



fullsail
Summit

Funding our Future
Fostering capital markets
in New Brunswick

January 2007

NEW BRUNSWICK
SECURITIES COMMISSION

COMMISSION DES
VALEURS MOBILIÈRES
DU NOUVEAU-BRUNSWICK



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Letter from the New Brunswick Securities Commission

When the New Brunswick Securities Commission was established in 2004, its mandate was twofold: maintaining investor confidence by serving as a cop on the securities fraud beat, and promoting the growth of New Brunswick capital markets for the benefit of both entrepreneurs and investors. Investor protection is the traditional and expected role for securities regulatory agencies. Actively promoting the growth of capital markets, on the other hand, is not. However, these two goals are complementary – both encourage investment in New Brunswick businesses.

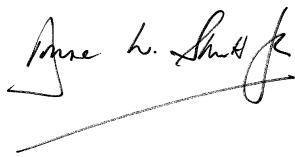
We began our work with determination, enthusiasm, and energy. In 2005 we established a Capital Markets Specialist position to help us meet our mandate. We conducted research nationally and internationally, and consulted widely in the process. In early 2006 we met with over 200 representatives of stakeholder groups in nine communities throughout New Brunswick to discuss the challenges facing New Brunswick entrepreneurs and investors. We also visited the State of Wisconsin, a recognized leader in entrepreneurial and capital market initiatives. Our work gave us a keen understanding of the issues surrounding capital markets and entrepreneurship in this province and prepared us to move forward and take action.

In all our efforts, we at the Commission are conscious of our dual mandate and the delicate balance needed between the sometimes competing interests of investor protection and investment promotion. Despite this challenge, we firmly believe our success must be measured not only by how we fulfill that traditional role of investor protection, but also by the extent to which we are able to help build a visible, viable, efficient capital market in New Brunswick.

This Report is the next step in the Commission's efforts to fulfill our statutory mandate. The Report focuses on recommendations which, when enacted, will not only help the Commission satisfy its mandate but also achieve the diverse goals identified by our stakeholders.

The Commission and its Members and staff are committed to change. We believe strongly that we must play a leadership role as a catalyst and coordinator. However, we also know that our success depends on the support and participation of all our stakeholders. This Report is our call for partnership. We need champions to help develop and implement the goals and recommendations documented here. We sense a growing momentum in our province towards a new business culture of integrity, daring and success.

On behalf of the Members and staff of the Commission, I extend our appreciation to those who have assisted us with this Report. I have every confidence that our stakeholders share the Commission's passion for change.



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A call to action

In October 1986 the City of London – home to centuries-old financial traditions and institutions – experienced an economic rebirth called the Big Bang. Driven by deregulation, the Big Bang propelled London and its institutions beyond their customary comfort zones. It consolidated London's grip on the world's insurance and foreign exchange markets, making London the world leader in hedge fund management and home to the second-largest early stage equity exchange. Launching the Big Bang took bold leadership on the part of a community of stakeholders who shared the passion and vision needed to take London to undreamed heights.

The Big Bang was a financial revolution. As with any revolution, there were losers – stock jobbers and the firms that employed them disappeared in 24 hours. But there were many more winners, including those who filled thousands of newly created staff positions that had never before been imagined, much less realized. The winners included new entrepreneurs who supplied new markets with services ranging from computer networking to sandwich making. The winners included the people of Great Britain, who gained access to share ownership and collectively benefited from the wealth creation made possible by the Big Bang.

It is now time for New Brunswick's Big Bang. Recognizing this, the New Brunswick Securities Commission (NBSC) set to work with a broad range of stakeholders and visionaries throughout the province. Together, we are defining the formula for a revolution that will allow us to fulfill New Brunswick's economic potential.

In 2006, the NBSC began the process by hosting a series of Roundtable discussions featuring extensive and detailed discussions with stakeholders in every part of the province. The Roundtables affirmed our understanding of the inherent challenges in New Brunswick's capital market, but also demonstrated the desire and ability of its people to achieve change.

Our consultations have resulted in 33 recommendations to help us collectively work towards that change. Enacting these recommendations will create many winners and many more opportunities for sustainable success among all our stakeholders.

Revolutions do not happen by themselves. To be successful, they need widespread support within the entire community. We must all act together as catalysts for change. Your leadership and participation is essential.

