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## **Canada Community Investment Plan**

**Mid-term Review  
Final Report**

**March 31, 2000**

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## **Executive Summary**

The purpose of this report is to present the findings of the mid-term review of the Canada Community Investment Plan (CCIP). The CCIP, a pilot program, addresses the problem facing small and medium-sized enterprises (SME) located outside major financial centres dealing with the challenge of financing their growth by improving access to existing sources of risk capital.

Industry Canada (IC) put in place mechanisms to meet the CCIP Program objectives, which are:

- to identify, based on selected demonstration projects, those best practices that facilitate access to growth capital for SMEs;
- to implement an investment skills development initiative for Canadian SMEs; and
- to disseminate effective strategies, new ideas and experiences in equity financing.

The general objective of the mid-term review was to evaluate the effectiveness of the program and mechanisms put in place by Industry Canada to attain the CCIP program objectives. The mid-term review focused mainly on the implementation processes and monitoring mechanisms required to adequately deliver the program. The final evaluation, to be conducted at a later date, will assess the level of success of the program in attaining the CCIP objectives.

### ***CCIP Implementation***

In the Treasury Board submission dated May 27, 1996, Industry Canada outlined three main components of the CCIP:

1. The National Call for Demonstration Projects;
2. The Skills Development and Toolkit Component; and
3. The Information Exchange Component.

Each of these three components has been implemented by IC, though it took somewhat longer than intended to implement the Skills Development and Toolkit Component and the Information Exchange Component.

### ***Achievement of Program Objectives***

Achievement of overall program objectives has been quite good. The only unintended impact of the program identified by participants was an identification of educational needs related to risk capital. The only negative impact identified was the creation, by original demonstration project sponsors, of unrealistic expectations at the community level. The achievement of demonstration project objectives has been much more uneven.

Small and medium-size enterprises (SMEs) interviewed for the study indicated that awareness of the program seemed to be reasonably high, especially among targeted sectors. However, interviewees seemed to have poor knowledge of the full range of services available from the

demonstration projects. None of the SMEs were familiar with the Steps to Growth Capital web site or workshops.

### ***Communication and Monitoring of Results***

Feedback related to IC's data collection approach was quite positive. The Quarterly Activity Reporting mechanism was seen as being appropriate in terms of type of information collected, level of detail requested and frequency of the reporting cycle. Several positive comments were made regarding the mix of qualitative and quantitative fields. No gaps were identified in the current data collection process.

A number of participants made suggestions as to how communication and monitoring of results could be improved. Some participants suggested that demonstration projects should submit annual business plan updates to reflect evolving priorities. Another suggestion was the continued and expanded use of audits for community projects. For the final evaluation, it was felt that surveys of targeted groups should be used to assess the impact of the program. Further, a number of potential performance indicators were identified by participants.

### ***Support to Community Operations and Activities***

Very positive feedback was received regarding the level and appropriateness of IC's support to community projects, particularly the coordination of bi-annual conferences and regional teleconferences. Feedback on Steps to Growth Capital was mixed, though it was acknowledged that IC is currently working to address their concerns. Project staff generally felt that they were receiving satisfactory and sufficient support from Regional Development Agencies and the Business Development Bank of Canada, though it was found that the level of involvement of these players varies considerably by region. It was also noted that several other community organizations have been very active in supporting the demonstration projects.

### ***Identification and Dissemination of Best Practices***

There was general agreement that it would be very difficult to establish formal criteria for identifying best practices. It was felt that the current process used by IC to identify best practices was working well and should be continued. Also felt to be working well was the current dissemination process, though some concern was expressed that there is a language barrier to sharing information with Québec projects. While it was acknowledged that not all best practices information is transferable between communities and projects, it was generally agreed that all available information should continue to be shared. It was suggested that more contextual information is required in the best practices information provided, allowing readers to quickly identify what is most transferable to their own situation and needs.

## **1. Introduction**

The purpose of this report is to present the findings of the mid-term review of the Canada Community Investment Plan.

### **1.1 Context and Background**

The Canada Community Investment Plan (CCIP), launched in 1996, addresses the problem facing small and medium-sized enterprises (SME) located outside major financial centres dealing with the challenge of financing their growth. CCIP focuses on the improvement of the access to existing sources of risk capital.

There is no shortage of risk capital in Canada. At the beginning of 1999, there was \$10 billion under management by the formal venture capital industry in Canada, of which an estimated \$2.6 billion was available for investment. Research shows that while there is no lack of risk capital, the process of accessing risk capital is extremely difficult for smaller firms, particularly those located in non-financial centres.<sup>1</sup> For many years, restricted access to risk capital has been cited as a major barrier to smaller firms realizing their growth potential. Many of these growth-oriented firms find it difficult to gain access to smaller - less than \$750,000 - amounts of risk capital. The cost of due diligence, monitoring, and the reluctance or inability of the investee to provide competitive returns required by investors conspire to dampen the enthusiasm for smaller investments. As a result, only a handful of institutional sources of risk capital consider smaller investments.

Industry Canada (IC) put in place mechanisms to meet the CCIP Program objectives, which are:

- to identify, based on selected demonstration projects, those best practices that facilitate access to growth capital for SMEs;
- to implement an investment skills development initiative for Canadian SMEs; and
- to disseminate effective strategies, new ideas and experiences in equity financing.

### **1.2 Mid-term Review Objectives and Scope**

PricewaterhouseCoopers was retained to conduct the mid-term review of the CCIP. The general objective of the mid-term review was to evaluate the effectiveness of the program and mechanisms put in place by Industry Canada to attain the CCIP program objectives. The mid-term review focused mainly on the implementation processes and monitoring mechanisms required to adequately deliver the program. The final evaluation, to be conducted at a later date, will assess the level of success of the program in attaining the CCIP objectives.

