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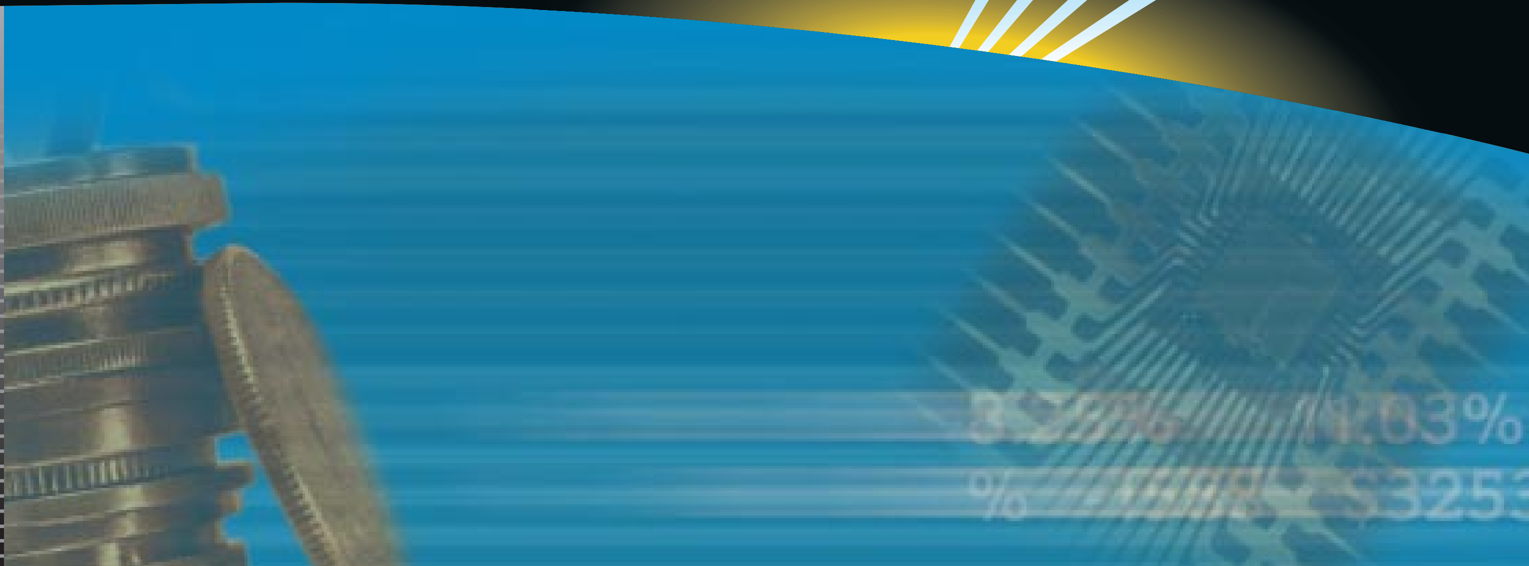

The Winning Formula:

Facilitating Investment in Small Business Growth

Lessons from 22 Pilot Projects under the Canada Community Investment Plan

Canada

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The Winning Formula is regularly updated on the CCIP Web site (**http://ccip.ic.gc.ca**). This site also contains working tools and other valuable information for communities considering the establishment of an investment facilitation service.

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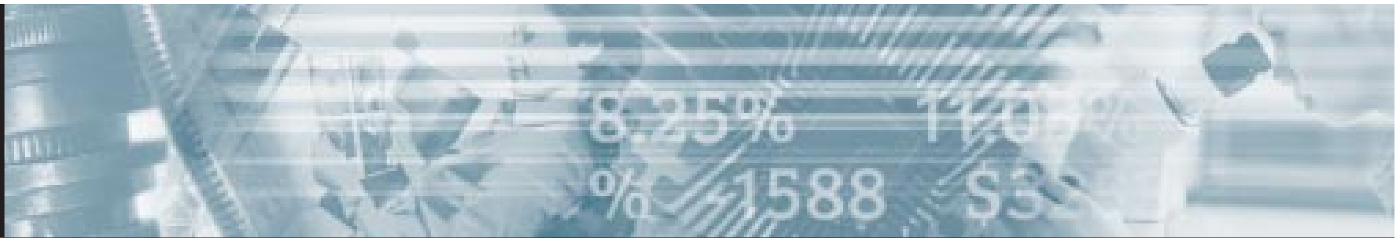

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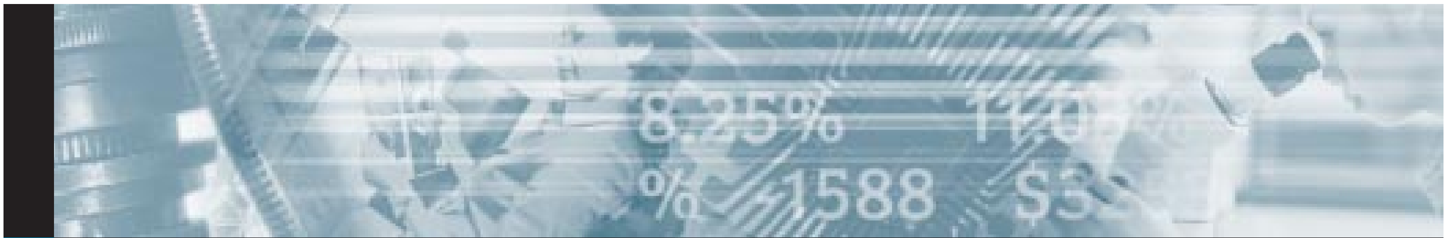


Introduction

This is a how-to guide for community leaders interested in stimulating business development in their communities by facilitating investment in existing, growth-oriented businesses. It is based on the experience of 22 Canada Community Investment Plan (CCIP) pilot projects across Canada that pioneered innovative practices to foster access to equity financing for small and medium-sized enterprises (SMEs) in their communities.

The Winning Formula discusses:

- how to determine if a community investment facilitation service is right for a community;
- how to organize a group to create such a service;
- how to establish its mandate; and
- how to find financial support for the new service.

Industry Canada is indebted to the 22 pilot project managers for their willingness to contribute to the development of this guide so that other communities might evaluate the benefits of establishing similar community investment facilitation services.

The Winning Formula provides a basic work plan to help organizers through the difficult start-up stage and provides a road map to the development of a functioning community investment facilitation service for SMEs. The service is developed as follows.

The Way to Start

1. Assessing the Community

Before taking the plunge, it is advisable to assess whether a community investment facilitation service is suited to a particular community. There are five factors to consider.

2. Assembling the Team

Find the person to start the ball rolling. Then get the municipality on board, recruit a champion and form a planning committee.

3. Shaping the Service

Set the new service's mandate and organizational and corporate structures.

4. Establishing the Board of Directors

Pick the right people by taking into account the role directors play, the skills they need, how long they should serve and where to find them.

5. Appointing the Executive Director

Look for five main skills in your executive director, the most important person in the new organization.

The Way to Work

6. Establishing Target Audiences

Use ongoing research to keep in touch with target audiences such as SMEs, private investors and other members of the financial community. These audiences will determine which marketing activities you pursue.

7. Coaching Entrepreneurs

Help SMEs become investor-ready. Give them opportunities to learn how to prepare investment proposals and acquire presentation skills.

8. Identifying Investors

Find sources of investment in the community or region — the most challenging aspect of facilitating investment — and put them together with growth-oriented entrepreneurs.

9. Reviewing Investment Proposals

Assemble a team to do an independent review of investment proposals.

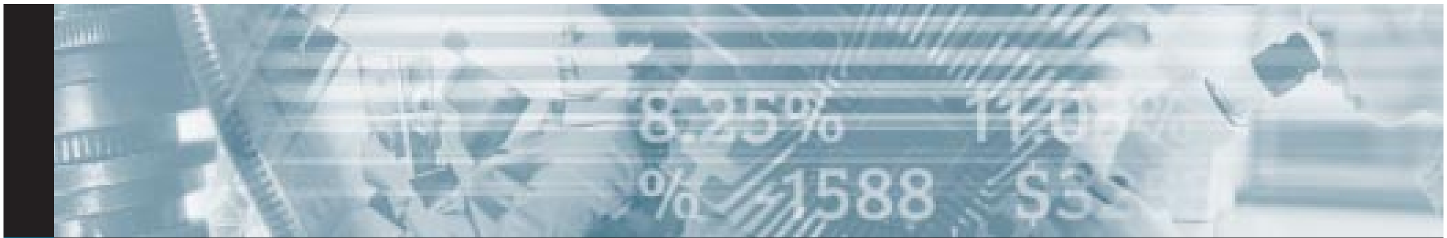
10. Relating to the Community

Fill a niche in investment financing and win the support of the economic development community.

The Way Ahead

11. Joining the Network

Become one of the communities that share their experiences and best practices to foster the growth of their most promising small businesses. There's a kit of information tools available.



Canada Community Investment Plan

Background

In the 1990s, the Government of Canada began to turn its attention to the question of how small companies obtain the financial support necessary to grow. The government recognized that growth of existing small business is a different challenge from starting a new business.

Businesspeople in SMEs told government representatives that their biggest challenge was the difficulty in arranging financing and, in particular, equity financing to enable their businesses to grow. Debt financing by the banks and other financial institutions, although not always easy to get, was relatively more accessible than equity financing. This difficulty in accessing equity financing was especially evident in smaller communities, where the financial infrastructure is not as varied or as extensive as in large cities.

Meanwhile, financial experts advised that there was an enormous amount of equity finance capital potentially available locally for investment in small business, but that growth-oriented entrepreneurs needed to present their proposals more effectively. They needed to become "investor-ready."

Investment Facilitation Services

In 1995–96, Industry Canada developed the Canada Community Investment Plan (CCIP), a program to establish investment facilitation services in a number of communities. The role of these services was to advise entrepreneurs on preparing investment proposals, to identify investment opportunities and to attempt to match qualified, that is, investor-ready, growth-oriented entrepreneurs with local, regional or national sources of capital.

Industry Canada and the regional development agencies conducted a selection process, using a panel of independent experts, to evaluate investment proposals prepared by interested community organizations. They selected 22 communities to receive start-up funding to establish investment facilitation services.

The services included a variety of approaches aimed at facilitating access to financing for growth-oriented SMEs. The 22 community organizations became the CCIP pilot projects.

"Entrepreneurs spend far too much time trying to convince investors that they have a killer technology. That's a given. If the investors didn't think you had good technology, they wouldn't even be talking to you. What they need is to be convinced that you have a team that can take that technology and do something important with it."

CCIP Sarnia-Lambton

Flexibility in Implementation

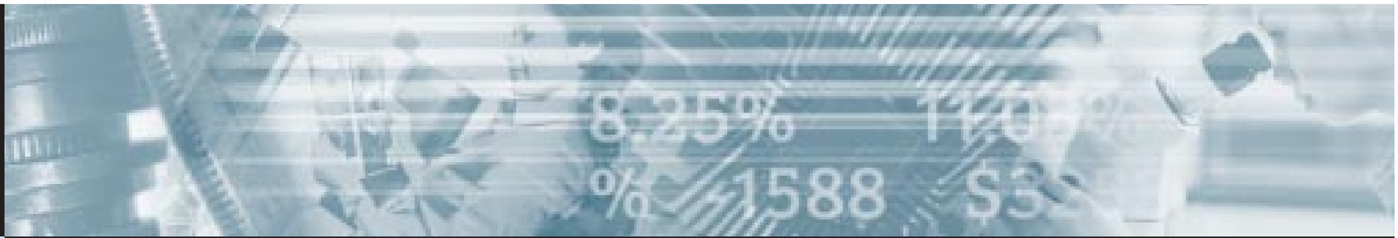
Once the pilot projects had received financial assistance from Industry Canada, organizers were free to pursue their investment proposal according to the particular circumstances in their communities and to their best judgement. Managers reported back to Industry Canada regularly, detailing not just their spending but also their marketing, mentoring and educational efforts.