The Fullsail Summit is the next step toward fulfilling our collective goals. Although the NBSC is hosting this Summit, all members of this community need to work together to realize our common vision. The Summit is our opportunity to refine our goals, find opportunities, define plans of action, and bring about immediate, tangible change.

Executive summary

When entrepreneurs and businesses seek money or capital for growth, they have two options: debt or equity investment. In September 2005, the New Brunswick Securities Commission (NBSC) began to research the level of activity in the province's equity markets. The research confirmed that with only six publicly traded companies, limited venture capital investment, and fragmented and informal angel investment, the province's capital market is under-developed and under-utilized.

To further understand the issues involved, the NBSC organized a series of Roundtables throughout the province, bringing together a wide range of stakeholders. These discussions provided first-hand accounts of the issues and challenges that restrict the development of a vibrant capital market. Attendees at the Roundtables also suggested ideas and recommendations that would help address those issues and challenges.

Those solutions require the collaboration of a number of stakeholder groups. While capital market development is part of the NBSC's mandate, the impact of this issue and the solutions it requires go beyond our reach. To successfully foster the capital market in New Brunswick, a holistic approach is needed, one which will bring together a broad range of stakeholders to take action.

The recommendations derived from the Roundtable discussions drive this effort. Those discussions reflected the collective opinion of the province's economic stakeholders, and also revealed the ability of stakeholders to drive change.

Based on the discussions, the NBSC identified a series of key recommendations that will allow all stakeholders to move forward towards our common goal, stimulating the growth of our capital market. Each recommendation serves one or more of the following objectives:

- Strengthen the entrepreneurial culture
- Increase stakeholder connections
- Improve knowledge of capital markets
- Promote investments

The recommendations meet the following criteria set by the NBSC while drafting this Report:

- They provide a benefit to as many stakeholder groups as possible.
- Their implementation can begin within 12 months.
- They can be grouped into discrete, manageable programs to allow champions to take ownership.

The recommendations have been organized into five programs:

- **Entrepreneurship**
- **Networks for entrepreneurs**
- **Financial incentives for business development**
- **Angel activity**
- **Options for raising capital**

The individual recommendations within each program are listed below and outlined in detail later in this Report. In addition, the first three recommendations promote the awareness of entrepreneurship and apply to all the programs.

1. Provide positive messages about the merits of entrepreneurship and investment within New Brunswick.
2. Actively promote New Brunswick entrepreneurship and investment.
3. Initiate a "Bring Back New Brunswickers" Program.

Equity usually takes the form of shares, with each share representing part ownership in a business. Unlike lending institutions, shareholders' claim on the business is represented by the value of the business after all outstanding debt has been repaid. Traditional providers of equity capital include friends, family, business associates, angels, and venture capitalists. The general public can also participate if the business chooses to "go public" on a stock exchange.

The financial term 'angel' owes its origins to 1920s Broadway. Angels were wealthy Wall Street bankers who offered personal financial support to Broadway producers in return for a share of the profits from stage productions. More recently, the term was re-introduced at the end of the 1970s to refer to successful entrepreneurs from Silicon Valley in California who took an equity position in the numerous new high-tech start-ups in the area. Angels, as a recognized type of investor, began to appear in Canada in the late 1990s.

A business's early stage begins when the business exhausts its start-up funding from family, friends and the founder and has begun to seek a second round of financing.

An intrapreneur is an entrepreneur who works from within a business, organization or institution. These individuals constantly strive to improve products, services or performance, identify new markets, or make other tangible contributions.

Entrepreneurship

4. Create a *Premier's Council on Entrepreneurism*.
5. Provide post-secondary students with work experience and consultancy opportunities at early stage businesses.
6. Develop a culture of collaboration among universities and colleges to encourage entrepreneurship.
7. Create an alliance between employers and labour to foster a positive entrepreneurial environment.
8. Provide better access to investment readiness tools, including marketing tools.
9. Launch education and awareness campaigns about all types of capital markets.
10. Educate the public, private, and academic sectors about the benefits of capital markets, entrepreneurs and 'intrapreneurs'.
11. Create awareness within traditional financial institutions about the benefits of facilitating access to equity financing for entrepreneurs.
12. Develop a mentoring network, including a 'train the mentor' component and a component that matches entrepreneurs with mentors.
13. Encourage entrepreneurial and intrapreneurial growth within academia.
14. Teach students that entrepreneurship is a desirable career objective.
15. Develop a web portal aimed at high school and post-secondary students to showcase career paths and academic requirements.
16. Establish university and community college 'entrepreneurs in residence'.
17. Create a long-term media alliance to encourage positive messages about the merits of entrepreneurship and investing within New Brunswick.