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<sup>1</sup> *Financing the New Economy*, Paul Toriel, Industry Canada, 1994.

The mid-term review was conducted using the following methodologies:

- **Review of documents and administrative data:** The overall purpose of the review of documents was to provide a context for the review and further our understanding of the CCIP. The documents reviewed included both paper and electronic documents.
- **In-depth interviews with program participants:** Interviews were conducted with Industry Canada representatives, representatives of each demonstration project, Board chairs from a sample of demonstration projects, and representatives from Regional Development Agencies (RDAs) and the Business Development Bank of Canada (BDC). A total of 36 program participant interviews were conducted.
- **SME interviews:** Interviews were also conducted with both client and non-client small and medium-sized enterprises from a sample of communities with CCIP demonstration projects. A total of 18 SME interviews were conducted.
- **Observation of best practice “legacy sessions”:** Industry Canada has held several sessions over the past few months to explore best practices arising from the demonstration projects. The findings from these sessions are being used to prepare a “legacy” package that details best practices and lessons learned for those interested in starting their own community-driven investment facilitation service. We observed three of these sessions during the course of the mid-term review.
- **Community representatives’ workshop:** A one-hour workshop with community representatives was conducted during the November CCIP conference in Canmore. The workshop focused on exploring possible performance measures for the program.

### 1.3 Presentation of Report

This report presents the results of the mid-term review. Specifically, this report presents findings in the following areas:

- the implementation of the Canada Community Investment Plan;
- the link between the CCIP plan, structure and management, and the future achievement of program objectives;
- Industry Canada communication and monitoring of results;
- Industry Canada support to community operations and activities; and
- identification and dissemination of best practices.

## **2. CCIP Implementation**

This section of the report discusses the degree of implementation of the Canada Community Investment Plan to date. The section begins with a brief review of what was initially proposed to Treasury Board in 1996, followed by a review of progress made since that time.

### **2.1 Treasury Board Submission**

In the Treasury Board submission dated May 27, 1996, Industry Canada outlined three main components of the CCIP:

1. The National Call for Demonstration Projects;
2. The Skills Development and Toolkit Component; and
3. The Information Exchange Component.

The National Call for Demonstration Projects invited interested communities to submit business plans locally designed investment facilitation services. Successful applicants would be eligible to receive matching funds from Industry Canada for a five-year period.

The Skills Development and Toolkit Component was described as “the core of the CCIP” in the submission. It was designed to deliver required skills, tools and knowledge to interested parties, including the demonstration projects, other community-based groups, financial intermediaries and entrepreneurs.

The Information Exchange Component encompasses all the elements of the CCIP communication plan. This includes electronic reporting, information sharing and activity tracking. A CCIP web site, located on Strategis, was proposed to facilitate these communication objectives.

### **2.2 National Call for Demonstration Projects**

The call for proposals was implemented as proposed. Ninety-nine submissions were received, and 22 projects were selected over the two-year period. This is an increase from the original plan, which called for 20 projects to be selected. The demonstration projects were selected on the basis of their business plans and their potential to be successful.

To varying degrees, after a slow start, the demonstration projects have been implemented well. Industry Canada provided the support to the projects that was promised in the original agreements, including the funding support. Boards of directors/advisory committees have been established in each community and appear to be providing good support and direction to the demonstration projects.

Only one demonstration project, in Hamilton, has experienced such difficulties that it had to be redesigned. The project was re-established in the neighbouring community of Burlington. This

sent a positive message that IC is committed to the five-year demonstration period and will accept some setbacks so long as lessons can be learned and documented.

### **2.3 Skills Development and Toolkit Component**

The Skills Development and Toolkit Component has been the biggest challenge for the CCIP to this point. The original version of the Steps to Growth Capital package was not well received by either the demonstration projects or the general public. It was felt by many to be too detailed, academic, and not properly targeted at the smaller firms that the demonstration projects typically encounter. Further, it was felt by many to be too focussed on financial guidance and not enough on general business strategy.

Despite the criticism about the Steps to Growth materials, IC has certainly shown dedication to making this component of the program successful. Version three of the web site will soon be launched. Feedback has been absorbed well and used to enhance the material to better meet the needs of current and potential users. Further, the variety of delivery mechanisms promised in the submission to Treasury Board has been implemented.

It is difficult to comment on the implementation of the workshops other than to say that they have been underutilized. The materials have been made available and a few workshops have been run, but for the most part the response has not met expectations. The workshop materials are currently being redesigned, which should lead to an increase in the number of workshops offered. If this occurs, it will be easier to evaluate the effectiveness of the workshops at that point.

### **2.4 Information Exchange Component**

The information exchange component received positive feedback from many interviewees. The mechanisms implemented by IC have met expectations created in the original Treasury Board submission. The use of the Internet as a delivery mechanism has worked well and been adjusted as necessary to meet user needs. Moreover, the conference calls, newsletters and seminars have been well implemented and well received by those targeted.

The only area where implementation has not yet met expectations has been the CCIP National Promotion component. Five participant groups were defined as targets for the national promotion campaign in the Treasury Board submission:

1. Industry Canada;
2. Funded demonstration Project Organizations;
3. Non-funded community investment facilitation organizations;
4. Individual small business intermediaries; and
5. Entrepreneurs and venture capitalists.



Of these groups, only IC and the funded demonstration projects have been adequately targeted to date. Several project directors indicated that the lack of marketing support to other target groups has been a barrier to their success. However, additional implementation efforts of the national promotion component are now being undertaken with the hiring of communications and marketing experts. Further, the scope of the component has been expanded, now targeting additional groups including national and regional economic development organizations, the media, Parliamentarians and other government agencies. This represents a positive effort to promote the program, though some participants feel that it may be coming too late to help the demonstration projects.