Frequent conference calls and e-mail traffic between the groups allowed managers across the country to share their best practices and warn of problems they were encountering. At conferences held occasionally, managers discussed their efforts and listened to presentations on developments in the field of small business equity financing by academics, entrepreneurs, regulators and investors.

As a result, Industry Canada has had an unusual opportunity to study the evolution of efforts to promote community investment and to draw conclusions regarding the approaches that favour the most effective organization for investment facilitation services.

"For many companies, the first step in finding investment has to be getting the entrepreneur to stop seeing investors as greedy outsiders who are trying to take control of the company. You have to buy into the vision that investors are partners who bring the talent and resources needed to build the company into something much greater than you could ever build alone."

CCIP Niagara

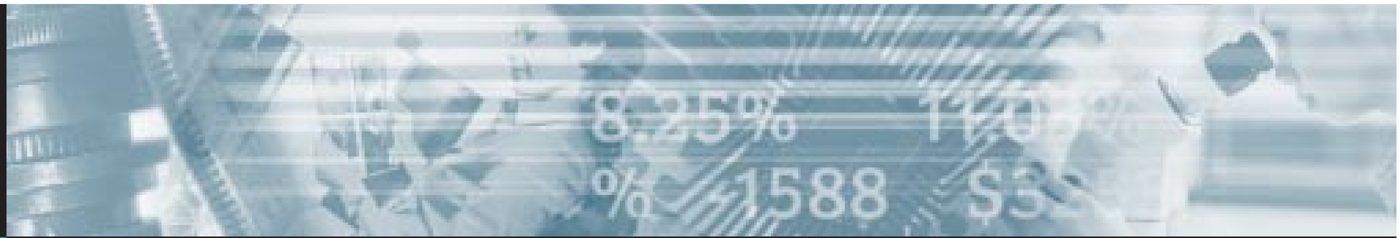


The Way to Start

The mission of a community investment facilitation service is to match SMEs that are seeking equity financing (usually less than $750 000) with local, regional or national investors that are ready to invest. To meet this objective, typical activities include:

- educating entrepreneurs on the needs of the investors;
- providing coaching assistance;
- suggesting improvements to investment proposals; and
- introducing investors to SMEs.

Unlike a private business, a community investment facilitation service cannot be built by a single individual. The energies and skills of a group of interested citizens are needed. Getting that kind of group mobilized is always a challenge.



1. Assessing the Community

Before taking the plunge, it is advisable to test the waters to assess whether a community investment facilitation service is suited to a particular community. Not every community will benefit from such a service. A dispassionate evaluation at the outset will avoid unnecessary work and frustration if the community proves an unsuitable environment.

While no single formula can determine in advance which communities will succeed, communities with certain characteristics are more likely to profit from an investment facilitation service. Since each community is unique, the proponents are always in the best position to judge whether the service is relevant to entrepreneurs and investors in their communities.

Start with Research

For most community-based groups, the first step will be to conduct some basic research about their local economy. It is important to understand the fabric of the local community when deciding where to concentrate efforts. Furthermore, many Canadian communities have experienced significant changes in economic patterns in the past decade.

The practice of "contracting out" by large companies, combined with the emergence of the Internet and sophisticated delivery systems, has allowed businesses to emerge in smaller communities that were previously too distant from major centres to take advantage of larger markets. Another trend is the development in some communities of small spin-off companies that apply technologies employed by the dominant local industry.

Research on the local economy is not only key to decision making, but also equally important when trying to match entrepreneurs with investors.

Based on the experience with the 22 pilot projects, there are five factors to take into account in determining if a community investment facilitation service is right for a community.

First Factor: The Size of the Community

A critical factor in the development of a successful investment facilitation service is the size of the community. (A *community* is defined as a single municipality or a single economic area that includes closely linked municipalities.) Very small communities have had more difficulty establishing a critical mass of investors and entrepreneurs. In fact, the biggest obstacle to achieving success has been the absence of business opportunities with high potential in very small communities.

In particular, events such as investor forums do not seem to work well in communities that have a population of fewer than 75 000 people. One director of a pilot project in a small community remarked that, in his opinion, community investment initiatives are only suited to medium-sized, high-potential communities.

Second Factor: Diversity of Industrial Base

The general structure of the community's economy is another factor in determining success. Communities that have a diversified industrial base, with growth potential in more than one industry sector, have proven to be better candidates for investment facilitation services.

Types of communities that have not proven to be fertile ground for such services include:

- "bedroom" communities that are principally oriented to a larger nearby economy;
- agricultural centres without an influx of new, innovative entrepreneurs;
- communities with one dominant employer surrounded by small suppliers (businesses are constrained in their growth by their reliance on a single customer or group of customers); and
- areas dominated by the branch plants of multinational corporations.

Third Factor: Critical Mass of Growth-Oriented Entrepreneurs

The third factor that is critical to success is whether the community has a sufficient number of growth-oriented entrepreneurs. While all communities contain small businesses, not all small businesses want to grow.

Experts agree that only about 5 percent of small businesses are actively working to grow and are, therefore, seeking additional financing. Investment facilitation services must focus on local businesses that have plans to grow. These small but growing firms produce a disproportionate share of new jobs, create new wealth and make a significant contribution to the economic well-being of a community.

To identify local businesses with plans to grow, a survey can be distributed either directly to businesses or through such organizations as the chamber of commerce. Some surveys developed by the CCIP pilot projects asked which businesses in their communities were expecting to require new equity financing in the foreseeable future.

What is an appropriate number of growth-oriented firms? A community with more than 15 such firms is more likely to find such a service valuable than one with fewer than 15.

On the other hand, people often have a strong sense of identification with a small community, which may influence local investors to keep their money in their own community. In a smaller community, the investment facilitation service could have a higher profile and could more easily attract the attention of entrepreneurs and investors.

Fourth Factor: Critical Mass of Private Investors

The availability of risk capital in the local community is critical to the success of a potential investment facilitation service.

According to research, private investors typically have annual incomes in excess of $150 000 and net worth approaching $1 million. Many private investors have been successful entrepreneurs themselves. They have sold their firms, or significant parts of firms, and are seeking new challenges.

The private investor — sometimes known as "the business angel" — is reputed to be very difficult to find. Many of these business angels are attracted to anonymous investors' forums, which give them access to investment opportunities without having to reveal their identities.

The fact that investors reject most of the opportunities they are offered (some studies say as many as 97 percent of opportunities are rejected) renders the role of the investment facilitation service all the more important. By identifying private investors and their expectations, the investment facilitation service can prepare entrepreneurs to present their proposals.

It is difficult to know what number of private investors constitutes a critical mass, but it is difficult to imagine that fewer than 10 in a given community would need an investment facilitation service to mediate their access to investment opportunities.

Fifth Factor: Size and Complexity of Local Financial Sector

The size and complexity of the local financial sector is another factor that can determine the success of an investment facilitation service. The community must host the accounting, legal and banking services necessary for developing these key relationships.

Usually, more than two debt-financing service providers and more than one firm each of commercial lawyers and accountants are necessary to provide a basis for a community investment facilitation service to function. The investment facilitation service manager can, however, act as a catalyst for making such services more available to the community, through networking and developing contacts.

Every Community is Different

Every community is different. The five factors above, based on the experiences of the pilot project communities, are intended to provide only a general indication of the chances of success for a community investment facilitation service to help small businesses access financing. There are no rigid rules to indicate which communities will benefit from an investment facilitation service. Only the people living there can assess the facts to determine if the business community has the aggressive entrepreneurial spirit required to make the effort worthwhile.

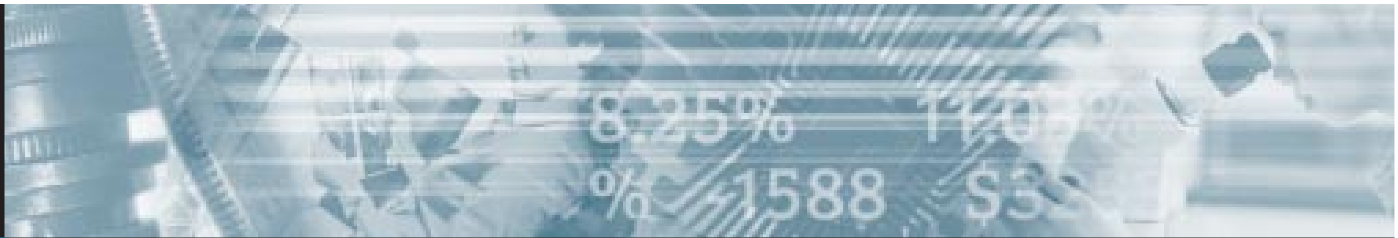
What is certain is that the establishment of an investment facilitation service will not, on its own, increase access to risk-capital investment. On the other hand, an investment facilitation service can act as an engine of growth. Over time, with a dedicated and skilled team, the climate of growth can benefit both entrepreneurs and private investors.

Checklist: Assessing the Community

- Population of 75 000 or more
- Diversity of economic activities; industrial base not reliant on one dominant employer or on multinational branch plants
- Critical mass of 15 or more growth-oriented businesses
- Critical mass of 10 or more private investors
- Core accounting, legal and banking services available
- Aggressive entrepreneurial spirit for growth.

"For any new start-up community, take the first few months to determine the objectives of the program, the types of businesses that you can help the most, and how you can help them. Do not be afraid to change directions based on the conditions."

CCIP Fredericton



2. Assembling the Team

One Person Starts It

The experiences of the CCIP communities were similar. A single individual, frequently an employee of a regional economic development corporation or a municipality, usually initiated the effort. That's not surprising: economic development officers concern themselves with community economic growth on a day-to-day basis; they also participate in national economic development associations and are aware of the availability of various government programs.

Although economic development officers are usually the first to start the process, they are limited in how far they can take it, for two reasons. First, these employees tend to have many other duties that require their attention. Second, economic development officers are sometimes restricted by the local politics of their community. Since a community investment facilitation service requires the support of local municipalities and financial institutions, as well as that of private citizens, the initiator needs help almost immediately.

The First to Help

Where will this help come from? Chances are the municipality, or a local or regional economic development organization, will be the first key player to get behind the idea. After all, the municipality brings a wide range of skills that can be lent to the effort to get started, as well as some physical infrastructure (an office, computers), and it is also linked to the local/regional economic network. Of course, the municipality also has a budget, and financial support is particularly important during the start-up phase.

The Champion

A champion of growth-oriented SMEs is needed to launch the process of building a community investment facilitation service. While committees are also important, early in the process someone has to be in charge and ready to hustle to make the service come together.

How Long is the Start-Up Period?

Even CCIP groups that were attached to existing organizations found the start-up period longer than they expected. New organizations found the experience longer still.

"New organizations take six to 18 months to get going," said one Atlantic manager.

"We underestimated the time it would take to get really started," said another.

"Six months at least. And then another year establishing your credibility and role in the community."