Networks for entrepreneurs

18. Establish a provincial network of information resources for entrepreneurs.
19. Prepare consulting, accounting and legal firms to work with entrepreneurs and equity capital.
20. Connect business owners who wish to retire to networks of entrepreneurs interested in acquiring businesses.

Financial incentives for business development

21. Create a tax credit for community venture capital and early stage investment.
22. Increase the dividend tax credit for New Brunswick private corporations.
23. Repay student loans for graduates of New Brunswick universities and colleges who remain in the province and become entrepreneurs or are employed in their field of study.
24. Promote executive recruitment using financial incentives.
25. Encourage businesses and employees to participate in employee share purchase or share option plans.

Angel activity

26. Create a New Brunswick Angel Network.
27. Create a web portal for New Brunswick angels.
28. Promote the creation of angel networks that serve specific regions or demographic groups.

Options for raising capital

29. Establish an annual Lieutenant-Governor's Venture Plan competition.
30. Promote awareness among entrepreneurs and the advising professions about the ability to 'test the waters' and publicly solicit capital investment.
31. Establish university and community college angel capital funds.
32. Establish a New Brunswick sidecar financing fund.
33. Encourage the New Brunswick Investment Management Corporation to allocate its stated 2% objective for 'alternative' investment.

This report and its recommendations serve as a call to action. The Roundtables helped to clarify the inherent challenges in New Brunswick's capital market. They also affirmed the desire and abilities of the people in this province to achieve positive change.

The NBSC recognizes that current approaches to economic development and the use of debt versus equity are achieving their desired outcomes. However, the number of opportunities to facilitate business growth can be increased. Our recommendations create opportunities for businesses in different stages of development, helping them grow and making their employees, investors and communities more prosperous.

In addition to the recommendations, this initiative will also incorporate those local initiatives that are currently producing success stories in this province. The intent is not to abandon our current efforts and successes, but to build on them.

A wide range of stakeholders is needed to champion initiatives and make progress towards the creation of a vibrant capital market. The development of that market will increase investment, innovation and prosperity for all New Brunswickers. But the development will not take place if we maintain the status quo or simply tweak the system. We need a coordinated effort and a commitment to change.

This Report, and the Fullsail Summit, provide the groundwork for what will be the most important economic effort to be launched in this province in recent years.

Sidecar financing provides capital that 'rides' or invests alongside an angel group. Sidecar funds participate in transactions where angels have performed the due diligence and have decided to invest. Sidecar funds accept the same terms and conditions as those granted to the angels, and may provide matching funds or a fraction of the funds invested by the angels.

Objectives of Fullsail

The goal of Fullsail is to stimulate the growth of New Brunswick's capital market. Four key objectives, identified during the Roundtables, will allow us to achieve this goal:

- Strengthen our entrepreneurial culture
- Increase stakeholder connections
- Improve knowledge of capital markets
- Promote investments

Objective 1: Strengthen our entrepreneurial culture

Strengthening the entrepreneurial culture will probably have the greatest impact on our capital market. Current equity financing arrangements in New Brunswick are extremely small and precarious. The size of our equity market is limited by the fact that there are few individuals who understand capital market development and growth.

A long-term commitment is needed from all stakeholder groups to strengthen our entrepreneurial culture. In the near term, this will provide the full benefits of wealth creation for the province and greater empowerment for individuals. On the other hand, if we fail to strengthen our entrepreneurial culture, the province will continue to fall behind the Canadian average in terms of business development, economic health, and standards of living.

For the province's capital market, maintaining the status quo is no longer viable. Global pressures, and those within Canada, are creating challenges and opportunities at breakneck speed. The flight of capital, both financial and human, now takes place effortlessly. Unless we strengthen our entrepreneurial culture, that capital will continue to be attracted to opportunities outside New Brunswick, at a high cost to us as individuals and as a province.

