on a project by project basis, as occurs for at-arms-length CFDCs. The federal government increasingly delivers other programs and services through the latter, a practice that re-inforces the support function of CFDCs while simultaneously contributing to their long-term autonomous evolution.

Furthermore, government representatives will also defer to highly-skilled and experienced professional managers, without which venture capital pools, to name one example, could not function. ACF Equity Atlantic, Innovatech Sud du Québec and Exceptional Technologies Funds are three clear illustrations, as they are government-facilitated pools that nonetheless run according to market signals and by independent, value-adding professionals. This is an important consideration given what has historically been a relatively small supply of qualified human resources in this Canadian market. The same may be said of management in other LIFMs.

By adopting this approach, public policy assists in balancing several performance imperatives at the local level relevant to making capital available.

(8) CFDCs Support Partnerships Between Private and Public Sector

It is clear that it is not enough merely to give more money to small business in disadvantaged communities and regions. If local environments are to become capable of sustaining capital flows to productive investment, on a permanent basis, then infrastructure is just as necessary. In certain Canadian locales, particularly remote and rural areas, such infrastructure is largely absent except where government agencies and departments, at different levels, have helped to establish and maintain it, generally in partnership with local chambers of commerce, community groups, and financial institutions. Federal CFDCs are crucial to this government-led effort. They sponsor pools, investment activity and support programs, and work co-operatively with the local outlets of private banks, credit unions and caisses populaires, often in communities where such a central source of capital and attendant resources would not otherwise exist.

Several of the CFDCs profiled here have demonstrated that further strategic joint activity that builds on current capital flows to local small business, and that supplements the local stock of investment-related resources, is possible where there is creativity and initiative. This is apparent in the CFDCs in Central Island and Strathcona (in rural British Columbia), Le Groupe Forces (in rural Quebec), and Prince Edward County (in rural eastern Ontario), to name just four. In each instance, CFDCs have increased organizational efficiencies relevant to the leveraging and deployment of local resources, or have facilitated the delivery of additional external resources, through government and private sector co-investment programs.

Today, CFDCs sponsored by the four federal regional development agencies can be found in geographic areas that are home to all or nearly all of Canada's total rural population. It perhaps remains for suppliers of debt and equity in the Canadian financial system to recognize (as some top lenders and labour-sponsored investment funds already have) that effective CFDC infrastructure already exists in these communities across the country and that this infrastructure can be utilized as a base for new in-roads in local investment financing. This point is re-iterated under: **(13) Local Success Can be Adapted to Other Communities and Regions.**

(9) Deal-making Infrastructure is Important to Final Outcomes

In the Background sections to the case studies, there was brief discussion of how structural deficiencies in the operation of some small and medium-sized companies can create barriers to obtaining external financing. Heightened understanding of this problem has led certain LIFMs, such as Inno-Centre, to focus on delivering programs and services that develop young high technology firms in the Greater Montreal area and prepare them for an investment financing relationship. Like OCEDCO's SIO program, a key resource of Inno-Centre is entrepreneur "incubation", involving comprehensive mentoring, skill development and technical support. Also like SIO, Inno-Centre takes the further step of helping "prepared" clients make an appropriate investment match drawn from its extensive supplier network.

Once again, locality assists the process. In the case of both Inno-Centre and SIO, client advisors and mentors are drawn from among local representatives of business and finance. For clients in knowledge-based and technology-intensive fields, advisors are drawn from local colleges, universities and scientific research facilities. Geographic proximity ensures the building of long-term, supportive industry-finance relationships and contacts.

Growing awareness of the mandates and functions of Inno-Centre and SIO, on both the demand and supply sides in their respective areas, re-inforces the potential effectiveness of both. Small business benefits from having access to useful information about financing options appropriate to their demand needs. At the same time, financial institutions benefit from introductions to applicants already possessing viable business plans and strong management capability. The models provided in Inno-Centre and SIO are partly responsible for precipitating counterparts elsewhere, such as the community investment boards in Ontario, like Renaissance Community Investments of the Hamilton-Wentworth region, the new Halifax Investment Facilitation Service, and variously-named entrepreneur/enterprise forums in all parts of the country.