Successful champions typically have the following characteristics:

- they are well known and respected in the small business community (as they have to reach out to this community for help);
- they likely have entrepreneurial or private investing experience;
- they are local "boosters" with a strong commitment to community improvement;
- they have numerous contacts through business or voluntary activities; and
- they may be recently retired, with time on their hands.

People who are energetic and motivated tend to recruit similar people to help them. They are also able to inspire others with a sense of the mission they've embarked on. These are the kind of people who are needed to get the investment facilitation service from concept to reality.

The Planning Committee ("The Usual Suspects")

Who will the champion appoint to begin building the new operation? In most communities the answer is "the same people who get asked to do everything else."

In most communities, the same people turn up year after year to serve in different organizations. Known as "the usual suspects," they are well known, get things done, are asked to do more and become known to even more people. Approaching the usual suspects isn't always good for getting the broadest possible representation, or even for democracy, but it can be the most efficient method of putting the new organization on its feet.

The best way to reap the benefits of the experience and the energy of the usual suspects and to avoid turning the new investment facilitation service into a private club is to constitute a planning committee whose mandate is explicitly described and limited to getting the service in place. Usually, the planning committee will be asked to take the following three steps:

1. Set the mandate of the new organization.
2. Set its organizational structure.
3. Set its corporate structure.

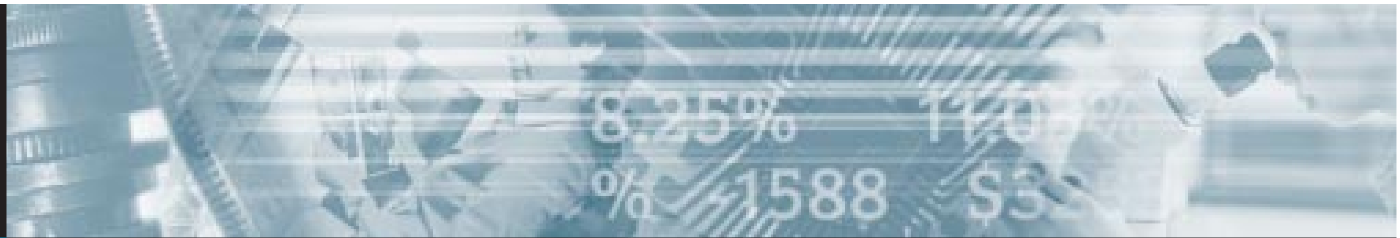
See the next section for more details on these steps.

Checklist: Assembling the Team

- One person has started the initiative
- The municipality has offered strong support
- The champion has been recruited
- The planning committee has been appointed.

"Community-sponsored risk capital facilitation organizations, by leveraging their reputation and business knowledge, provide superior business network contacts and business planning assistance for SMEs with potential to succeed in the new economy."

CCIP Okanagan



3. Shaping the Service

To establish a solid foundation, the planning committee will usually be asked to undertake three steps.

First Step: Set the Mandate of the New Organization

The five core activities that an investment facilitation service provides are as follows:

- to assess the level of knowledge of risk capital financing;
- to provide educational workshops to entrepreneurs on the nature of risk financing and on how to access investors;
- to provide coaching and mentoring services, and to review the investment proposals of SMEs seeking financing;
- to identify sources of equity financing and, in particular, local private investors or business angels — either actual or potential; and
- to introduce SMEs and investors through such activities as investors' forums.

An important consideration in setting the mandate of the new organization is to identify the legal constraints on the intended activities.

In most provinces in Canada, it is illegal to promote the sale of equity shares in business corporations except through a proper prospectus, such as is required for making a public offering of shares — a costly, time-consuming effort that is unnecessary when dealing with investors in the "exempt market."

Therefore, the mandate of the investment facilitation service should not include direct negotiations on behalf of either the investor or the business seeking the financing. For an investment facilitation service to actively engage in negotiations between an SME and an investor, a permit must be obtained under provincial securities' acts.

There are licensed private sector companies that specialize in equity financing and offer assistance in direct negotiations. The planning committee should not attempt to duplicate the work of these experts when setting the mandate of the investment facilitation service.

Second Step: Set the Organizational Structure

One of the first questions faced when setting up the organizational structure is whether to create a new, stand-alone organization or to make investment facilitation services part of an existing community agency. There are advantages to both options.

Stand-Alone Organization

As a stand-alone organization, the investment facilitation service will have a completely clean slate with regard to creating a new board of directors, hiring staff, raising start-up and operational funds, and marketing its services.

Stand-Alone Organization

Advantages

Creating a new organization allows the organization's role to be defined very clearly. Developing the corporate identity for an independent organization is easier than for a service: the organization's name, e-mail address, etc., can all reflect its identity. The advent of a new organization should also generate more media.

Disadvantages

On the downside, establishing an independent organization requires a tremendous amount of organizational and administrative time. Recruiting board members and staff can be doubly difficult when no one knows very much about the new organization or its purpose. Likewise, recruiting critical sponsors is difficult without a proven track record.

Discussion: Many CCIP pilot project managers reported that they were not completely free to dedicate themselves to efforts to provide facilitation services for at least the first six months to one year after starting a new, stand-alone organization. The multitude of decisions to be made concerning office location, computer systems, furniture, telephones, etc., accounted for part of this delay.

A specific marketing effort is required to attract the people needed to get things rolling. Start-up problems may be exacerbated by a shortage of money. Depending on how the new organization is funded, it may take some time before there is cash in the bank. Even simple things like discounts from suppliers take time to organize.

New Service Integrated into an Existing Organization

The other alternative is to create the investment facilitation service as a distinct branch of an existing organization. Some of the advantages of this approach are obvious: the investment facilitation service can take immediate advantage of office, mail, computer, telephone and courier services.

Existing Organization

Advantages

The host organization supplies the governance (the board of directors and probably the manager). During the start-up phase, the host organization provides financial support, and it has previously established relationships with the local economic network, suppliers and the local media.

Disadvantages

It must be remembered that the mandate of the host organization was not designed to facilitate investment in SMEs. Chances are that it has many prior commitments to promote economic development, and developing a new investment facilitation service is but one.

Discussion: The leaders of the host organization have to divide their attention between this new effort and any other responsibilities they have. There is also the risk that the host organization will change its priorities from time to time, perhaps making funding unreliable.

There's no right or wrong answer to the question of whether an investment facilitation service should be an independent, stand-alone organization or an offshoot of an existing body. If the conclusion is reached that it makes sense to set it up within another organization, however, it is essential to establish a degree of autonomy for the investment facilitation service.

One approach is to invite clients to sit on an advisory council. As well as contributing to the work of the investment facilitation service, they are well acquainted with the expectations and needs of clients. The council will keep the investment facilitation service from being lost among the other services of the organization.

Third Step: Set the Corporate Structure

The structure is set by developing the articles of incorporation and by-laws for the new organization, and by obtaining its legal charter.

Most of the CCIP pilot projects selected a non-profit corporate structure. Such organizations do not pay income tax and are limited in the amount of capital they can accumulate through profits. This guide does not delve into the complexities of corporate structuring. Communities should consult a lawyer as they plan the design of their organization.

Once the decision has been made to establish an investment facilitation service that requires its own board of directors, a number of complex questions arise. One of the two critical factors influencing the effectiveness of the organization is the character of the board; the other is the quality of the executive director.

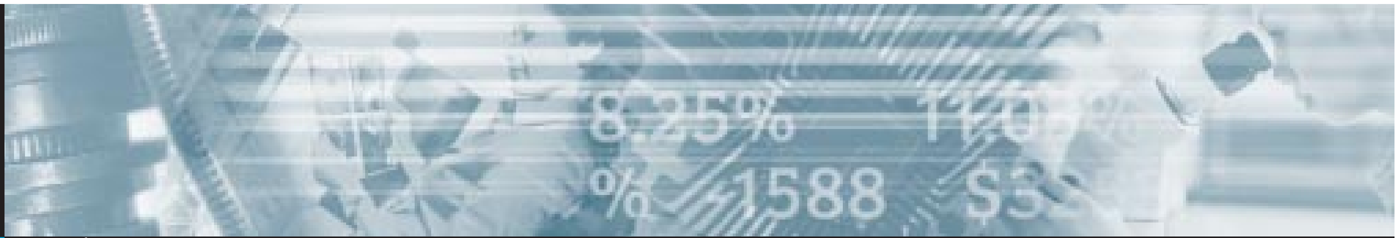
Establishing the board of directors of an organization is a vital task and there are many issues to be decided on. Who will serve on the board of directors? Will board members be nominated by certain specific groups in the community or drawn from the general population on the basis of their experience and skills? Will board members be compensated? What about including a professional with specialized skills, such as a lawyer, an accountant or an engineer on the board? Should representation be geographic?

Checklist: Shaping the Service

- Mandate has been set
- Organizational structure (stand-alone or integrated) has been set
- Corporate structure has been set.

"Building an investment facilitation service in an existing economic development organization that has credibility facilitates the start-up phase and enables a more rapid response to client needs."

CCIP Saint-Hyacinthe



4. Establishing the Board of Directors

The term *governance* refers to a system for overseeing an organization. Most organizations make a distinction between those whose responsibility it is to oversee the organization and those who actually conduct the day-to-day business.

Governance is mostly the priority of the board of directors, which is often legally accountable to the shareholders in the case of a for-profit private corporation. The chair presides over the board of directors.

The Role of the Board

The functions of the board of directors of a community investment facilitation service typically include:

- selecting the executive director;
- attracting entrepreneurs;
- attracting investors;
- promoting good community relations;
- helping the executive director achieve the goals set by the board or in the business plan;
- fundraising; and
- establishing policies for hiring, remuneration, compensation for board members, conflict of interest, etc.

Ancillary functions may include reviewing the investment proposals of SMEs seeking financing, and coaching entrepreneurs. Ancillary functions are not reserved for board members only; they can be filled by other volunteers in the community.

To ensure the success of the investment facilitation service, board members should focus their attention on two key areas: marketing and fundraising. Although the executive director, who is a full-time employee, may carry out part of these functions, the prime responsibility for marketing and fundraising should rest with the board. Marketing and fundraising will have a stronger impact if these functions are introduced by both a director and the executive director.

Marketing

Because of their extensive network of contacts in the community, board members are usually expected to be the prime movers in attracting growth-oriented entrepreneurs to the investment facilitation service, and in identifying local private investors.

Board members are expected to be "salespersons" for the investment facilitation service in attracting the "right" businesses as new clients. As stated earlier, there's a big difference between a small business and a small business that is aggressively trying to grow. While there are hundreds of the former, in a typical community there will probably be only a few of the latter at any given time. And the latter are the clients that board members should target.

Through their affiliations with local business associations such as the chamber of commerce, or through their contacts at the municipal, provincial or federal levels of government, board members may also contribute to the success of an investment facilitation service by establishing strategic alliances with other complementary services or programs.

Finally, board members can play a crucial role by recruiting experienced businesspeople as volunteers to evaluate business proposals and to coach entrepreneurs.

Fundraising

The other key role board members play concerns raising funds to finance the service. The best model involves establishing a fundraising committee under the direction of the chair to carry out this function.

Partnering with other groups involved in the community economic infrastructure can be an effective path to obtaining sponsorship for fundraising purposes. Since they are critical to the success of the service in any case, it is essential to cement these ties.

Natural allies include municipal economic development departments, business associations, science councils, investment firms and service clubs, as well as colleges and universities. The local branches of banks and other financial institutions, as well as legal and accounting firms, have brought some financial support to existing CCIP pilot projects.