Objective 2: Increase stakeholder connections

The life of a typical entrepreneur is one large 'to do' list. Tasks such as promoting their businesses, building effective teams and managing cash flow distract business owners from their core competencies. At times, entrepreneurs require skills they do not personally possess. In the past, entrepreneurs have reached into personal networks of friends and fellow business people. While these networks are useful, they often do not meet entrepreneurs' needs, such as more specific knowledge or sector contacts outside their communities. This type of personal networking also tends to be time intensive and inefficient.

It is important not to underestimate the value of traditional face-to-face networking. However, communications tools such as web portals greatly enhance networking, allowing a greater connection of ideas and products across the province. These tools also help entrepreneurs become more educated and better equipped.

Online networks can give investors an insight into what the province's entrepreneurs are developing and what their financing needs might be. In addition, online networks could give the provincial government a better understanding of the needs and challenges experienced by entrepreneurs.

Objective 3: Improve knowledge of capital markets

Given that New Brunswick has six of Canada's 3,500 listed, publicly traded companies, few New Brunswickers are aware of the state of the province's capital market. Most New Brunswickers' knowledge of equity finance is limited to what they read in the papers or discuss with their financial advisers during RRSP season. Even for most business students, knowledge of equity capital is restricted to the trading activities and financial structures of the world's leading businesses. Not surprisingly, this lack of public awareness about equity finance in New Brunswick was reflected in the knowledge and attitudes of most of the stakeholder groups that participated in our Roundtables.

Access to capital requires access to information. To gain access to capital:

- Entrepreneurs must be aware of the equity option
- Investors must be aware of financial instruments that allow them to invest
- Professionals must be aware of the accounting, legal and consulting requirements needed to facilitate deals between entrepreneurs and investors.

Providing equity finance information to New Brunswick stakeholders will help to create supply and demand for investment, which will in turn increase knowledge and overall wealth creation. Entrepreneurs will be able to realize the full potential of their ideas, and investors will be able to reduce their investment risk through diversification. Professionals will gain additional fee income and have the opportunity to help their communities grow.

Objective 4: Promote investments

Common shares, preferred shares, convertible debentures, and other yet-to-be-invented financial instruments are needed to foster the province's capital market. While some of these seeds for corporate and economic growth currently exist, we need to promote their use.

In New Brunswick, the 'Valley of Death' – that lull in financing between start-up funding and market development – is real to most growing businesses. There are few options available to entrepreneurs who wish to expand their businesses past the early stage. To provide the needed financing, a combination of incentives and new funding options is required.

Many of the Fullsail recommendations focus on helping early stage businesses find and secure investment. Encouraging the growth and success of these businesses through equity investment will allow the province's capital market to thrive in the long-term.



Recommendations

The Roundtable sessions led to the identification of 33 key recommendations that, if implemented, will allow us to achieve our objectives and fulfill our goal of stimulating the growth of New Brunswick's capital market. We grouped these recommendations into five programs:

1. Entrepreneurship
2. Networks for entrepreneurs
3. Financial incentives for business development
4. Angel activity
5. Options for raising capital

These programs require a holistic approach, rather than the 'silo' approach that traditionally has been applied to similar initiatives. A broad range of champions and owners will need to work together to execute the recommendations, forming teams that cross institutional boundaries and share leadership. □

In addition to the recommendations within the five programs, three recommendations address the need to increase awareness about entrepreneurial initiatives. These recommendations, outlined next, have an impact on each of the five programs.

Increasing awareness

The Roundtables provided valuable insight into the culture of entrepreneurship in New Brunswick. Gaining that insight required extensive discussions with key stakeholders across the province. Those discussions and the research behind them revealed a lack of awareness about entrepreneurship in New Brunswick. We must address this challenge.

To strengthen our culture of entrepreneurship, we must show that entrepreneurial activities are viable in New Brunswick. Across this province, we find stories of great success on a global scale which are known only to local individuals or to people within related sectors. We need a long-term awareness campaign to show the benefits of entrepreneurship and highlight the need to provide support – financial and intellectual – to entrepreneurs.

New Brunswick's educational system has produced individuals capable of operating at all levels within corporate Canada. Their skills and knowledge, if applied within New Brunswick, would greatly enhance wealth creation and increase our human capital. Our awareness campaign should showcase these individuals as examples of New Brunswick's potential for success.