### **3. Achievement of Program Objectives**

This section of the report discusses the extent to which the CCIP program has met its intended objectives. However, given that the focus of the mid-term review is on the implementation efforts and support mechanisms of the program, this discussion will not explore the results of the program in detail. Instead, the discussion will identify critical success factors that will assist in achieving future success.

#### **3.1 Achievement of Objectives to Date**

The CCIP program has three stated objectives, as discussed in the introduction section:

- to identify, based on selected demonstration projects, those best practices that facilitate access to growth capital for SMEs;
- to implement an investment skills development initiative for Canadian SMEs; and
- to disseminate effective strategies, new ideas and experiences in equity financing.

The important point to note is that all of these objectives speak to the program as a whole. While there are certainly objectives in place for each of the demonstration projects, this review will remain focussed on the high level achievement of objectives. However, the success of the demonstration projects certainly is an important indicator to be considered while assessing the effectiveness of the program.

There was general agreement among everyone interviewed that the program has been quite successful to this point in achieving the objectives stated above. Where the program has been somewhat less effective is in achieving the objectives of the demonstration projects, which are primarily centered on improving access to growth capital for entrepreneurs. The main indicator for this objective is the number of “deals done”. Outside of Quebec, which has a large pool of venture capital available, this objective has typically fallen short of initial expectations. The numbers presented at the CCIP conference in November 1999, indicated that 140 deals had been completed to date. Over half of these (72) had been completed in Quebec. However, many

participants indicated that the demonstration projects had been successful in other areas, such as raising awareness about risk capital and its potential benefits.

Participants were asked to identify any unintended or negative impacts to date from the CCIP program. The majority of participants were unable to identify either. However, some participants did indicate that the identification of educational needs related to risk capital was an unintended impact. Many projects found themselves devoting the majority of their time to educational efforts, as opposed to their original intention of matching investors with entrepreneurs.

The only real negative impact that identified was the creation of unrealistic expectations at the community level. Some projects felt that too much was promised by the original community project sponsors that they were unable to deliver, often for reasons beyond their control.

### **3.2 SME Perspectives**

Interviews with a sample of small and medium-size enterprises (SMEs) in six of the funded communities were also used to assess the impact of the CCIP demonstration projects. SMEs interviewed for this project included both those familiar and not familiar with the services provided by the CCIP and their local demonstration projects. While the sample of 18 is too small to draw any sort of definitive conclusions, the interviews did produce some interesting findings that may represent some of the opinions held in the broader business community.

Among those that were familiar, they indicated that awareness of the project activities within the business community was fairly high. This was especially true in centres where the demonstration project targeted specific industries, such as the high-tech community of Kitchener-Waterloo. Awareness outside of these targeted groups appeared to be understandably low.

These participants also commented that the services provided by the demonstration projects were useful. One high-tech company in Kitchener-Waterloo noted that they had grown from 2 to 40 employees in the last 2 years, and that the local demonstration project (CTTAN) had played a part in this success. The project helped by providing advice on their business plan and by providing an opportunity to meet and learn from other local high-tech companies. Further, a manufacturing firm in St. Hyacinthe indicated that they had gained invaluable knowledge from the local demonstration project about how to approach potential investors.

Despite the familiarity of interviewees with the program, though, they seemed unaware of the full range of services offered by the local demonstration projects. For example, both of the SMEs familiar with the Swift Current demonstration project were well aware of its investor-entrepreneur matching services, but neither were aware that the project also offered advice and education services. This suggests that while awareness of the project organizations may be fairly good in the funded communities, there is still much that can be done to make businesses aware of exactly what they offer.

Among those participants that were not aware of the program there was general agreement that the services offered by the demonstration projects would be useful to them. There was a lot of interest in matching services, particularly in the medium size communities of Medicine Hat and Sault Ste. Marie. However, the high potential businesses interviewed in these communities indicated that they were able to find investors through their own efforts. Still, they indicated that they could have benefited from the investment skills development services offered by the demonstration projects. Moreover, the two Québec firms interviewed that had not used the services of the local demonstration project also indicated that they felt it was a worthwhile venture. This is notable considering that equity capital is much more readily in Québec than in other provinces.

Those operating in non-targeted industries in cities with a demonstration project (i.e., a manufacturing company in Kitchener-Waterloo and a service company in Halifax) were somewhat disappointed that they did not have the opportunity to participate. They were encouraged by the idea of the Steps to Growth web site and workshops (which they were not familiar with), but it was the matching services that they felt would have been most beneficial.

### **3.3 Future Achievement of Objectives**

A number of critical success factors can be identified for the CCIP and the demonstration projects. Much of this knowledge is also being captured for the “How to Guide” being prepared by IC. The discussion here will focus on elements with which IC might be able to assist.

One of the key shortcomings of the program, according to many projects and board chairs, is the lack of a defining vision. As mentioned above, the stated objectives for the CCIP relate only to the program as a whole. What is missing is a vision for how demonstration projects can contribute to these objectives. All projects agree that their ultimate objective is to promote and facilitate access to growth capital. However, the vision stops here and does not provide much direction to the projects. As a result, boards of directors/advisory committees in the individual communities must supply their own vision, which does not always match what IC may desire for the program (i.e., focus on start-ups rather than growth firms).

From IC’s perspective, this may not be such a bad model, as it really does allow the Department to see how each community attempts to achieve the very broad objectives. It should also be noted that several projects stated that they enjoy the freedom given by IC to establish their own mandate. However, there is a real and apparent danger of creating confusion among others involved in the equity capital and economic development markets in Canada. The presence of a clear vision and objectives for the CCIP would help alleviate concern that efforts were being duplicated.