The investment facilitation service will organize some public events such as investors' forums and training workshops. These activities are usually self-funded. It is normally expected that individual board members will be active in soliciting the attendance of business contacts at events.

Critical Skills of Board Members

The most effective boards consist of members who can contribute a mixture of skills and experience. The more board members with specialized skills, the better. Individuals with experience in business law, small business finance and entrepreneurship are good prospects as board members. Those who have owned their own companies and have direct experience with the challenges of financing growth are invaluable.

The majority of board members should be:

- able and willing to undertake marketing and networking;
- active in fundraising;
- skilled in dealing with small organization dynamics; and
- capable of analysing financial statements for investment purposes.

While it is advantageous to appoint people who are well known (the usual suspects) to the planning committee, once the organization's first board of directors is established, it is essential that members demonstrate objectivity and fairness. The organization will lose all credibility if people in the community believe the board is biased in any way. For this reason, very early on, it is critical for the board to establish conflict-of-interest guidelines to which all members must adhere.

Other Considerations for Board Members

Terms

There's no set rule about how long each board member's term should be. Ideally, a new member would have enough time to become familiar with the activities of the organization and gradually make an increasing contribution. Since board members are busy people, however, they should not be asked to devote their services for too long: two or three years is about right. Furthermore, an important principle of governance is that board members are rotated. Members' terms should be staggered so that only a few are new to the job at any one time.

Boards of Directors

What have the CCIP pilot project managers learned about boards of directors? Mostly, that they are as different as the communities they serve. "Our board does nothing except supervise me," one Western manager complained. "Practically the only thing that happens at our board meetings is my monthly report. Then they ask me a few questions, then go home. So I have a half a dozen people looking over my shoulder. And of course, the best people get bored and won't stay."

On the other hand, an Atlantic manager reported that his board was directly involved in facilitation services. "When we counsel entrepreneurs, we typically set up a team that might include one or more members of the board. They do assessments of investment proposals, and they always show up at education sessions."

The consensus among CCIP managers was that there's too much work to be done to have a passive board. And anyway, the best board members lose interest if they are expected to just check the books once a month. An activist board may be more work for the manager, but it's worth it in terms of a more energized and effective operation.

Other comments included:

"Corporate finance people make good board members. They also see a lot of start-ups and want to have a chance to help them. Maybe they can't in their regular jobs, but this gives them another look."

"Other good board members are people with real expertise in a specific sector. Auditors are only good if they have audited the sector in which you want to work."

"It's a mistake to pick profile over personality. The members have to be able to get along and actually inspire each other to commit more energy to the organization. We don't allow any board member to send a proxy of any kind to our meetings."

"My board is 15 and they are totally involved in the operations and everything else. They are actually just way too involved in day-to-day management."

"Putting an entrepreneur and an investor together is an art, not a science. To master this art, you must know the needs of both sides. Don't speculate — calculate."

CCIP London

One important advantage to limiting the terms of a board member is that the volunteer is asked to do a specific and limited task with a specific focus. Busy people will appreciate the chance to make a contribution that doesn't drag on indefinitely.

Regardless of how board members are appointed, it is critical that they appreciate what is expected of them before they accept the job. In particular, it should be made clear from the outset that board members are expected to help build market awareness and be responsible for fundraising activities for the service. Nothing is more exasperating than to be told after members of the board have been appointed that they don't want to exert themselves or did not realize what was involved.

The rotation of board members is another issue that should be resolved early on, when the by-laws of the corporation are drafted. Although by-laws can be changed later, it might be hard to get agreement from a majority of members who are already on the board.

Source of Board Members

One governance model frequently seen in community agencies guarantees each of the founding organizations a certain number of representatives on the board. Usually, these organizations appoint someone to sit on the board each year. There are some advantages to this model, since the supporting organizations may feel a genuine sense of ownership, which can help ensure their continued financial and other support. In some communities, local politics can be satisfied by ensuring that these groups have a guaranteed place at the table.

There are also, however, disadvantages to this model. First, it limits the number of board positions open to talented people without affiliation and makes the board somewhat vulnerable to the politics of the supporting organizations. Second, and more important, it can create a conflict of interest for board members who must simultaneously try to do what is right for the corporation and consider the interests of the organization that appointed them. This kind of conflict is not an insignificant problem.

Many community organizations work with volunteers and will sometimes try to reward their members with appointments to positions like this one. It is, however, important to remember that the skill and energy of the board is critical to the success of a community investment facilitation service, and each board position is crucial. Generally, the board should be able to draw on the highest level of talent and energy possible, regardless of local politics or affiliations.

Compensation

The question of financial compensation for board members may arise. In most non-profit corporations, most people will understand that they can't be compensated for ordinary duties of a board member.

Some policy may be needed to allow compensation to be paid if the board members are going to do the same work as the manager and staff members, but the new investment facilitation service should generally avoid paying compensation whenever possible. Most people who agree to serve on a community organization are not doing it because they expect to make money: they are doing it because they want to make a contribution to the community and they enjoy making new contacts.

Furthermore, keeping track of honoraria and other fees is complicated and can lead to hard feelings among participants who are not compensated financially.

Expenses

Covering board members' expenses is another story. If the members are required to travel, host events, pay for lunches, etc., then they have a right to expect the organization to pick up the tab. It is wise to set guidelines concerning expenses as soon as possible and have the board approve them so that there are no misunderstandings later.

Conflict of Interest

Care must be taken to establish clear policies regarding conflict of interest. Board members may be asked to divulge their private investment activities (to the organization's chair or legal counsel) and to avoid participating in deliberations affecting those investments.

Many boards also establish by-laws anticipating other allegations of conflict, which can arise around hiring and purchasing practices, or the services provided to investors and entrepreneurs.

Liability Insurance

Expectations of board members in Canada have been growing: proper insurance for the organization and the members of the board is something to be addressed as part of the organization getting under way. The risks inherent in small business financing suggest that the organization needs to be properly protected from liability if a dissatisfied investor seeks damages for losses in a failed deal.

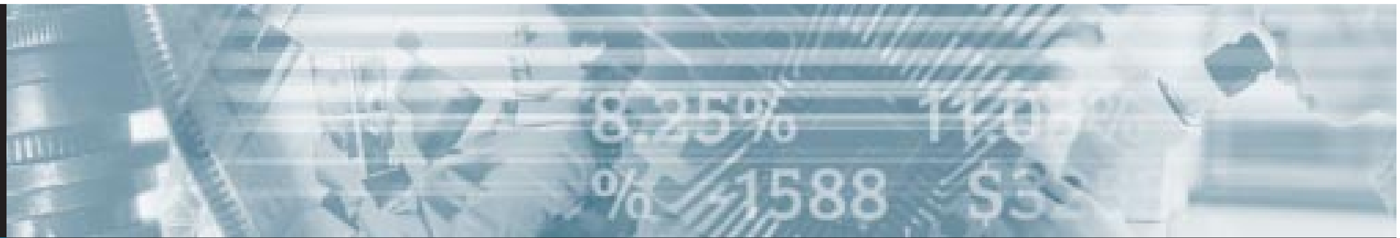
These and other legal issues are a normal part of business in Canada and are familiar to lawyers in commercial practice. As part of the service's start-up, advice should be sought from such a lawyer.

Checklist: Establishing the Board of Directors

- Board's role has been established
- Marketing and fundraising abilities have been established
- Critical skills of members have been considered
- Terms have been set for board members (including for rotation)
- Source of members has been decided
- Compensation/expenses policies have been approved
- Conflict-of-interest guidelines have been developed
- Liability insurance has been obtained
- First board of directors has been appointed.

"We have had to network extensively to reach our clientele. Forming alliances with local business development organizations has helped too. Reaching 100-percent effectiveness takes time. The CCIP project continues to grow and evolve to include new audiences and target groups."

CCIP Sault Ste. Marie



5. Appointing the Executive Director

The Management

Under the board of directors, the organization's management may consist of one or several persons, depending on the size of the organization. The key individual may have various titles (e.g. executive director, manager, president), but regardless of title, this is the most important position in the organization.

Some organizations hire a specialist to work with the executive director to focus specifically on crafting financial deals — typically, someone with extensive experience in financial transactions. Such a person can add significantly to the credibility of the organization, but such experts are rare and can be very expensive. Since each investment facilitation service is organized somewhat differently, it might be useful to describe areas of work.

The Executive Director

There is no doubt that the most important person in the new organization will be the executive director. This position is likely to be a paid, full-time occupation for someone with a great deal of energy and enthusiasm. Board members will come and go; executive directors are there all the time. It will be the executive director's face that entrepreneurs and investors see when they first encounter the organization.

Obviously, this job requires someone with specific skills. Because of the wide range of activities required of one person, however, it is unlikely that any one person will have all the skills required. Generally, executive directors will pick one or two areas on which to focus attention and will find resources to deal with the rest.

While an individual with extensive experience in financing a small business would be ideal, most investment facilitation services have to settle for somebody with a different background. Even those with no particular experience in finance can make a great contribution if they are wise enough to know when to ask for help from experts.

Five Main Skill Sets

Five main skill sets are required for this position, as follows.

First Skill: Coaching

One of the main activities of a community investment facilitation service may turn out to be coaching entrepreneurs. Executive directors expert in an appropriate aspect of law, finance or business can play a major role in helping to coach entrepreneurs to make themselves investor-ready. Executive directors who have skills in this area and some previous venture capital experience can take entrepreneurs in hand and guide them through the process of preparing their investment proposals and preparing themselves for the scrutiny of investors.

Second Skill: Finding/Matching Investors

Private investors, or business angels, are difficult to find, especially ones who are interested in investing in local firms. Someone in the organization must continually work to find investors and persuade them to spend time examining opportunities to invest in local small business. There are many ways to do this (we'll look at some later), but the executive director should be the kind of person who is ideally suited to this function. Candidates for this position should be part of the community network and have superior facilitation skills.

Third Skill: People/ Communications/Marketing

People, communications and marketing skills are critical to the success of a community investment facilitation service. It is essential to inform people about the creation of a new organization in the community and that the targets of its activities become sufficiently interested to make contact. Interested parties must be given an accurate description of the services offered so that they do not come expecting services that are not available. An executive director who has excellent presentation skills and is able to clearly communicate the service's mandate can save everyone a lot of time.

Fourth Skill: Fundraising

While fundraising may be critical to the success of the investment facilitation service, particularly in its early years, the roles of the executive director and board members must be clearly distinguished, setting out who is responsible for what.

Although executive directors have a role to play in fundraising, most investment facilitation services have found that it is best not to assign this task to them, but to make fundraising primarily a responsibility of the board.

Fifth Skill: Managing

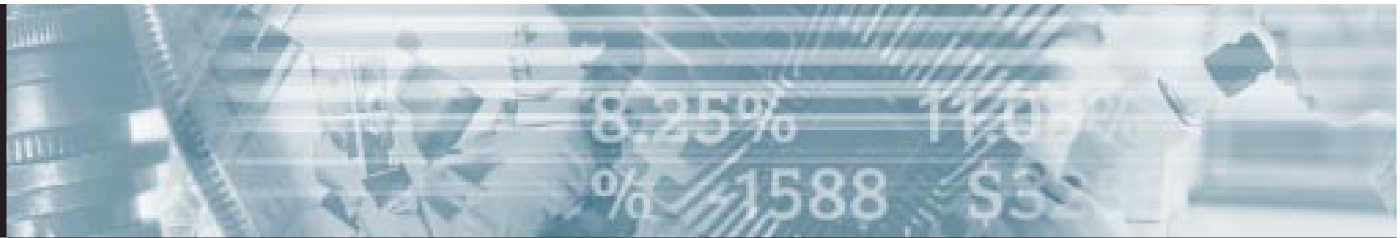
Finally, the executive director will be responsible for managerial activities such as supervising staff, running the day-to-day operations and bookkeeping.

