Panel Discussion

New Funding Models

Moderator: **Alison Nankivell**, Vice-President of VCAP Operations, BDC Venture Capital
Sahand Sojoodi, Entrepreneur-in-Residence, Extreme Venture Partners
Adam Spence, associate Director, MaRS Centre for Impact Investing
Rick Whiler, Senior Accountant, Corporate Finance Branch, Ontario Securities Commission

Nankivell initiated the discussion of different funding models and their implications by asking each of the panelists to describe the type of model they represent. Whiler began by introducing the Ontario Securities Commission's proposed exemption on crowdfunding, which is one of the newest and perhaps least understood of these models. The OSC has considered a crowdfunding exemption as a way of facilitating this form of capital acquisition, primarily for start-ups and SMEs. In order to protect the interests of potential investors, limits of $2,500 per investment with a maximum of $10,000 in a calendar year have been proposed. Crowdfunding activities must be conducted through portals registered with securities regulators. He also outlined various detailed regulations and restrictions that would go along with this proposal. When asked later about the timeline for this work, he noted that the project is a priority for the OSC, but it is not tied to any particular schedule. He added that it is important not only to get it done quickly, but to get it done right.

Sojoodi then outlined the changes that have taken place amongst business incubators and accelerators over the last few years. As companies such as D-Wave and Instagram have demonstrated the success that accelerators can achieve to help start-ups move to the next level, members of the broader business community have become more open to the concept. He pointed to large players such as BDC, Omers (Ontario Municipal Employees Retirement System), and Cisco that are freeing up funds for this kind of investment. "The lean culture that has become prevalent — release fast, fail fast, and iterate — is cool to do now," he said. "There are various models, and it's a really great and exciting place to be as an entrepreneur." The next challenge, he added, is to ensure that you connect the right kind of entrepreneur to each type of program.

Spence addressed the concept of impact investing as a method for tackling social or environmental problems while also generating a financial return. He described several examples, such as the Regent Park investment fund backed by the City of Toronto, which raised money to revitalize a neighbourhood while providing investors with a significant return of 5% over 40 years. "In Canada, there's about $5.3 billion in assets that are dedicated in this way," he said. "That's projected to grow to about $30 billion by the beginning of the next decade. Around the world it's a $100 billion market, projected to grow to between $400 billion and $1 trillion." He then outlined his organization's role as a mediator between major investors and potential opportunities. "Think of us like eHarmony for impact investing," he said. "We connect people for mutually beneficial long-term relationships that respect the bounds of securities law while making sure that folks are able to understand the kind of impact that they have."

Nankivell asked Spence if his centre also helps entrepreneurs develop the business skills that are necessary to succeed. Spence noted that MaRS has a small accelerator to provide individuals with the mentorship and support to take their enterprises forward, as well as simply providing them with access to the business network that MaRS has already established.

When asked about what is not working within each model, Sojoodi acknowledged that the hype surrounding incubators and accelerators often eclipses accurate measures of how well they perform. He added that these organizations could do a better job of communicating the broad

networking assistance and mentorship. He also emphasized the need to match the skill-base of spectrum of their activities, so they are not just seen as pools of funding but also as sources of entrepreneurs with an appropriate accelerator for the best result. On this last point, Nankivell asked if participants understood just how high the failure rate can be, something Sojoodi suggested should be a fundamental point of instruction.

Whiler observed that crowdfunding is not well understood by many people, who may not know what is possible or how to proceed. In a similar vein, Spence argued that impact investment does not always live up to the expectations of investors, since these enterprises are not necessarily as growth-oriented as purely commercial ventures. Simply measuring these activities in a meaningful way can pose difficulties, he said, so it is necessary to make sure entrepreneurs compose an "impact narrative" in order to gauge their success and improve upon it.

Nankivell then asked about what is missing from the funding landscape, and how models should evolve. Sojoodi observed that there are already a number of good streams for the funding of would-be entrepreneurs, but the process of identifying those candidates should be refined. He also recommended streamlining some of the bureaucratic processes surrounding government funding, as well as promoting efforts to bring talented individuals from outside the country by offering them permanent residency in exchange for building enterprises here.

Whiler reiterated the importance of striking the appropriate balance between raising investment capital through crowdfunding and protecting participants in this funding model, which could easily flounder if that balance is not found. He noted that setting up an effective portal for these activities will be essential to provide an appropriate level of investor protection and that the OSC is interested in hearing from the business community on this matter. Spence outlined the flip side of this challenge, which is educating the members of that community about how impact investment works and how companies could alter their investment practices to make the most of this approach.

A questioner asked who will be allowed to invest through crowdfunding. Whiler explained that under the proposed exemption, there will be no qualifications required. An investor will, however, have to comply with the investment limits described earlier, These limits broadly align with the amounts investors indicated they would be interested in investing through crowdfunding in a 2013 survey that was conducted for the OSC.

Another questioner referred to Ken Coates' comments about Canadians' lacklustre attitude toward the value of business, and whether popular media initiatives such as *Dragon's Den* could change that attitude. More specifically, the questioner noted that Canada has no requirement that IP generated here must remain here — as the US has stipulated — and whether a new attitude would correct such problems. Spence responded that innovative techniques such as crowdfunding are bound to grow slowly as they establish credibility and value amongst participants. Whiler also noted that the OSC's proposal would require crowdfunding ventures to have a nexus to Canada – they would have to be incorporated or organized in Canada, have their head office located in Canada, and have a majority of their directors resident in Canada..

When asked for her own perception of what is needed to enhance the investment environment in Canada, Nankivell said BDC appreciated the desire of potential investors to seek out an ever wider spectrum of opportunities. “There’s all kinds of innovation out there that just don’t fit traditional venture capital models,” she said. “In clean technology, there’s a lot of capital intensive funding that has to go on that just doesn’t fit an innovation model, and doesn’t fit a fund at all. It’s more like project financing. And it’s very patient project financing for that first commercial deal that’s needed to fill that gap in the market.”

Jeffrey Crelinsten pointed out that within the entirety of the business landscape, venture capital opportunities dry up when an enterprise begins to achieve a certain size. He asked if any of the models that were being discussed could help larger, growing firms move to the next level. Whiler said that the OSC’s proposed prospectus exemptions, including crowdfunding, are intended to facilitate capital raising for companies, particularly startups and SMEs, at different stages in their growth and business cycles. This would encompass those firms that are scaling up. Similarly, Spence said scaling-up is included as part of the long-range planning that is undertaken for impact investing.

A final questioner asked about how these models could be applied to drum up interest in natural resources projects, which might not be seen as innovation and high growth but have the potential to be both. Spence offered examples of how this could work, such as native groups in northwestern Ontario who are moving into forestry ventures in their region. “Canada has a natural advantage in terms of our regulatory environment and our inclination to develop these resources responsibly. And now we have this emerging group of investors who are trying to find these opportunities. So if we can figure out how to match them, it’s a great potential win.” Nankivell added that the concept of innovation is now being extended to include the manner in which investment takes place. “It will be that nexus of capital being properly matched to the opportunity, because right now there’s a whole lot of inefficiency there.”