Another key to success is the involvement and integration of existing organizations in the community. Those demonstration projects that have been formally linked with existing

community organizations (i.e., economic development agencies, CFDCs, etc.) have typically enjoyed more success than have stand-alone projects. The existing organizations provide immediate stability and expertise, as well as helping to offset overhead costs. Perhaps most important, though, is the fact that these organizations typically have already established links with the local business community, which makes the job of establishing a network much easier. It should be noted, however, that some of the stand-alone sites felt that they would lose credibility with their clients if they were not completely independent.

Another critical success factor is the size of the community. The very small communities have had more difficulty establishing a critical mass of investors and entrepreneurs. In fact, the identification of high-potential business opportunities has been the biggest obstacle to achieving success for many. In particular, events such as investor forums do not seem to work well in cities with populations of less than 75,000 people. It was even suggested by one project director in a small community that only medium-size, high potential communities should be targeted for this kind of initiative.

Related to the issue of potential is the targeting of high-growth sectors of the market. Typically, this means high-tech, though the Halifax demonstration project has recently shifted its focus to the life sciences sector. It appears much easier to establish a network and trust within a specific sector of the local business community rather than attempting to address many disparate needs. The risk of this approach, of course, is that good business opportunities may be missed.

#### **4. Communication and Monitoring of Results**

This section discusses Industry Canada's efforts to communicate and monitor CCIP results, with a particular focus on the results of the demonstration projects. Performance measurement issues considered in this section include:

- the appropriateness of current performance indicators and suggestions for improvement;
- the appropriateness of the process used by IC to collect data from the demonstration projects; and
- suggested methods for measuring CCIP performance.

##### **4.1 Performance Indicators**

A number of issues arose during the review regarding the use of performance indicators. First, there are two distinct levels at which indicators must be identified and used. Indicators must be established both to measure the success of the individual demonstration projects and the program as a whole. Further, several project directors indicated that there were often two sets of indicators established at the community level as well— one set established by the board of directors/advisory committee and the other by IC. This is because the board/committee was felt

to have a different perspective than IC, often focusing more on education activities or dollars raised in the community for site operations.

Conversely, project directors and board/committee members felt that IC is more focused on outcome-based measures. These include, in their opinion, indicators such as the number of deals done, the total dollar amounts of the deals, the number of jobs created and the amount of venture capital in the communities. Many participants felt that these types of indicators were not appropriate for their particular communities. However, some of these same people recognized that outcome-based indicators such as those listed above are still needed for benchmarking purposes.

Industry Canada officials acknowledged that they were fixated on outcome-based measures at the outset of the project, but that have since realized the fact that they are not very meaningful for many of the demonstration sites. Rather, indicators have to incorporate all the stages in the investment “funnel”. This means that activity-based indicators need to be identified, such as those favoured by many of the community boards/advisory committees. Examples of these indicators include, but are not limited to the following:

- new structures set in place to get investment;
- increased awareness of possibilities;
- number of inquiries from entrepreneurs;
- number of partnerships established/size of network;
- number of referrals to potential investors;
- number of business plans validated;
- number of educational seminars held; and
- number of attendees at project events, including seminars and workshops.

Identifying indicators for the program as a whole can also be difficult. Suggestions put forth by participants included the diffusion of best practices, the ease of getting information and the level of education related to investor readiness. The difficulty with these, of course, is that they can be very difficult to actually measure. Indicators such as those listed above often require qualitative, rather than quantitative measurement. This makes them necessarily more subjective, and thus less reliable and more open to criticism.

#### **4.2 Data Collected by Industry Canada**

Currently, IC uses three main tools to collect data on the demonstration projects. The first and foremost data collection tool is the Quarterly Activity Reporting (QAR) mechanism that allows projects to electronically submit information to IC via the Internet. The second, much less

common, tool is the use of personal site visits by IC staff to collect qualitative information. Finally, the Regional Development Agencies RDAs and the Business Development Bank of Canada BDC monitor project progress on behalf of IC (their role is discussed in section 5 of this report).

Positive feedback was received on the QARs from the project directors. The QARs were first used in the January-March 1998 period and have been modified since based on project feedback. Both quantitative and qualitative information is collected for the QAR's. Participants generally agreed that the type of information and the level of detail requested are appropriate. They particularly liked the opportunity given to provide lessons learned and to review the lessons learned by other projects. In terms of timing, it was agreed that the quarterly schedule is fine. It was felt that they were not overburdened with completing the report, which was an admitted concern at the outset of the process. According to the majority of participants, monthly reports would be too frequent.

No gaps were identified in the current data collection process. While some project staff admitted to collecting data not supplied to IC, it was indicated that this was primarily confidential data regarding individual investors or entrepreneurs that would not be appropriate to share.

In terms of challenges faced by projects in completing the QARs, most cited only the time needed to compile the information. However, most accepted that this was a necessary task and were not overly concerned about it. Some participants also felt that it was difficult to provide some of the quantitative information because they were not sure what IC meant. For example, fields related to the number of "clients" were a sore point for many project staff that felt that the definition of what constitutes a client needed to be broadened. Industry Canada has since addressed this concern.

### **4.3 Suggested Performance Measurement Approaches**

As suggested by the above discussion, assessing the performance of a community-based program such as the CCIP can be quite challenging. Each community has different needs, and therefore, different standards for success. For this reason, many participants suggested that demonstration projects should not be measured against one another, but rather against their own business plans. The problem with this, according to some projects and board/committee members, is that the nature of the projects' work has often deviated from the original business plan out of necessity. While a comparative monitoring approach provides easily identified benchmarks for performance, it was felt that this would lead to unrealistic expectations about the performance of the projects.