Checklist: Appointing the Executive Director

- Has energy and enthusiasm
- Will be capable of coaching entrepreneurs through the steps necessary for them to become investor-ready
- Is ideally suited to finding investors and matching them with SMEs
- Has excellent people/ communications/marketing skills
- Can play a role in fundraising
- Is capable of running the day-to-day operations of the service.

"It is essential to develop a structured, personalized approach at a first meeting with an entrepreneur to establish trust from the very beginning. It sometimes takes only the words 'risk capital' to lose the attention of the entrepreneur. Start by demystifying risk capital and you will have better results."

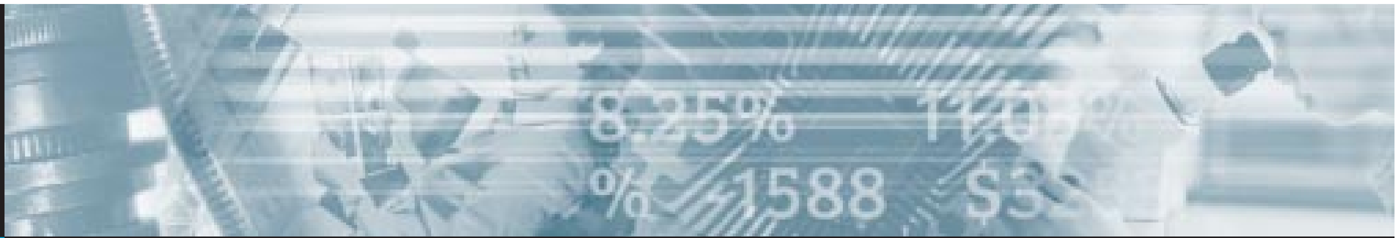
CCIP Shawinigan



The Way to Work

The new structure is now in place. The board has met; the executive director has been hired. Now, what does the investment facilitation service actually do?

Many different activities need to be undertaken to stimulate investment in growth-oriented businesses in a community. Some should be done right away; others may be more appropriate after the service has been in business for a while.



6. Establishing Target Audiences

Ongoing research is needed to keep in touch with target audiences such as local SMEs, investors and other members of the financial community. These audiences will determine marketing activities.

Ongoing Research

One of the simplest and most important types of ongoing research involves conducting regular surveys to identify local businesses with plans to grow. A survey, similar to the one developed when first assessing the community, can be distributed either directly to businesses, or through such organizations as the chamber of commerce and local or regional business or economic development organizations.

Regular surveys of local businesses are important because circumstances may have changed since the investment facilitation service was first established. Businesses identified as targets may have obtained the financing they needed through their own efforts or may have modified their growth plans because of changing market conditions, new technology, new members on their management team or new shareholders.

Some surveys developed by the CCIP pilot projects asked businesses in their communities if they were expecting to require new equity financing in the foreseeable future as a means of identifying target audiences. Not every business that says it wants to grow is in a position to do so, but businesses that do not indicate an interest in growth can be ruled out.

Surveying local businesses is also a form of marketing. Be sure that the survey clearly indicates the name and function of the investment facilitation service, and that it encourages businesses interested in planning their growth to contact one of the service's staff. A survey is effective only if appropriately followed up. One of the best ways to do this is to conduct one-on-one interviews with targeted businesspeople in growth sectors.

One pilot project tries to make contact with the owners of all SMEs in its territory every year. The visits build trust and give entrepreneurs an opportunity to talk about the services provided by the CCIP project and to learn about the growth of the company. In time, the entrepreneurs confide more and more, making these visits a valuable source of information.

Reaching clients effectively involves building networks and participating in the business community. It takes time to build relationships and to understand funding resources and clients.

Research Community Financial Services

This form of ongoing research deals with the financial fabric of the community. It is important to know as much as possible about local financial services, including names and positions of personnel, and any specific offerings or strategies that have been disclosed publicly. As these services are dynamic, it is impossible to know all information that might be needed, but a certain amount of "baseline" information is essential.

Research Government Programs

Ongoing research is also required to develop an understanding of government programs in the province and region that could become part of the service's financing strategies. Even if the investment facilitation service does not wish to be involved in the actual sourcing of capital, it is important to its credibility with entrepreneurs that it have an awareness of available government programs.

Government programs can also help firms fill gaps by providing assistance in areas other than financing, such as training, accessing markets, and identifying, developing and applying new technologies.

Identify Investor Groups

Investors may group themselves by industrial sector. This is understandable; most private investors like to put their money into things they understand. The technology sector is unusual in two ways: the complexity of the innovations that entrepreneurs are trying to develop and the phenomenal rate of growth experienced by many growing technology firms.

It is easier to connect with potential investors when the board of directors and executive director are involved. Ask each new contact to introduce the investment facilitation service to other investors interested in growing businesses.

Establish Market Sector

Some communities, by the nature of their economic structure, include a particular sector that is most promising. Sometimes investment facilitation services will decide to focus on entrepreneurs in this sector only. The rationale for doing this generally lies in the specialized nature of the financing that sector demands.

For example, one of the CCIP pilot projects focuses exclusively on information technology firms. Another prefers life science ventures. Specializing in one sector ensures that the organization has a fairly high profile in that sector, and that staff and board members are well informed on aspects of financing that are unique to that sector.

If the community does not include a single dominant sector such as technology, then the investment facilitation service should probably start out with the broadest possible target market in mind. The focus can always be narrowed later if one area is found to be particularly fruitful.

Whether to target one sector or a broad market is a decision that will depend on the results of market research. Certain factors can be used in determining whether a narrow or a broad focus is best. In which sector, or sectors, are the growth-oriented firms in the community concentrated? Is there a critical mass of private investors interested in one sector? Are other facilities in the community, such as training, education and research facilities, broadly or narrowly targeted? What kind of business networks exist?

The decision on how to target client SMEs will affect the marketing strategy. Should there be a high-profile general campaign or a highly targeted one?

Marketing Activities

Appropriate marketing strategies vary, depending on the local business culture; many have worked well. Experience has shown that the most successful pilot projects have included significant marketing efforts by board members through networking and other interactions with the public.

While the executive director and other managers do have a role to play, marketing cannot be their principal focus. Thus, the role played by the board of directors is critical. The board of directors will need to undertake marketing to:

- build awareness of the service;
- identify what the service offers and manage expectations;
- help entrepreneurs self-select the service; and
- help identify elusive private investors.

The board of directors will also need to decide who its audience is. Are marketing efforts directed at local entrepreneurs, private investors, or even the local or regional financial community? Or is it a combination of all three groups?

The board members will also have to be aware of local political leaders, the local economic development community and the local media.

While the financing needs of entrepreneurs remain constant, there are always new entrepreneurs who need help finding risk-capital financing. Likewise, because the decision to be a private investor is one that depends on circumstances, the group of local investors will be constantly changing.

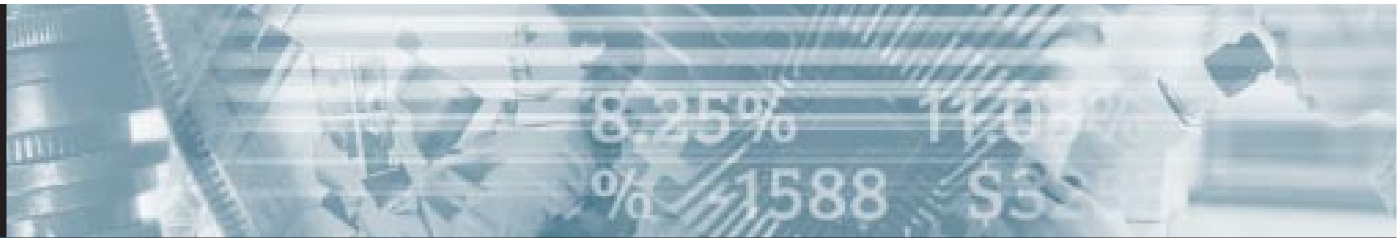
The marketing challenge posed by these conditions is not as complex as it sounds, but it requires constant attention and effort.

Checklist: Establishing Target Audiences

- Identification of local SMEs with plans to grow is ongoing
- Community financial services have been researched
- Investor groups have been identified
- Sources outside the community have been identified
- Market sector has been established (broad or narrow)
- Marketing activities have been identified.

"The face-to-face involvement with investors is critical. The companies needing money must be clearly and vigorously promoted because the investors are usually busy running their own companies. The use of investor forums to present client companies to angels and other members of the financial community is essential."

CCIP Moncton



7. Coaching Entrepreneurs

Entrepreneur Profile

Businesses typically pass through a series of phases from start-up through growth to expansion and maturity. An entrepreneur is the person who begins or grows a business, who has some ownership of it and who is his or her "own boss."

Entrepreneurs work hard. (Research for Industry Canada indicated that nearly half worked more than 45 hours a week and a third worked more than 60 hours a week.) Most are reasonably young — between 30 and 50 years of age — and often have been employed by others in a similar line of work before.

Although most are looking for a big pay-off, some entrepreneurs are aware that their chosen line of work may not be highly profitable. They take pride in being responsible for their own economic fate and accept the long hours that come with it.

Many entrepreneurs enjoy the challenge of starting and growing a small business, but are bored once the business gets too large. Accordingly, many entrepreneurs have started at least one other business before the current one.

Coaching Needed

Financiers all agree: there's money to be had in the Canadian market for good investment proposals that are properly presented. They also agree that, in addition to a good investment proposal, the management skills of the entrepreneur is the other key factor in their decision to invest. A promising investment proposal has to be twinned with dynamic management for an investor to show an interest.

Investors are investing in people. Investors need to know that the people in charge are reliable, knowledgeable and successful. To get this message across, entrepreneurs first need help assessing their skills and understanding their strengths and weaknesses. They must be willing to set their egos aside and fill the gaps in their teams.

Client SMEs also need coaching to make sure that they understand their market, their problems and their advantages. Credibility is key: entrepreneurs will not get funding from investors who know more about the market than they do.

There is often a big gap between the expectations of the entrepreneur and those of the financial community. Regardless of the specific strategies of the investment facilitation service, coaching entrepreneurs about the expectations of capital providers is one of the activities that is required. The more informed entrepreneurs are, the more likely they are to succeed at growing their businesses.

Entrepreneurs must know how to communicate what investors want to hear. They also need to understand the importance of finding a good fit. Otherwise, they may be stuck with an unsuitable investor. It is essential that entrepreneurs manage expectations and set reasonable objectives.

For this reason, most investment facilitation services spend a lot of time and resources on investment seminars and other events designed to educate interested businesspeople on how to identify their financial needs, how to develop a convincing investment proposal, and how to meet with investors and negotiate a successful deal with them.

The Help Entrepreneurs Need

Entrepreneurs who are seeking investment need to explore a wide variety of issues, including:

- the preparation of a coherent investment proposal;
- effective communication;
- corporate governance;
- applicable legislation and regulations that may apply both to the growing business and to the investment itself;
- the complexities of various financing options;
- the complex issue of valuation, which determines the share of the business represented by the investment;
- strengthening the management team;
- joining the community business network; and
- exposure.