Interestingly, several CFDCs also utilize deal-making infrastructure, perhaps on a more informal scale, through boards of directors and investment committee systems. These reflect considerable local business and finance representation. Such individuals often volunteer their services as advisors to entrepreneurs whereby introductions are also made with local and external commercial contacts. This practice is common in other LIFMs with locally-representative administrative bodies, such as ACF Equity Atlantic and the Crocus Investment Fund.

The importance of such local value-adding intermediary activity, in addressing the structural component to accessing capital for small business, cannot be underestimated.

(10) Growth Management Skills are a Top Priority

Related to this is the attendant need to instill value-added in investment financing relationships once they have begun. Professionally-managed venture capital pools are, perhaps, best equipped to do this in projects involving early stage and rapidly expanding enterprises. In fact, assisting investee firms in developing business management skills, strategic planning capability and related infrastructure that maximizes growth potential, should be a critical aspect of most risk equity investment experiences. This is the case in many of the LIFMs considered here, particularly those providing risk equity.

This active supplier role also must not be underestimated, as it can be pivotal in establishing high performance companies in emerging sectors that compete in the global economy. Over the lifetime of an investment, experienced venture capitalists will engage in an intensive process of guidance, showing entrepreneurs how to develop new products and advance them in national markets or, through export, to markets abroad. As Mary Macdonald has revealed, this process contributes to impressive and immediate expansion in investee firm sales, research and development expenditure, exports and job creation. What is more, suppliers leave behind enduring skills and infrastructure in transformed companies.

Angel investors are particularly well known for hands-on investment management that adds substantial value. The local, personal relationships between angels and, in some instances, with institutional supply sources, permit this approach, as does the usually extensive experience angels have in the same industrial fields that their clients are often entering. This happens, for instance, among high technology start-ups in several communities in Canada, such as the Ottawa Valley. It is not surprising that LIFMs, through matchmaking in the cases of Inno-Centre and SIO, or through networking for co-investment and syndication opportunities in the case of some LIFM venture capital pools, make an effort to find and work with local angels.

Some LIFMs are breaking new ground in this area. The Crocus Investment Fund, for example, has designed programs for implementing new human resource and workplace techniques in investee firms and sharing best practices among investee firms. CFDC managers also provide technical support services, which include mentoring, also of enduring value to small and micro-enterprise clients.

(11) Suppliers Must Specialize to Assist Certain Entrepreneurs

Another support to growth in the investment financing relationship is supplier specialization. Such specialization takes many forms. However, in a new economic environment, it often refers to supplier efforts to introduce a greater degree of expertise and technical support relevant to investing in innovative firms. A pioneering model in this regard is Quebec's network of specialized pools, initiated chiefly through collaboration between large private and public sector financial institutions, and geared to investment in such emerging, value-added sectors as biotechnology, environment-related production and information technology. Aérocapital is part of this network, and offers specialized assistance to investee firms through various means. For instance, Aérocapital managers possess relevant academic and industry-specific knowledge and maintain regular liaisons with post-secondary advisers monitoring technology development in Quebec.

Other institutions, through acquisition of skilled financial personnel, or education of existing staff, often have increased their ability to specialize. Several of the top banks now hire executives who have a background in technology-intensive industries. Specialized banking units, such as the Bank of Montreal's Innovation and Technology Centres, ensure that account managers are trained, and that loan policies, procedures and related services are adapted, for small high technology borrowers. Other lenders, such as the Canadian Imperial Bank of Canada, the Bank of Nova Scotia, the Toronto Dominion Bank, and the Royal Bank of Canada, also sponsor specialized banking units or have located relevant resources strategically across the country.

Specialization takes still other forms. In utilizing an entirely different financial instrument, Calmeadow Nova Scotia facilitates its self-employed and home-based client base through regular, institutionalized contact between entrepreneurs in comparable economic circumstances. In this way, Calmeadow also provides "niche" assistance to a fast-growing job sector (self-employment stood at over 17 percent of total Canadian jobs in 1996) that is relevant everywhere in the new Canadian economy. This is important, argues expert Barbara Orser, as the access to capital challenges of the self-employed are not especially well-understood or attended to, outside of a collection of micro-loan institutions like Calmeadow or government programs delivered through CFDCs. Given the increasing contribution of self-employment to new business formation in Canada, this situation must change in the near future. Lessons drawn from certain LIFMs can be of help in this regard.