An alternative, but related, approach suggested by some is the use of annual business plans. This would allow the project staff to continually adjust objectives as necessitated by local market conditions and progress made against previous objectives. Some project staff are already using annual business plans to satisfy their board of directors/advisory committee, but these are not

shared with IC. This approach would provide a useful benchmark against which progress could be measured. The other advantage of annual (or at least, updated) business plans is that they would provide a rich source of data for the creation of program indicators to be used in the final performance evaluation at the end of the program.

It was also suggested that community surveys could be conducted to assess the impact the demonstration projects are having on the local community. This would allow qualitative measurement of outcomes such as the level of awareness of risk capital opportunities. To be meaningful, such surveys would need to be conducted on an ongoing basis. This would allow a longitudinal analysis of the results and progress over time. However, given the fact that the project is past the halfway mark this may not be a feasible option.

Another aspect of project performance that IC monitors is the financial portion of their operations. Beyond the information collected in the QARs, IC began auditing demonstration projects in the past year. It was recommended that more audits should be done in the future, and it appears likely that IC will accept this recommendation.

As for measuring the performance of the program as a whole, there is a plan in place to conduct a final evaluation of the program at a later date. This evaluation will assess the level of success of the program in attaining the overall CCIP objectives. However, these objectives may prove quite difficult to measure. The outcomes that must be evaluated are fairly subjective, potentially relying on indicators such as the satisfaction of sites with the program, the number of deals done that would not otherwise have occurred, the increase in investor readiness and the transfer of best practices.

Some of these could potentially be measured using qualitative approaches such as community surveys. Another possibility is a comparative analysis of the level and quality of venture capital activity in funded and non-funded communities. The difficulty with using quantitative analysis for the evaluation will be the lack of suitable benchmark data. The issue of performance measurement strategy will need to be revisited as the program moves nearer to completion. On a positive note, useful data will be generated in the remaining years that may make the final evaluation much easier.

## **5. Support to Community Operations and Activities**

This section of the report discusses findings related to the following:

- the level and appropriateness of IC support received by the 22 community demonstration projects;
- the usefulness of the Steps to Growth Capital tool for demonstration projects;
- the role of the RDAs and BDC in providing support to funded communities;

- current and potential involvement of other organizations, including other federal government organizations; and
- the CCIP web site.

## 5.1 IC Support

Industry Canada has dedicated a small secretariat to the CCIP program to monitor results and provide support to the 22 demonstration projects. As described by members of the secretariat, IC's role has two primary components. The first role is as a source of funds for the community projects. The second role is that of coordination and knowledge management. Each of these roles is discussed in turn below.

Under the terms of the contribution agreements signed with each of the sites, IC agrees to provide two-thirds of the funding required by each of the projects up to a prescribed maximum for each of the five years. The projects are responsible for raising the additional one-third of the funding from sponsors in the participating communities. This approach is generally accepted by staff in the demonstration projects.

However, several project directors commented on the difficulties they had in obtaining additional funding during the first one to two years of the project. Many community organizations were unwilling to financially support projects until they had achieved some level of success. Some project staff suggested that the funding received from IC should have been structured differently, with a greater percentage provided at the beginning of the project and less at the end. It was felt that this approach would make it easier for projects to establish themselves and allow them to devote more time to providing services rather than raising funds. Industry Canada officials, as well as some board/committee members, supported the funding program as designed, stating that it provided a financial incentive for participating communities to commit to the success of the demonstration projects.

Aside from providing funds, IC also acts as a locus for the exchange of information. This involves organizing bi-annual meetings with all project staff, regional meetings, conference calls on specific subjects and an e-mail service allowing project staff to communicate with one another. CCIP secretariat staff are also available for direct consultation with projects on an as-needed basis.

Project staff were quite satisfied with the coordination support they receive from IC. Several positive comments were made regarding the conferences in particular. It was felt that they provided an excellent opportunity for the project directors to meet face-to-face and learn from one another. In fact, it was suggested that more emphasis should be placed on discussion and plenary sessions in future conferences, as opposed to presentations. IC officials indicated that they had already received this feedback and were adjusting the next conference agenda



accordingly. In terms of timing, most participants agreed that semi-annual intervals are appropriate for national meetings.

Regional meetings and conference calls were also seen as being very helpful to project staff. These are typically held on a monthly or quarterly basis and provide an opportunity to discuss trends and lessons learned on a regional basis. The other communication mechanism put in place to facilitate this discussion, the e-mail listserve, appears to be underutilized. However, it remains a flexible and effective tool and is appreciated by those who do use it.

The emphasis on facilitating discussion among project staff results partly from the fact that IC officials do not provide expertise directly to projects. The demonstration projects were selected on the basis of their business plans and it is assumed that they have the necessary expertise to be successful. Instead, the job of IC is to watch, learn and disseminate the information they collect. Members of the CCIP secretariat do not get involved in the day-to-day management of the demonstration projects.

Project staff seem to be in favour of this hands-off approach, citing the importance of flexibility to making the CCIP a success. Several participants emphasized that the demonstration projects must be community-driven initiatives in order to build a network of investors. Board members interviewed for the review supported this sentiment by stating that the real successes they have achieved have been a result of involving quality people in the program. While IC could potentially provide very useful business expertise, the real expertise needed is familiarity with the local business market.

Some project staff, however, did identify some specific issues with which they would like to receive additional support from IC. At the outset of the program, many project staff struggled to identify the impacts and limitations posed by provincial Securities legislation. It was felt by some projects that IC should have provided more support on this issue.

Another issue that several project staff felt IC could provide greater support with is the marketing of the program. It was felt that there was not enough of a national profile for the CCIP, making it difficult to convince people to participate in the program. IC has recently addressed this by securing a communications and marketing contractor to provide these services.

## **5.2 Steps to Growth as a Support Tool**

The Steps to Growth Capital material serves many purposes for the CCIP. One of its functions is as a support tool to demonstration projects. However, reaction to the tools has been very mixed. The strengths and weaknesses of the Steps to Growth Capital material as a support tool are discussed below.