Some entrepreneurs do not have even a basic grasp of the expectations of various kinds of lenders and investors. As they are exposed to the balance of risk and reward that characterizes different financing options, they may profoundly change their approach to growing the business.

It should not be a surprise that the kind of people who consistently take risks and accept the challenge of developing their own businesses are proud, independent and aggressive. It is difficult for them to accept some of the aspects of small business risk-capital financing. They may fear losing control of their businesses, and they may resent having to report to investors or partners — the price of using other people's money for growth.

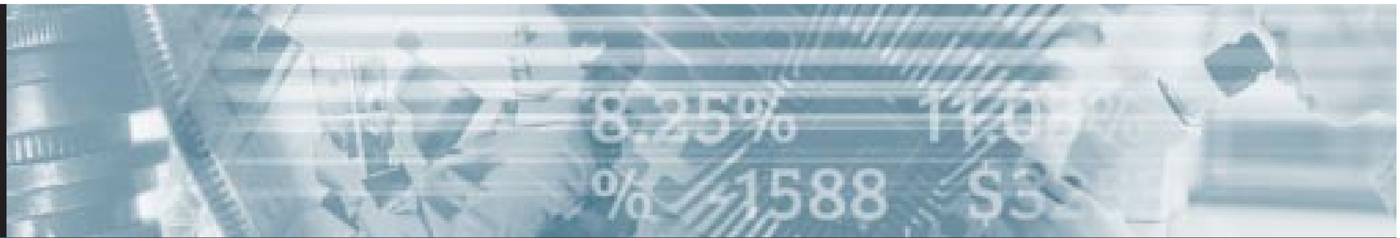
So, while coaching entrepreneurs is probably one of the most crucial tasks for a community investment facilitation service, entrepreneurs are sometimes the most challenging of students!

Checklist: Coaching Entrepreneurs

- Workshops with local educational institutions have been arranged
- Executive director is prepared to offer individual coaching on the following subjects:
  - investment proposal preparation
  - effective communication
  - corporate governance
  - applicable small business legislation and regulations
  - financing options
  - business valuation
  - investment proposals
  - investor expectations.

"Some of our clients have felt more prepared to approach a lender, identify alternative funding sources, or identify and approach private investors to obtain the funding they need to grow their businesses. The education process and the provision of information have been important components of the Swift Current CCIP project."

CCIP Swift Current



8. Identifying Investors

Perhaps the most challenging, and most important, aspect of facilitating investment is to find sources of money in the community or region. In many cases, potential investors don't see themselves as investors, venture capitalists or angels. They see themselves as businesspeople who take advantage of the opportunities presented to them. They may or may not have systems to evaluate proposals. In fact, this may be their first investment in an entrepreneurial venture.

Statistically, private investors are most often people who have retired from their own business and are seeking the larger potential profits available from investing in growing businesses or start-ups.

Very often, these investors provide mentoring and counselling for the small businesses in which they invest. They may serve on the board of directors of the company in which they invest and will, at the very least, require periodic updates regarding the progress of the business.

Through their investment, investors secure for themselves an important role in establishing the strategy for the firm, and this is often an important motivation for them.

Informal Networks

The nature of informal investing is that investors are often connected to each other through bonds of friendship and sometimes through past professional relationships. As a result, it's not uncommon to find informal networks of investors in a community who often give each other tips regarding promising business opportunities. Once the investment facilitation service is up and running, it may be discovered that a single contact actually represents a number of investors who will tend to be interested in the same kinds of deals, all of whom may invest at the same time.

Return on Investment

When private investors do make a commitment to a project, they are looking for potential returns that are many times greater than their original investment. Typically, they reject dozens of ideas before committing to a project. In fact, research suggests they reject 97 percent of the proposals they see. Entrepreneurs can reduce this rejection rate by taking the time to examine the values and preferences of each investor and submitting proposals only to those who are a good fit.

"Raising investment capital is a labour-intensive undertaking that usually takes six months if done right! You must have realistic expectations going in if you hope to have a successful outcome."

CCIP Burlington

Private investors are difficult to identify. As *private* investors, they don't advertise their presence (they can't be found in the phone book). They tend to be very discreet because they do not want to be approached by every entrepreneur trying to sell a business scheme. Most have specific ideas about the kinds of investments that interest them.

Recent research has identified several kinds of private investors, each motivated by somewhat different values. A study by M. K. Sullivan and A. Miller in the *Journal of Business Research* (1996) classified investors who act as business angels into three major categories: economic, hedonistic and altruistic.

> *"It is in the interest of local economic development officers to support business opportunities and private sources of risk capital through a functional information network concerned with confidentiality. In this area the Internet can perform miracles."*
>
> **CCIP Thérèse-De Blainville**

Economic Investors

These investors are driven exclusively by financial goals. They seek the highest returns, usually through straight equity investments for relatively short periods.

To manage their due diligence costs, these investors usually have some experience in the industries in which they invest. This is the type of investor to seek if the concept is highly technical or directed at a tight niche market. In some cases, economic investors may be suppliers, customers or others in the industry who benefit beyond the straight return on investment by, for example, gaining a strategic advantage for their core business.

Hedonistic Investors

"Often investing in groups, these investors will mix debt and equity and enjoy participating in the growth of an enterprise. They consider the non-financial aspects of their investments as well as the anticipated return, and will sometimes leave their money in an investment for a longer period of time. These investors are often older.

It is important to give this type of investor a prominent, appealing role in the venture. It is often worth taking the time to sketch out possible roles before making the proposal, as this will likely be an early negotiating point. This is the type of investor to seek if the opportunity is sexy, such as a dot-com start-up, is in an alluring industry, such as a new golf club technology, or has high "cocktail party value," such as a celebrity-endorsed product.

Altruistic Investors

As the name implies, these investors rank the social impact of their investments much higher than do the other types of investors, and they are less preoccupied with the financial return. Although they may make somewhat smaller investments, they are patient and will allow the money to remain in place for a longer period. These investors tend to invest alone and are more likely to be middle-aged.

This is the type of investor to seek for opportunities that have the potential to "change the world," such as alternative fuels, environmental technologies and, in some cases, biotechnology. This type of investor may also invest to support the principal or founder, especially if he or she is a relative or former business partner, rather than the actual opportunity.

Understanding the different kinds of investors and their motives can help in the difficult task of finding them. Tailoring the proposal to the needs and preferences of each investor will certainly improve the chances of success.

It is also important to understand that one investor may be economic, hedonistic and altruistic depending on the opportunity. For example, an economic investor may get involved in a project in an unfamiliar industry because a major celebrity is a lead investor. In this case, refine the proposal to show how the investor will interact with the celebrity, because this interaction is motivating the investor.

Find Investors on the Internet

More and more people turn to the Internet for business information. For this reason, many independent brokers have created Web sites with databases of business opportunities.

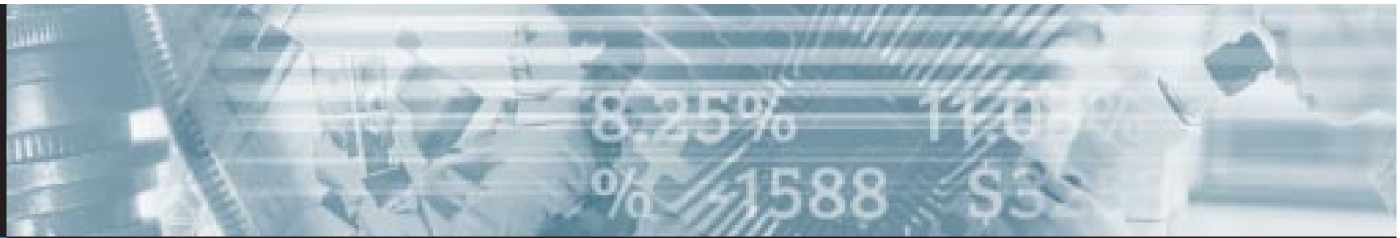
Local economic development offices use the Internet to position their region and provide investors with a description of business opportunities in their communities. They create their own sites or join a group of business opportunity sites such as the Carrefour Capital network (**http://www.carrefour-capital.com**), which was created with the help of the CCIP.

Checklist: Identifying Investors

- ○ Private investor network has been identified
- ○ Different types of investors and their needs have been explained
- ○ Contact has been made with investor network.

"The attitude adjustment for the community to make is to readily accept the risk of investment. High, unsecured risk warrants high returns to the investor and even good deals can ultimately fail."

CCIP Halifax



9. Reviewing Investment Proposals

Arguably, one of the most valuable services for entrepreneurs wanting to grow their business is the independent assessment of investment proposals, along with the chance to have their investment opportunity presentation reviewed before it is given before potential investors.

To be effective, there should be more than one person reviewing the investment proposal. Two heads are better than one and help prevent any criticism from seeming too personal. Ideally, one would be a person with a background in business, and the other an experienced investor.

It may not be possible to assemble an ideal team every time and the average entrepreneur may not need that level of sophistication at first. But, if the review suggests radical changes to the investment proposal, then the credibility of the assessment team will be important to maintaining the enthusiasm of the entrepreneur.

What to Look for

The executive director usually guides the review, which involves:

- getting an investment proposal from the firm;
- providing guidelines on the content of the proposal;
- providing the first round or two of critiques of the investment proposal; and
- obtaining the people necessary for the review.

In its initial pass, an independent assessment will begin by ensuring that the investment proposal clearly explains the business opportunity in adequate detail.

Simple issues like spelling and grammatical errors can be fatal, and the review will catch these. Perhaps the most critical task is to translate the description of the business opportunity into financial terms an investor can consider.

For at least one CCIP pilot project (Victoria), a retired businessperson chairs the review meeting, providing independence from the executive director. The chair chooses the review team, which includes several people from the board and outside experts as necessary. The team must include a banker, accountant, businessperson, investor and one person familiar with the product, service or industry. The same person may fill more than one role on the team.

One advantage of a team review is to reinforce the comments made by the executive director. Many of the comments are the same, and carry more weight when heard twice. The executive director does not make many comments during this meeting, but identifies the changes needed and asks questions if required.

The proposal should consist of a short, separate executive summary and a complete investment proposal. A one-page covering letter tailored to each investor should contain a paragraph describing the industry (if the investor is not familiar with it) and should specify how the opportunity will benefit the investor.

The investment proposal should catch the attention of the investor and lead him or her to request more information, such as the business and/or marketing plan.

The investment proposal should cover the following:

- why the investor should want to invest in the business;
- the return in exchange for the assumed risk;
- why the investor can have confidence in the company's management;
- details of the opportunity;
- the total financial requirement;
- exit strategies; and
- the investor's ability to monitor and control the investment.

A business plan evaluation model can be found on the CCIP Web site (**http://ccip.ic.gc.ca**) under "Tools and Links."

One CCIP pilot project (Sherbrooke) reports that they have never received a proposal from a client that was complete, even though guides to writing proposals had been provided. A common problem is that the client fails to communicate the reasoning behind certain conclusions. For example, production costs may be given as percentages without explaining the tests and simulations that have led to these figures; as a result the percentages seem to have been pulled from thin air.

Clients who are good at production but less skilled at financing should make sure they have a skilled accountant on their team. This not only helps in the preparation of the proposal, but also is very reassuring to potential investors.