(12) Specific Financing Barriers Require a Specific Response

Different LIFMs do different things. A major influence in original LIFM design and operational standards has been, in most instances, identification of financing barriers perceived to obstruct investment in community or regional economic development. In other words, an LIFM has been created as a targeted response to specific local problems and opportunities involving new and established small business.

Some LIFMs target enterprises at a particular stage of development. Among risk equity suppliers, Aérocapital, by virtue of its specialized investment function, concentrates on start-ups with limited track records and at an early stage of their product lifecycle. Exceptional Technologies Funds focuses on assisting firms in later growth stages, such as those seeking to proceed to an Initial Public Offering on a securities exchange. The high technology investing of Innovatech Sud du Québec can be directed to various stages of growth. Each of these different emphases in criteria targeting is valid and important, depending on the relative strengths and weaknesses of local capital markets.

Similarly, LIFMs of all varieties have established investment criteria pertaining to the parameters of project size. In many cases, such criteria reflect clear LIFM targeting of shortages at the lowest end of the demand spectrum — in this instance, small dollar investments. Several venture capital LIFMs, for instance, ensure that a certain proportion of portfolio investments involve deals below $1 million or below $500,000. The mandate of all CFDCs is to lend at levels below $75,000. Among the case studies, client accounts average around $25,000 (and, hence, are well below the mainstream lending institution average of $50,000). Of course, some small-size commitments are managed by LIFM participation in co-investment and syndication projects.

One of the best known LIFM experiments is Calmeadow Nova Scotia, supported there and in several communities by the Royal Bank of Canada. Using peer-oriented micro-credit, Calmeadow targets entrepreneurs from certain equity groups (such as women, who may encounter gender discrimination in their dealings with conventional financial institutions) who may possess little or no collateral security. Community Futures Development Corporation of Central Island also targets representatives of equity groups and non-profit organizations. Beneficiaries, in this instance, are frequently local youth, the disabled, individuals from low-income neighbourhoods and socially-marginalized groups, who also lack much by way of collateral, but are evaluated under investment criteria that emphasize entrepreneur qualities discernable in a community setting.

Canada's aboriginal communities face particular economic circumstances and challenges. This truism has led to the rise of a broad selection of aboriginal-controlled LIFMs with a mandate for supporting Native Canadian entrepreneurs and firms. Good illustrations of this are Waubetek and the Saskatchewan Indian Equity Foundation. The latter – the first aboriginal capital corporation in Canada – has developed an impressive array of programs and services for aboriginal clients in urban and rural communities of Saskatchewan. Among these is the establishment of the First Nations Bank of Canada, the first full-service lending institution for aboriginals in Canada, capitalized by the Foundation in partnership with the Toronto-Dominion Bank.

LIFMs like Calmeadow and the Saskatchewan Indian Equity Foundation offer important models of success where past initiatives targeted to their socio-economic client groups have often failed. Once again, this appears to be based on specialization that relies primarily on local resources, and, as means to further specialization, the introduction of non-traditional capital market participants directly into the investment process.

(13) Local Success Can be Adapted to Other Communities and Regions

The eighteen case studies considered in this CLMPC project have suggested significant institutional and practical models for local capital allocation and intermediary activity of support to economic change and restructuring across Canada. While the community and regional contexts for LIFMs have certainly been responsible for whatever success some of these models have experienced, this is not to say key institutional features and best practices cannot be transferred or adapted to other localities.

Clearly, certain models have spread from their place of origin to become comparable, if locally-attuned, versions elsewhere. This is evident in recent Ontario legislation establishing Community Small Business Investment Funds. These are sponsored by municipalities or post-secondary institutions, and are intended for patient, small dollar investing in eligible small companies. Banks and labour-sponsored funds can contribute to these funds with the aid of tax incentives. These new Ontario pools were influenced by Quebec's network of local, regional and specialized pools, for which Aérocapital and Le Groupe Forces provide illustrations, and federal-assisted CFDCs, among others.

The models provided by OCEDCO's SIO program and Inno-Centre have helped the spread of comparable mechanisms and structures where the focus is on intermediation, matchmaking and the establishment of key qualities in local investment financing relationships. Some of these have become demonstration projects under the Canada Community Investment Plan of Industry Canada.