An important element in this campaign should be its focus on positive messages. Roundtable delegates reported many examples of the media pursuing business failures and perceived misallocations of government resources. A continued focus on negative examples is counter-productive, eroding support for a culture of entrepreneurship and making it more difficult for this province to realize its potential for growth. □

An awareness campaign will improve capital market expertise in our province and demonstrate the entrepreneurial and investment opportunities available here.

Recommendation 1: Provide positive messages about the merits of entrepreneurship and investment within New Brunswick.

Success breeds success. A number of entrepreneurial and financing success stories came to light during the Roundtables. Unfortunately, due to the lack of a reporting strategy and little positive media coverage, few people not directly connected to these success stories were aware of them.

Enhancing public awareness about entrepreneurs and successful ventures in this province would help change the misconception that success simply doesn't happen here. Our failure to identify positive examples or promote entrepreneurial success has resulted in an environment without apparent winners or heroes – new entrepreneurs who aspire to succeed.

We need to showcase our successes and demonstrate to entrepreneurs and investors that New Brunswick is a good place to build businesses and create wealth.

Actions:

- Make the media aware of success stories. □
- Provide venues to showcase success stories, and positive coverage of business developments and financing □ success stories when they occur.
- Motivate and assist local businesses in their communications with the media (for example, providing support □ tools such as press release guidelines and training, assigning local media champions, and providing easy □ access to media contacts and local support resources).

Recommendation 2: Actively promote New Brunswick entrepreneurship and investment.

Many New Brunswickers believe that they live in a 'fly-over' province. This perception, which is also common outside the province, discourages business growth and investment. Provincial awareness campaigns have used the media to focus on this province's natural wonders and hospitality. To increase awareness about the province's business assets, a more dynamic and personal message is needed.

High-profile leaders among our private and public sector stakeholders and academia are in high demand at many venues. These leaders have the power to influence perceptions about New Brunswick and its business climate. By focusing during public engagements on the province's entrepreneurial spirit, successes and investment opportunities, our leaders will generate greater interest in the province and its economic potential. However, to be successful, our message needs to be positive, consistent, and sustained over the long term.

Action:

- Actively promote New Brunswick at every opportunity as a centre for entrepreneurism and as a proper □ place to invest.

Recommendation 3: Initiate a "Bring Back New Brunswickers" Program.

The 'brain drain' in New Brunswick began in the 1950s. In recent years the problem has become significant and is no longer offset by immigration. The departure of graduates and skilled workers represents a failure to protect taxpayer investment, a drain of the invaluable human capital needed to generate new ideas and businesses, and a loss of the skilled labour needed to support economic growth.

We must create an environment that allows graduates and skilled workers to find opportunities within our province. We also need to promote the vision that New Brunswick is a place to thrive.

Equally important is the need to bring back to the province those who have already left. Expatriate workers, with experience acquired elsewhere in large urban centres, are an untapped economic resource. To take advantage of this resource, we must make it practical for those workers to return.

A key part of the program must be the support and facilitation that returning workers need once they arrive. Past programs based only on information campaigns failed to provide assistance, offer employment prospects or facilitate job searches for returning workers. Our program has to do more than simply invite New Brunswickers back to the province. We must ensure that opportunities exist once these workers arrive, and that they receive the support they need.

Actions:

- Launch a branded "Bring Back New Brunswickers" program. Incorporate into the program the lessons learned from similar past programs which have been less than successful.
- Provide the support and networking that returning workers and graduates need to pursue entrepreneurial ideas.
- Create a Welcome Back kit that shows New Brunswickers living outside the province the opportunities that exist in this province today. The kit should include information about New Brunswick success stories, opportunities and economic developments, resources and contacts, and forms and links that can be used to request more information.

Entrepreneurship

A key contributor to the success of entrepreneurs, employees and the provincial economy is education.

We must encourage the province's youth by presenting them with realistic options to become entrepreneurs, and by giving them the educational tools they need to succeed as entrepreneurs. Educational institutions must strongly promote the idea of entrepreneurship as a goal throughout the educational experience.

However, this effort goes beyond just our educational institutions and our youth. It even goes beyond entrepreneurs themselves. We need a multifaceted approach to entrepreneurship and education. To make a culture of entrepreneurship thrive, we must educate employers and their employees, labour representatives, and all stakeholders in the public, private, educational and financial sectors. This approach will ensure that everyone in a position to foster and support entrepreneurship understands the importance of doing so.