Is the proposal logical? Is the logic easy to follow? There are many interrelations within financial projections as they trace a path from the overall market down to the client's projected sales, and it is easy to make a slip in logic along the way. For example, one entrepreneur requested working capital of $50 000 even though the lowest level in the cash flow forecast was $25 000 without ever resorting to a credit margin.

Settling the financial structure of the proposal is often the last step and is made much easier if the project is obviously a good one. However, it is important to understand that entrepreneurs like to make decisions themselves — that's why they are in business for themselves. Presenting entrepreneurs with available financing alternatives and suggesting the approach that would be best for them to take should therefore be undertaken carefully and with tact.

The preparation of an investment proposal is covered extensively in Module Four of the Steps to Growth Capital Web site (**http://growth.ic.gc.ca**).

Deal Flow

All of the CCIP pilot project managers agreed that it took much longer to complete a deal than they had anticipated.

"You think you have the elements of a deal, and the investors and the entrepreneur are together, and other financial sources are involved... and nothing seems to happen," an Atlantic manager lamented.

Another agreed: "You need to figure on about a year from first introduction to closing a deal."

Most pilot project managers agreed that selecting a few entrepreneurs, even ones who are ready to take their investment proposals to an investor, can be time-consuming. "We reviewed 60 proposals to get one that was ready for a deal," an Atlantic manager noted. "Then it took 18 months to finalize the financing! And they had started with a pretty good investment proposal in the first place."

"You think you're ready and you find out that you're not. It takes a long time to see what will work in your community, and you should anticipate at least a year to 18 months before deals begin to happen," reported a Western manager.

One CCIP pilot project (Fredericton) combines the investment proposal review with a practice presentation. This presentation takes place early in the morning (the best time to meet) and lasts one hour, with a 30-minute extension if necessary. Critiques are made throughout the presentation, and the executive director asks the chair and each member for their comments. Within two days, the executive director sends a letter containing the comments to the presenting company.

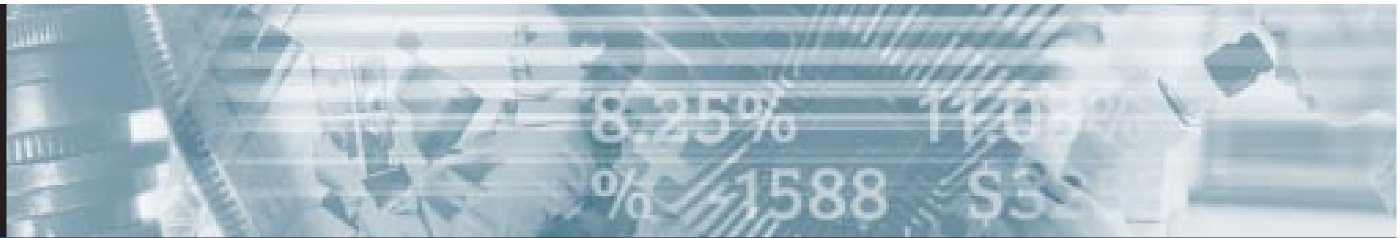
The outline of a 10-slide, 15-minute investment presentation can be found on the CCIP Web site (**http://ccip.ic.gc.ca**) under "Tools and Links." The document is entitled, "Suggested Investor's Presentation for Equity Financing — Fredericton, N.B."

Checklist: Reviewing Investment Proposals

- Executive director has taken first look at investment proposals
- Teams of two or more have been set up for detailed independent assessments of investment proposals.

"The CCIP project at VIATeC focusses on access-to-capital services for members in the advanced technology sector. Most of the companies we see are start-up or early-stage companies looking for money. What most need, however, is business advice (provided by VIATeC and other community resources) and 'smart' money (provided by active angel investors with experience in this high-growth industry sector)."

CCIP Victoria



10. Relating to the Community

Where Does the Service Fit In?

In most smaller Canadian communities, the financial sector features chartered banks, credit unions, a network of intermediaries such as accountants and lawyers, and some government agencies. It is important to determine where the new investment facilitation service for growth-oriented small businesses will fit.

Community investment facilitation services fill a niche in financing. Entrepreneurs who have invested their own money — and all that is available from friends, family and loans — need risk capital to bring them to the point where they are eligible for conventional financing. That's where the investment facilitation service fits in.

The best strategy is to show existing financial services how the investment facilitation service complements their services and to become their ally rather than to compete with them. There are two reasons for this strategy. The first is practicality: the chartered banks and well-known professionals in the community have a strong position that would be hard to challenge. (Cooperating with them may also put the investment facilitation service in touch with an established network of clients and contacts.)

A second reason relates to the purpose of the new investment facilitation service. The goal is to stimulate investment and growth. If that goal can be reached by filling in gaps between existing services, that is probably the best niche. The goal is to grow businesses, and to increase jobs and economic opportunities, not to take clients away from existing businesses.

Run an Outreach Program

Right from the start, running an active outreach program to all the established interests will be key to earning their support. Meet them personally and make sure they know the philosophy of the new organization; clearly state its intention to complement, rather than compete with, existing financial services.

Such an approach will help to build a more effective local business ecosystem. When referring entrepreneurs to local professionals, make sure the latter know about the referral. Likewise, if they refer people back, take the time to thank them.

The people who are already established in the community's financial sector have the knowledge and experience needed by the investment facilitation service. Seek their advice! There's nothing more pleasant for them than having someone eagerly listening to the voice of their experience. There is a lot to be learned from them.

When local businesspeople have insights to offer, they should be considered for the service's entrepreneurial skills development activities. Local professionals are often out in the community marketing their talents anyway, and they will appreciate a new venue. In addition, their credibility rubs off onto the new investment facilitation service.

Keep Government Agencies Informed

It's important to keep local government and government agencies informed about the service's activities. City managers expect to be made aware of what's going on in the community. So ask for an opportunity to make periodic reports to them, perhaps at city council meetings, even if they are not providing money or other support to the investment facilitation service.

Such gestures, over time, will gradually build the credibility and awareness of the service. (Some CCIP organizations have hosted annual galas and other social events.)

Some of these agencies may already have made financial contributions, in which case they doubly deserve some courtesies. Even if they have not, as the profile of the investment facilitation service grows, its representatives can begin to ask for financial support from people who are now confident that the service represents no competition.

Work with Educational Institutions

One final target for outreach is local educational institutions. If there is a community college or a university, it's important to tap into the expertise of the faculty and the energy of the students. Presenting coaching sessions in concert with the local college may be an easy and efficient thing to do. Professional educators may form part of the team for presentations.

Don't forget that many entrepreneurs are young and may come to the investment facilitation service shortly after university or college. They will not yet have established themselves sufficiently to access venture capital or other complex financing, but they may be interested in the educational services the organization provides.

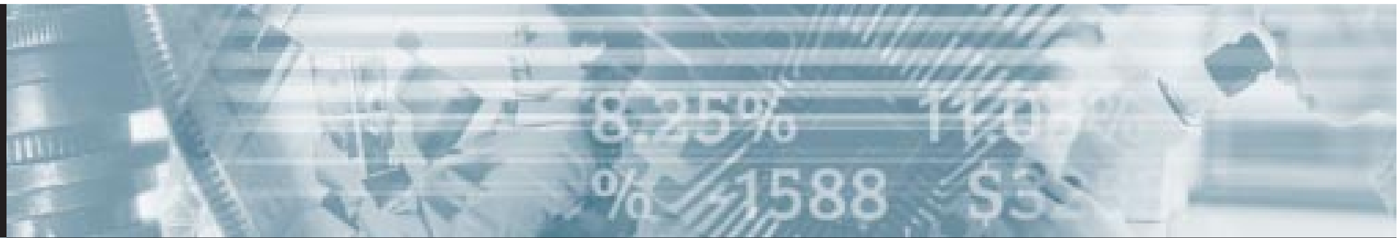
Other education-related outreach may include local offices of provincial human resources training programs, or programs offered through the Economic Developers Association of Canada or other groups.

Checklist: Relating to the Community

- It has been established where the service will fit into the community's financial sector
- Outreach programs have been activated
- Government agencies have been kept informed about the service's activities
- Educational institutions have been recruited.

"Access to credit has always been difficult for First Nation entrepreneurs; the CCIP program has definitely made it possible for our clients to explore new means of financing through risk capital. Out greatest desire is to see permanent mechanisms in place, including a risk capital fund, to ensure proper continuation of the efforts that have already been invested in the program."

CCIP Wendake



THE WAY AHEAD

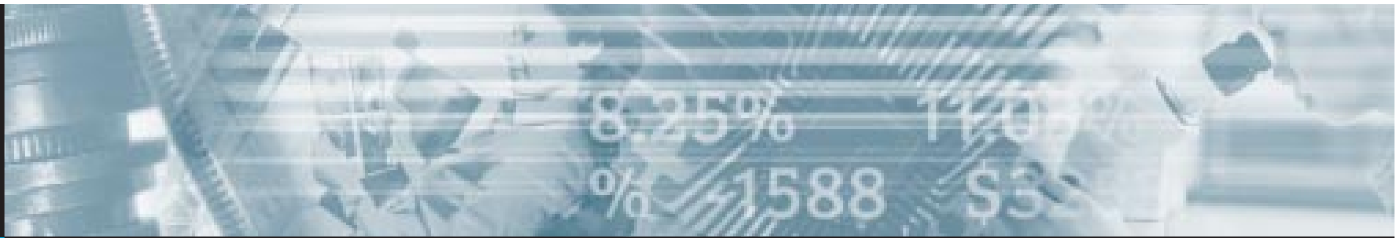
PROVEN SUCCESS

The investment facilitation services offered to local small businesses have shown that there is a demand for such a service and that it has been successful. At the halfway point of their search for ways in which communities could facilitate investment in their fast-growth companies, the 22 CCIP pilot projects had helped find millions of dollars in risk capital. And the businesses they helped estimated that they would create thousands of jobs in the short term.

The pilot projects have filled a need. Many of the SMEs they serve could either not have obtained the financing they were seeking or may have taken much longer to get it.

The experience of these pilot projects is still continuing and best practices are emerging. Promising new approaches include the identification and development of private investors, coaching SMEs to help them get the financing they need, and developing new introductory services such as “investors’ forums.”

Local investment facilitation services for SMEs fill a gap, especially in communities located far from Canada’s financial centres.



11. Joining the Network

The Emerging Network

What is emerging, as a result of the work of the pilot projects, is a network of communities sharing their experiences and best practices to foster the growth of their most promising small businesses.

Facilitation to attract risk capital is certainly a prime objective, but many other benefits have emerged. Many of the SMEs that were coached so improved their performance that they were able to obtain conventional financing. All of them became better, stronger, more informed businesses as a result of being taken under the wing of their community investment facilitation service.

Access to the experience of this network and to the information tools used by the pilot projects is open to all communities that would like to explore the possibility of establishing their own service.

"To be successful in obtaining funding, emerging firms must understand the needs of investors and tailor their messages to address these concerns. Investors need to understand the business problems you are trying to address, how you are differentiated, how and when they will be able to get a return on their investment and, most importantly, why you, the entrepreneur, can accomplish this. Credibility is the key!"