### **5.2.1 Strengths**

A fair amount of qualified support was given for the Steps to Growth Capital tools developed by Industry Canada. Most participants agreed that there was a lot of good material contained in the tools. Several project staff indicated that they had used portions of the material while assisting clients. Further, several participants seemed optimistic about the potential of the tools following the next round of revisions.

### **5.2.2 Weaknesses**

Despite the potential of the tools, the current reality is that they are not currently meeting the needs of demonstration projects. It was felt that clients of the program do not have the time to go through all of the material available. Moreover, it was suggested that even where clients do have adequate time available they often do not have the necessary background knowledge to make sense of the material. This creates work for projects as they must assist their clients in working through the materials.

Of particular disappointment to project staff is the weakness of the workshop material. Again, it was largely felt that the material is too detailed and complex to support their objectives, and that it does not present enough relevant examples. In the few communities where Steps to Growth workshops have been delivered the feedback has been somewhat disappointing. Attendance has been poor and participants have expressed dissatisfaction with what they learned. Despite this feedback, however, many project staff indicated that they would still like to deliver a Steps to Growth workshop provided that the revised materials more closely meet their needs. Industry Canada is currently addressing this problem.

Some project directors and board chairs also suggested that there are better materials on equity financing currently available in the marketplace. Several project staff are utilizing these tools, including other workshop packages, as they feel they more closely meet their clients' needs.

As indicated above, these weaknesses are currently being addressed by the IC web site development team and the marketing and communications experts hired to help promote the tools and the program. It seems likely that a better, more utilized product will result from these efforts. There is likely to be an increase in the number of Steps to Growth workshops offered and more frequent reference to the web site. The danger, though, is that these changes may be coming too late to have a significant impact on the demonstration projects. Project directors have become accustomed to not using the materials, and in many cases have identified suitable substitutes. It should be noted, though, that the primary purpose of the Steps to Growth tools is to support entrepreneurs and not demonstration projects.

### 5.3 RDAs and BDC

The four federal Regional Development Agencies (RDAs) signed memoranda of understanding (MOUs) with IC to provide support to demonstration projects and to monitor their activities. These four agencies include Western Economic Diversification (WED), the Atlantic Canada Opportunities Agency (ACOA), Canada Economic Development for Quebec Region (CED) and the Federal Economic Development Initiative in Northern Ontario (FedNor). In addition, the Business Development Bank of Canada (BDC) also signed an MOU with IC to monitor and support the five projects in southern Ontario and the project in Whitehorse.

The level of support provided by the five agencies varies considerably. Some view their role as being solely one of monitoring site activities and reporting progress to IC on a quarterly basis. This usually consists of attending monthly or quarterly board/committee meetings and taking notes. Other agencies, while also fulfilling the monitoring role, get more involved in an advisory capacity. Moreover, some efforts are made to actively market the demonstration projects and disseminate information about their services. None of the agencies get actively involved in the management of the demonstration projects.

From the perspective of the agencies, the role they play in the CCIP is satisfactory and sufficient. It does not demand a lot of their time or effort. They do not feel accountable for the success or failure of the program or any of the demonstration projects, though they do feel accountable to IC for the provision of information as prescribed by the MOU. One agency representative did note that the reorganization of the Industry portfolio changed the accountability relationship to a minor extent, as the four RDAs are now ultimately responsible to the same Minister as is the CCIP secretariat.

From the perspective of projects, the agencies are generally thought to be doing a good job. Project staff appreciated the fact that they were not getting involved in the management of the sites and considered available guidance to be helpful. In fact, some project staff were quite enthusiastic about the level of effort put forth by their agency representative to market and support the program.

There were, however, some project staff who indicated that their assigned agency representative was providing only minimal support. In fact, for three projects staff indicated that they no longer maintained regular contact with their assigned agency representative. It should be noted, though, that in one case this was the preferred arrangement for the project, and that the other two projects felt quite neutral regarding the lack of agency participation. Some project staff also indicated that they would like to see the agencies getting more involved in the funding aspect of the program. However, it is not recommended that this course of action be prescribed. Should RDAs or the BDC wish to voluntarily provide additional funding support to the CCIP, though, it would likely produce positive benefits.

#### 5.4 Support of Other Organizations

Several other organizations are involved in supporting the CCIP demonstration projects in the various communities. There is very good political support at the municipal level for the program. Most city councils and/or city staff are involved, usually including the local or regional economic development department. Several project staff, Board chairs and IC officials indicated that they would like to see the role of regional development authorities expanded. It was felt that the CCIP objectives are a natural complement to the efforts of these organizations.

Other supporters involved in several communities include local Chambers of Commerce, professionals (i.e., lawyers and accountants), local business people, BDC (in non-BDC supported communities), and other business service provider organizations including limited involvement by the chartered banks. In addition, there is some very limited provincial government involvement in some of the communities, as well as some links with post-secondary education institutions. There was general agreement among participants that CCIP efforts were not duplicating services offered by any of the above individuals or organizations, or other service providers in the communities.

There are two main ways in which these groups and individuals support the demonstration projects. Many contribute to the one-third of the funding commitment that each project made to IC. The other common contribution is strategic direction through membership on the board of directors/advisory committee for a site. Several project directors and board chairs indicated that a strong, diverse board/committee with good ties to the local business community is absolutely essential to the success of a demonstration project. It was felt that board/committee members should be carefully solicited with a mind to both their expertise and their commitment to the project.