In other words, despite the relatively young history of many LIFMs, there are already precedents for transfers of best institutional practices to other locations, generally through adaptation done according to at-home supply conditions and demand requirements. To this continuing process, the CLMPC case studies will be of value, particularly in highlighting the importance of private-public partnership arrangements developed using existing local stocks of investment-related resources. This is especially important in disadvantaged or underdeveloped communities, such as many in remote and rural areas of Canada, where CFDCs and other financial institution and investor pools and activities may well serve as a crucial foundation on which to build.

VI Conclusion

This document should be thought of as a resource for private and public sector representatives in regions and communities eager to learn about "what works" in the practical application of LIFMs. As a next step, it will be important to initiate a process of information-sharing so that the cross-fertilization of ideas among Canadian communities and regions can begin. It is apparent in the recent emulation and adaptation of certain LIFM institutions and practices in some parts of Canada, that the simple act of communicating details about the range of unique capital allocation and intermediary techniques, infrastructure, specialized management expertise and value-adding support programs, can potentially stimulate the same result in other communities and regions. This is especially true where the initiative is taken through similar strategic, multi-level partnering by private sector and government stakeholders.

There are several potential means for achieving cross-fertilization. Perhaps the best is a process of cross-country, interactive forums of LIFM presentations and discussion, involving the same kinds of participants that have been responsible for LIFM inceptions: local chambers of commerce, unions, financial institutions, investors, community development agencies, aboriginal groups, social welfare organizations, associations for women entrepreneurs, municipal and regional governments, post-secondary institutions, etc. Information dissemination could also be facilitated by increased use of electronic and multimedia outlets. It is possible this process could be facilitated by further case study of models as yet not widely-known, as well as further research that monitors the progress of LIFMs, and more comprehensively evaluates them as new data becomes available.

Of course, the ultimate objective of LIFM emulation and adaptation to other communities and regions is to precipitate sustained flows of adequate, affordable capital to productive investment priorities in a manner consistent with apparent experience elsewhere. In the end, the chief beneficiaries would be those new and developing enterprises most likely to create long-term employment and income opportunities for Canadians.

VII A Brief Glossary of Terms

Angels (also known as informal investors): Wealthy individuals who invest risk equity (often with other wealthy individuals) in new and developing companies. Often, angels are interested in industries in which they have experience. See also V*enture Capital*.

Co-investment (often paired or substituted with the term "syndication"): In general, the process by which several financial institutions and/or investors lower a transaction's costs and risks by pooling their resources.

Collateral Security: Most frequently, the hard assets of a company used by a lending institution to secure its investment against default. Without collateral of some kind, an investment is described as unsecured and, therefore, reflects much higher risk (such as venture capital).

Community Futures Development Corporations (CFDCs): Locally-administered, non-profit pools seeded by the federal government and supported by the four federal regional development agencies. CFDCs frequently make small loans in new and established firms in rural areas of the country where supply options are limited.

Debt (also known as Credit or Loans): Financing offered by a lending institution, repayable with interest over an agreed-upon period of time.

Due diligence: A comprehensive process by which a financial institution or investor evaluates a potential business client prior to completion of an investment agreement.

Equity Capital: Financing offered by an institution or investor that entails some degree of firm ownership. See also *Venture Capital*.

Initial Public Offering: The stage at which a small company has developed sufficiently to become publicly-traded on securities exchanges, if desired.

Institutional Investor: This term usually refers to large financial institutions, such as pension funds and insurance companies, that may invest in new and developing firms, often through pools (such as venture capital pools).

Investment Financing: The capital (debt or equity) required to make a productive investment in an enterprise.

Investment Infrastructure: Very generally refers to the programs, services and structures, etc., in place to facilitate investment activity and/or add value to investment projects.

Labour-sponsored Investment Funds: Venture capital institutions established through legislation and tax support and formally sponsored by labour organizations in Canada.

Local Investment Financing Models (LIFMs): A term defined by the CLMPC (for this document) to describe a capital allocation and/or intermediary institution and related practices that act at the local level (in a given community or in communities in a given region) to strategically address one or more specific investment needs. In most cases, LIFMs are created by private-public partnership arrangements.

Lending Institution: A generic term for a bank, *caisse populaire* or credit union.

Matchmaking: Very generally, the process of linking business demand with the appropriate sources of financing. More specifically, this term is used to describe formal efforts to link entrepreneurs with angel and institutional venture capitalists.

Micro-enterprise: especially small-scale firms, as compared with conventional small business (see *Small and Medium-sized Business*), commonly defined as having three or fewer employees.