CCIP Kitchener-Waterloo

What Interested Communities Are Offered

Access to the Canada Community Investment Plan Web Site

The site **http://ccip.ic.gc.ca** contains a wealth of information that has been gathered on the Canada Community Investment Plan and the tools used in its implementation. It gives brief profiles of the 22 pilot projects and links to their sites, as well as to several other sites such as the following:

- **Steps to Growth Capital (http://growth.ic.gc.ca)** demystifies the nature of risk capital — it is a modular self-learning Web site that describes the steps that an entrepreneur needs to take before accessing risk capital;
- **Contact! (http://strategis.gc.ca/contact)** covers starting, owning and advising small businesses; and
- **$ources of Financing (http://strategis.gc.ca/sources)** is self-explanatory.

Access to the CCIP Message Board

The CCIP Web site includes a message board that provides an open forum for the 22 pilot projects and other communities exploring or implementing investment facilitation services to exchange news and views.

Conference Calls

A series of conference calls on subjects of mutual interest links communities in an exchange of problems, solutions and best practices concerning investment facilitation for SMEs. Interested communities are welcome to participate.

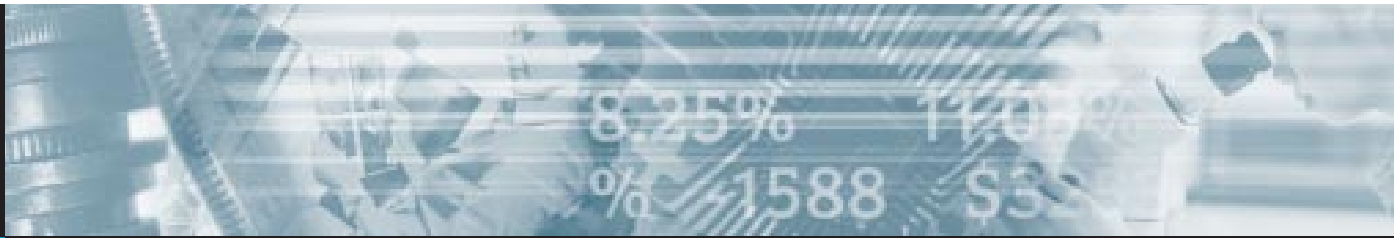
Conferences

Conferences are held twice a year to discuss common problems and to hear presentations by experts on various subjects regarding business growth.

For more information, e-mail **secretariat@ic.gc.ca**

"To be successful you must clearly communicate your goals, objectives and expected benefits to key partners such as business organizations, financial institutions, accountants, lawyers, all levels of government, economic development agencies and offices, and educational institutions. It is important to ensure community buy-in and support, and to develop a strong network of strategic alliances that coordinates resources already present in the community."

CCIP Whitehorse



Appendix A

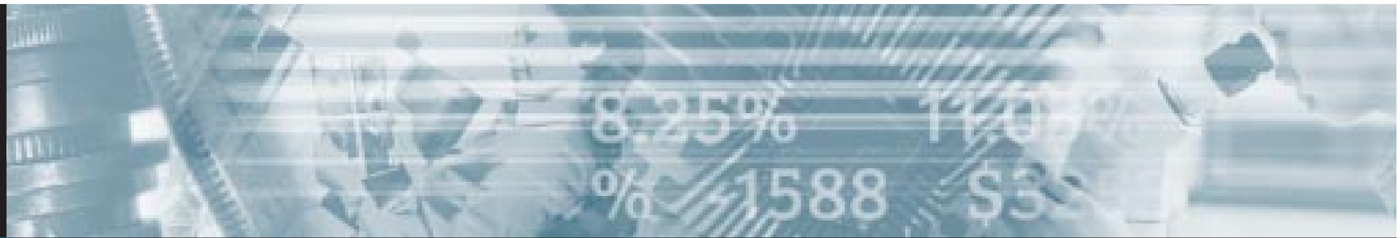
Model Mission Statement

[Community investment facilitation service name] will match local SMEs seeking less than $750 000 in risk capital with local, regional or national investors.

To ensure that these SMEs are investor-ready, we will:

- educate entrepreneurs on the needs of investors;
- provide coaching assistance; and
- review and suggest improvements to investment proposals.

We will then introduce investors to SMEs.



Appendix B

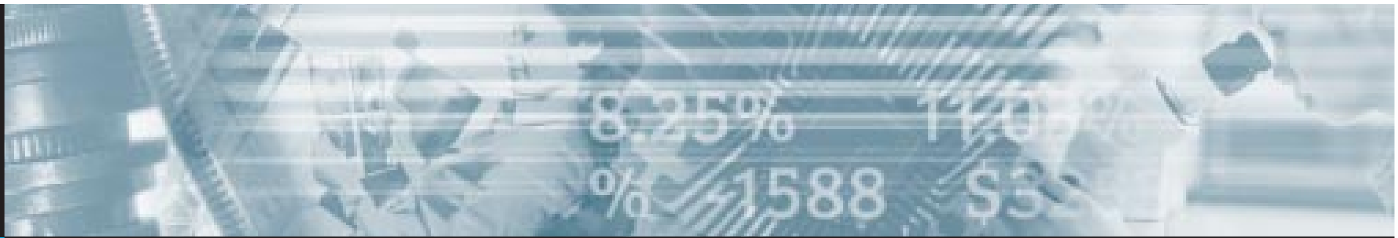
Model Job Description

Executive Director

Reporting to the board of directors, the executive director manages all aspects of the investment facilitation service. This includes implementing the decisions of the board of directors, accomplishing the service's mission, managing the service's financial and human resources, and negotiating all agreements with client SMEs.

The executive director is responsible for the following tasks:

- strategic planning;
- budget management (preparation and control);
- meeting, counselling and coaching entrepreneurs;
- finding investors and matching them with SMEs;
- communications and marketing;
- fundraising;
- investment proposal review;
- preparing and attending board of directors meetings;
- participating in networking activities as the representative of the service;
- managing and evaluating staff;
- training staff; and
- ensuring quality service.



Appendix C

Model Board of Directors Role and Mandate

Role

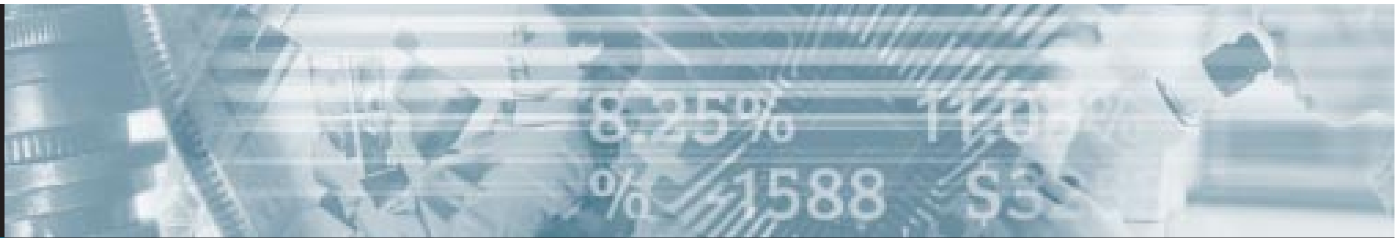
The role of the board of directors is to oversee and guide the operation of the investment facilitation service.

Typically, this will involve:

- selecting the executive director;
- attracting entrepreneurs;
- attracting investors;
- promoting good community relations;
- giving direction to the executive director in achieving the goals set out by the board or in the business plan;
- fundraising; and
- establishing policies for hiring, remuneration, compensation for board members, conflict of interest, etc.

Mandate

The board of directors is legally responsible for the conduct of the investment facilitation service. It is mandated to ensure the success of the service.



Appendix D

Model Board of Directors Structure

The board of directors focusses its attention on two main areas:

- raising awareness of the service among SMEs, private investors and the community in general; and
- fundraising.

Members of the board should therefore have a high profile and, together, represent the economic and financial fabric of the community.

Committee structure

As with most boards, members should be selected to head up committees based on their individual strengths. Committees make recommendations to the board of directors who then vote on whether to implement them.

People who are not board members, but who are expert in subjects of concern to specific committees, may be invited to become members.

For example:

The marketing committee recruits experts on:

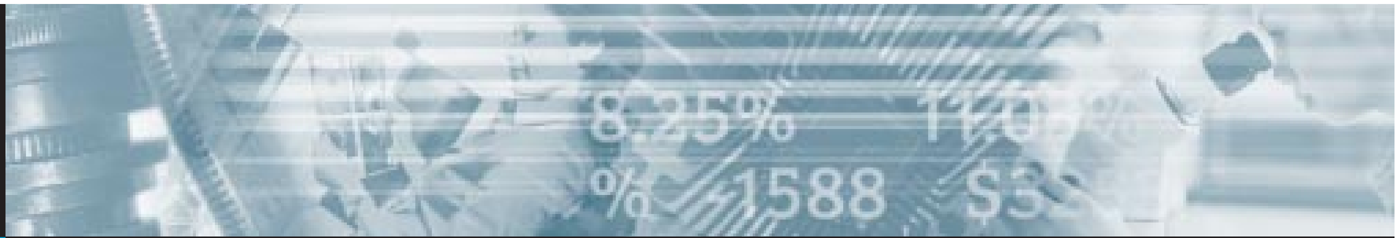
- marketing;
- local media;
- advertising;
- public relations; and
- events management.

The fundraising committee recruits experts on:

- local corporate sponsors;
- municipal government funding;
- financial institutions; and
- business consultants.

Other specific committees may also be formed, as needed, to advise the board of directors on issues such as:

- identifying and enrolling appropriate SME clients;
- assessing SME proposals;
- establishing a private investor network; and
- organizing investor forums.



Appendix E

Dos and Don'ts

Do	**Don't**
Assess the community carefully to make sure it can benefit from an investment facility service.	Assume that because it seems like such a good idea the service will get the support it needs to succeed.
Understand the time it takes to get the service up and running — anything less than a year would be extraordinary.	Think you can announce the service and have SMEs and private investors knocking at your door immediately.
Find a champion who has the respect of the community.	Try to do everything yourself.
Make sure the municipality is 100 percent behind the idea.	Go ahead if the municipality says no.
Select the very best people.	Settle for eager second best.
Make sure the niche the service fills is well understood and appreciated in the community.	Believe that everyone will understand and support the service.
Be a team player with other economic development organizations.	Tread on toes.
Contact **secretariat@ic.gc.ca** and join the information-sharing community investment facilitation service national network.	Do it alone, re-invent the wheel and repeat others' mistakes.

"SMEs have led the way in job creation and economic growth and diversification for many communities across this country. However, local economic development professionals recognize that, despite this growth, poor access to risk capital inhibits even more growth and diversification, especially in rural communities across Canada."

CCIP Medicine Hat

"Providing our local small businesses with knowledge of the private investment process has helped them access the capital they need to expand and take advantage of Canmore's growing economy."

CCIP Canmore

"The CCIP has allowed us to give better information to our entrepreneurs about risk capital. Awareness programs have been organized to demystify capital investment negotiations. The support given to SMEs when being introduced to risk capital sources is very much appreciated."

CCIP Sherbrooke

"Every community in Canada is faced with dynamic growth of SMEs, including home-based businesses, in their jurisdictions. Statistics indicate that this growth is responsible for the majority of new job creation in Canada. Unfortunately, it also contributes to the high rate of business failure. The two primary reasons for failure are a lack of management skills on the part of entrepreneurs and difficulty accessing capital."

CCIP North Bay

"One of the keys to keeping investor interest is ensuring investment opportunities are fully screened before being sent to them for review. Sending one bad proposal to investors can seriously damage the credibility, and impair the effectiveness, of an investment facilitation service."

CCIP Mount Pearl