Participants were asked if there is a need for IC to motivate other federal government organizations in supporting the CCIP program. The majority felt that extra federal government involvement was not needed. However, several participants felt that there could be a role for Human Resources Development Canada (HRDC) in the CCIP program. Specifically, it was felt that HRDC could possibly provide needed support for job creation. A couple of participants suggested that the National Research Council (NRC) become involved to provide research support to burgeoning high-tech businesses. Several participants indicated that while extra federal help may not be needed, they would like to see provincial governments become involved in the CCIP. It was felt that IC could provide a useful role in facilitating partnerships with these other departments and governments.

Further, several participants felt that the demonstration projects should be more closely linked with the Community Futures Development Corporations (CFDCs) program. It should be mentioned that some of the demonstration projects are already working quite closely with their local CFDC, including formal linkages in some instances. While the Community Futures program focuses primarily on debt financing solutions, it was suggested that coupling this with an equity

financing arm provided a natural synergy and range of options that is more useful to clients. As the CFDC program is now under the Industry portfolio in the federal government (with primary responsibility resting with the RDAs) it was felt that it should be fairly easy to achieve this integration. Similarly, a few participants suggested that formal linkages with BDC should be established, for largely the same reasons put forth in the case of the CFDCs.

## **5.5 CCIP Web Site**

The CCIP web site is currently located on Strategis, the main IC business web site. Participants were asked whether this was an appropriate location for the program material, or if the CCIP should establish a stand-alone site. Feedback on this topic was somewhat mixed. Most board members and SMEs interviewed for the project could not respond to the question because they were not familiar with the site. Many project directors suggested that this was because the CCIP site is difficult to find on Strategis, meaning that even when people want to access the material they may give up out of frustration. This led some to suggest that the CCIP did indeed require a distinct web presence.

Industry Canada officials, however, felt that Strategis remained the appropriate location for the CCIP web site. First, IC has paid for the development of the materials on the site. Second, the Strategis model still makes sense as a “window” to business services, which includes the CCIP program. The lack of visibility for the site is a problem that will likely be addressed by the increased focus on marketing and communications planned for the future of the program. However, it is recommended that the issue of finding the site from the Strategis home page be addressed, possibly by adding a direct link to the CCIP site. It was felt that visitors to the site should not have to know the precise URL to be able to quickly locate the material.

## **6. Identification and Dissemination of Best Practices**

This section of the report discusses the processes used by IC to identify and disseminate best practices in equity financing. Issues considered in this section include:

- the criteria used to define and identify best practices;
- the broad areas for which best practices should be identified;
- dissemination processes for both funded and non-funded communities; and
- the transferability of best practices between communities.

### **6.1 Criteria Used to Identify Best Practices**

There was general agreement among participants that it would be very difficult and perhaps impractical to establish formal criteria for identifying best practices. The goals of the CCIP require multiple, flexible strategies and best practices simply refer to “what works” in any particular community. For this reason, it was suggested that it is preferable to focus on

establishing a structured methodology, or process, for identifying best practices, rather than attempting to establish potentially limiting criteria.

It was felt that the current process used by IC to identify best practices was working quite well and should be continued. This process begins by allowing each demonstration project to identify what works in their context. Information about these practices is supplied to IC through the QARs (Quarterly Activity Reports), and IC follows up for more detail as required. Industry Canada officials then apply their own judgement as to what would be useful to share, and disseminate best practices information as appropriate.

The limitation of this approach is that it requires an active intermediary such as IC to screen identified best practices. In order for this process to work beyond the pilot period of the program, IC must either agree to continue this work or identify another intermediary willing to assume this role. As non-funded communities become involved in similar activities, this may place a burden on any such intermediary. The other option is to establish a more deliberate and detailed methodology for self-identification of best practices.

## **6.2 Broad Areas for Best Practices**

Over the first three years of the program many best practices have already been identified and shared among demonstration projects. Many additional best practices are currently being compiled in preparation of the "How to Guide". However, there appears to still be a need to identify best practices in several other areas. Priority areas for projects include:

- angel investor identification;
- an operational understanding of securities legislation as it effects intermediaries;
- administrative processes related to making the intermediary organization efficient;
- screening processes for potential clients;
- identification of high-growth businesses;
- strategies for partnering with universities and colleges;
- information about potential liabilities and other legal issues for intermediaries; and
- community marketing strategies.

Board members had a slightly different perspective given their more strategic role in the process. Their priority areas for best practice information include:

- board/committee structure and composition;
- compensation and incentive programs for managers;
- community fund raising strategies;

- monitoring mechanisms and their effects; and
- targets for size of deals.

The largest current gap, according to participants, is information on “worst practices”. There is much that can be learned from cases such as the redesigned project in Hamilton. Further, each project has faced its own challenges and attempted strategies that were unsuccessful. This is evidenced by the fact that many of the demonstration projects have essentially abandoned their original business plans due to the fact that their initial strategies simply were not effective. It is of particular importance to share this information with non-funded communities to ensure that they do not try to unsuccessfully replicate “best practices” that won’t be effective given the particular context of their own communities.

### **6.3 Dissemination Processes**

Currently, IC controls and coordinates the dissemination of best practices information for the CCIP program. Several mechanisms are employed to facilitate this information sharing. The primary, and most effective, tool is the use of bi-annual conferences. These conferences, typically a day in length, allow participants to meet personally and share their experiences directly with one another. Related to this are the monthly or quarterly regional conference calls. These teleconferences usually last for one to two hours, and allow direct sharing among project staff working in a distinct geographic region. Another mechanism for disseminating information is the e-mail listserve established by IC, which although underutilized, is popular among those that do use it. It was also discovered that there is a fair amount of informal sharing of best practices information among project directors themselves between conferences and teleconferences.

There was general agreement among participants that the current dissemination process is working very well. The efforts of IC in organizing these events and moderating the e-mail listserve were well appreciated by those involved in the CCIP. Participants were also enthusiastic about the potential usefulness of the “How to Guide” now being prepared. However, it was noted that the guide will likely need to be updated on a continual basis after it is produced.