Micro-financing: Generally speaking, this refers to very small loans (e.g., less than $5,000), frequently not secured by traditional forms of collateral (see also *Small Dollar Projects)*. Also used: *micro-lending*, *micro-loans*, and *micro-credit*.

Pool of Capital: A generic term for the funding source utilized by financial institutions or investors (often on a shared basis) to make debt or equity investments.

Small and Medium-sized Business: Enterprises so-defined because they possess total assets, employees or sales that, in a national economy, are comparatively small in size (e.g., 500 employees or less). Many small and medium-sized firms are private (i.e., they are not listed on public securities exchanges).

Small Dollar Projects: A generic term for investment deals requiring very small amounts of financing. In the case of equity, this is sometimes defined as being below $500,000, and in the case of debt, below $50,000. See also *Micro-financing*.

Start-up: A new company at an especially early stage of commercial development. If such a company needs external financing, it often requires venture capital.

Venture Capital (also known as risk equity/quasi-equity): High risk financing supplied to new and developing enterprises by both informal (angels) and institutional sources. Such capital is generally long-term, unsecured by collateral and involves a temporary equity position in investee firms.

VIII Names and Addresses of Profiled LIFMs

ACF Equity Atlantic Inc.
Box 25
1969 Upper Water Street, Suite 2106
Halifax, NS
B3J 3R7
Tel: 902-492-5164
Fax: 902-421-1808

Aérocapital
225 St-Jacques West
Montréal, QC
H2Y 1M6
Tel: 514-845-3800
Fax: 514-845-3810

BCA Holdings and BCA Venture Capital Inc.
Tel: 902-539-1777
Fax: 902-567-0153

Calmeadow Nova Scotia
c/o Royal Bank of Canada
P.O. Box 1147
Halifax, NS
B3J 2Y1
Tel: 902-492-3585
Fax: 902-422-8955

Community Futures Development Corporation of Central Island
271 Pine Street
Nanaimo, BC
V9R 2B7
Tel: 250-753-6414
Fax: 250-753-0722

Community Futures Development Corporation of Strathcona
P.O. Box 160
Campbell River, BC
Tel: 250-923-6840
Fax: 250-923-3780

Crocus Investment Fund
303 - 275 Broadway Avenue
Winnipeg, MB
R3C 4M6
Tel: 204-925-2401
Fax: 204-942-2785

Exceptional Technologies Funds
c/o Discovery Capital Corporation
2011 - 1177 West Hastings Street
Vancouver, BC
V6E 2K3

Inno-Centre
4900 Jean-Talon West, Suite 220
Montréal, QC
H4P 1W9
Tel: 514-737-0550
Fax: 514-737-3168

Innovatech Sud du Québec
455 King Street West, Suite 305
Sherbrooke, QC
J1H 6E9
Tel: 819-820-3305
Fax: 819-820-3320

Innovation and Technology Centre
Bank of Montreal
First Canadian Place
P.O. Box 3, Concourse Level
Toronto, ON
Tel: 416-867-7050
Fax: 416-867-4636

Le Groupe Forces
444 5th Street, Suite 210
Shawinigan, QC
G9N 1E6
Tel: 819-537-5107
Fax: 819-537-5109

Prince Edward Island Community Development Corporation
43 Main Street
P.O. Box 2559
Picton, ON
K0K 2T0
Tel: 613-476-7901
Fax: 613-476-7235

SADC Péninsule Acadienne
439 Du Moulin Street
P.O. Box 3666
Tracadie-Sheila, NB
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Tel: 506-395-9700
Fax: 506-395-5672

Saskatchewan Indian Equity Foundation
101 - 103C Packham Avenue
Saskatoon, SK
S7N 4K4
Tel: 306-955-4550
Fax: 306-373-4969

Specific Investment Opportunity Program
Ottawa-Carleton Economic
Development Corporation
Box 50
350 Albert Street, Suite 1720
Ottawa, ON
K1R 1A4
Tel: 613-236-3500
Fax: 613-236-9469

Superior North Development Corporation
P.O. Box 716
17 Mill Road
Terrace Bay, ON
P0T 2W0
Tel: 807-825-4505
Fax: 807-825-9664

Waubetek Business Development Corporation
Birch Island, ON
P0P 1A0
Tel: 705-285-4275
Fax: 705-285-4584

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