There were other suggestions to improve the dissemination process, largely focused on making current processes more effective. Several participants suggested that the CCIP web presence should be strengthened and that this should be the ultimate location for the “How to Guide” and all related best (and worst) practice information. Industry Canada has already received this feedback independently and currently has a plan in place to improve, expand and promote the CCIP web site.

Another common suggestion was the need to involve more players in the dissemination process, particularly the non-funded communities that originally expressed interest in the program. This need to broaden the communications has been recognized, and will be addressed by the communications and marketing firm recently contracted by IC.

Industry Canada officials also suggested that there is a need to identify a recognizable public champion for the CCIP to produce interest in program objectives. Another suggestion was the need to build on existing business and economic development communication channels.

Finally, there was a significant issue related to the barriers for sharing best practice information with Quebec projects. The language barriers inhibit communications both of what projects outside Quebec have experienced, as well as what the Quebec projects have discovered that may be of use to other projects. It was felt that a lot of good ideas might be lost due to these difficulties.

#### **6.4 Transferability of Best Practices**

While it was acknowledged that not all best practices information is transferable between communities and projects, it was generally agreed that participants would still like to have access to all available information. This approach allows each individual to assess and select information relevant to his or her own particular needs. There have already been several best practices that have proven they can be successfully transferred between communities. The most common example provided by participants was the investor forums initiated by the demonstration project in London. Though the investor forums do not look the same in every community using them, the concept has proved adaptable to many situations.

To facilitate this assessment process, it was suggested that more contextual information is required at the outset of best practices information provided. This would entail providing a synopsis of community and project characteristics up front, allowing readers to quickly identify what would be most transferable to their particular situation and needs. It was also suggested that more detail regarding best practices is needed, possibly entailing full case studies of those best practices that seem particularly innovative or effective.

Finally, one IC official suggested that there is a need to establish a sensible categorization of best practices that would make it easier for users to quickly identify what they need. It is suggested that feedback be sought on this proposal and that a workable categorization be established.

### **7. Conclusion**

Overall, satisfaction with the CCIP program is high among program participants. Although the experiment has not been as successful in some communities as was originally anticipated, there has been enough activity to both create an impact on the participating communities and to generate a lot of useful lessons learned for IC.

The focus of the program over the remaining years must be on broadening the community of interest. While awareness of the CCIP is fairly good within the communities that have demonstration projects, it has fallen short of expectations outside of these centres. Industry Canada has recognized this need and is currently taking the steps necessary to ensure that



awareness is raised about the potential of the CCIP in the broader business, economic development and equity capital communities.

It must also be noted that there is a fair amount of uncertainty and anxiety among demonstration projects about their future beyond the five years of funding support they will receive from IC. While some appear well positioned to become self-sufficient at the end of this period, these projects are definitely in the minority. Industry Canada must communicate to the projects their intentions soon in order to give boards of directors/advisory committees and project directors sufficient time to plan for the future. Potentially, other organizations (i.e., EDAC, regional development agencies) or programs (i.e., Community Futures) may be positioned to assume responsibility for the management and coordination of the CCIP, though it is too early to determine what level of funding commitment, if any, they would be willing to make to the projects.

In conclusion, the CCIP program has been well implemented and coordinated by IC and is well positioned to meet its objectives with only minor modifications. While there have been problems, including a disappointing initial reaction to the Steps to Growth Capital tools, IC has been very proactive in addressing these concerns.

## 8.0 Recommendations and Management Action

**Recommendations 1&2: That IC work with communities to develop local communications plans to convey to potential users the full range of services offered by the CCIP and that they communicate this to potential clients.**

IC managers have re-emphasized this point during a semi-annual conference in Quebec City in May 2000, and have encouraged the communities to make their services better known. The services of a communications firm retained by IC were offered to the communities to help them in this process.

**Recommendation 3: That IC communicate to communities a clear vision regarding what are its expectation for the CCIP program.**

IC's vision and expectations for the CCIP were fully discussed with the communities at the May 2000 semi-annual conference in Quebec City. (i.e. that the main objective of the program is to identify and disseminate best practices in terms of community investment facilitation services, and to help SME's become "investor ready".)

**Recommendation 4: That IC require CCIP projects to submit business plan updates annually and that they be used to monitor project performance.**

From the beginning of the program, communities have been submitting annual reports of activities. Business plan updates are now being amalgamated to this practice, for which IC will be following up.

**Recommendation 5: Obstacles, strategies and lessons learned regarding securities legislation should be addressed in the "Winning Formula".**

This information was included in the "Winning Formula" and can be found in the CCIP web site at <http://strategis.ic.gc.ca/pics/cw/winning.pdf>

**Recommendation 6: That "worst practice" information should also be included in the "Winning Formula".**

Information on "worst" and "best practices" is an integral part of the "Winning Formula". It was decided to incorporate them in the text of the document rather than to create separate sections.

**Recommendation 7&8: Establish a formal process for self-identification of best practices and the creation of a synopsis detailing the size and key characteristics of the communities.**

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<sup>2</sup> "Winning Formula" is referred to as "How to Guide" in the report.

A consultant was retained by IC to work with the communities to identify best practices, as some of these could be missed. There will be a description of the best practices, together with the characteristics of the communities where it applies, in the CCIP website at <http://ccip.ic.gc.ca>.

**Recommendation 9: Disseminating strategies to assist the transition of demonstration projects to self-sufficiency.**

Suggestions were made at the Quebec semi-annual meeting. A special conference call with interested communities and a specialist in community financing took place in September of 2000 and at the next meeting of CCIP managers, in December 2000, strategies will be discussed to assist communities in becoming self-sufficient.