Specialist workshops may be an effective approach for making educational support accessible to entrepreneurs outside post-secondary settings. However, we need to expand our definition of education for entrepreneurs to include less traditional approaches to education. Financial institutions and all levels and departments of government need to be more aware of the importance of entrepreneurs in the province and in their communities. An awareness of entrepreneurship will make it easier for intrapreneurs – entrepreneurs functioning within businesses and institutions – to flourish, and help traditional financial lending institutions more easily see the benefits of helping entrepreneurs obtain equity financing.

Recommendation 4: Create a Premier's Council on Entrepreneurism.

Canada is the only G8 country in which there is no national government department working specifically on behalf of small businesses. This is also true of the Government of New Brunswick. The Roundtables confirmed that small New Brunswick businesses feel they require allies within the provincial government.

Within Canada, other provinces such as Ontario and British Columbia addressed this problem by instituting programs that give small businesses and entrepreneurs a channel for communicating directly with government decision makers.

Action:

- Establish a Premier's Council on Entrepreneurism. The Council – made up of angels, academics and small business owners nominated by their peers – should report directly to the Premier's office to provide an 'on the ground' understanding of trends in innovation, finance and business thinking. This group should meet regularly with the Premier to identify and prioritize issues of importance to the entrepreneurial community. We suggest that this will help the government make effective decisions. It will also send a strong signal to entrepreneurs, investors and other government policymakers – as well as those outside the province – that the government is committed to entrepreneurship, investment and growth. Small business owners should be nominated to take part in the Council through the enterprise networks and other business groups.

Recommendation 5: Provide post-secondary students with work experience and consultancy opportunities at early stage businesses.

Demands on the human resources of growing businesses are immense. For early stage businesses, human resources and their associated costs are as important to success as financial resources.

At the same time, post-secondary students need opportunities to develop in-demand skills and practical real-world experience. This juxtaposition provides a way for both students and businesses to get what they need: work experience for students and financial savings for early stage businesses.

Co-op programs sponsored through post-secondary institutions can connect students and entrepreneurs. However, these programs require a commitment on the part of educational institutions and businesses to free up students and deliver jobs that will provide skills development and experience. An effective collaboration between post-secondary institutions, students, and early stage businesses to support co-op programs might offer a number of benefits:

- Future employees who share the passion, vision, and mission of the founding team
- Access to skills and research needed on a short-term basis
- An awareness among students about options for becoming an entrepreneur or working for an early stage business
- Greater recognition of the post-secondary institution as a provider of knowledge capital
- A reduction in the brain drain

Actions:

- Develop entrepreneurial co-op programs that serve the needs of both students and entrepreneurs.
- Find opportunities to place co-op students within early stage businesses.
- Offer co-op (work experience) streams for key programs. For example, the University of Waterloo offers a four-year non co-op program and a five-year co-op program in the same disciplines.

Recommendation 6: Develop a culture of collaboration among universities and colleges to encourage entrepreneurship.

An MBA student writes a fictitious business plan as course work, while at the same time a frustrated computer animation student tries to write a real business plan to create a new business. If there was a way to connect these two students, both would benefit: the MBA student would gain experience with an early stage business, and the computer animation student would benefit from a more effective business plan. Unfortunately, the collaborative framework needed to make these types of connections doesn't exist.

Today, our academic institutions work within traditional, institution-based silos, and many institutions do not offer all the programs or training needed to run a business (for example, offering animation training but no business training). The lack of collaboration between institutions results not only in inefficient use of human capital, but also in a loss of ideas and opportunities that could be created by diverse teams of students and educators working together.

Key technologies – voice over IP, webcasting and e-learning – have eliminated the traditional barriers to collaboration: distance and cost. We must also eliminate the remaining cultural barriers, such as the resistance of universities and community colleges to work together. By empowering students and educators to form alliances, we will make the most of our human capital. We will also find opportunities to create both partnerships and employment with businesses of the future. Students will gain insight and taxpayers will get an even greater return on their education investments. Over time, this collaboration will foster cooperative ventures that will reduce our province's brain drain and create opportunities for graduates to become New Brunswick entrepreneurs.

Actions:

- Identify opportunities for collaboration between programs and institutions, and specifically between business students and students in other disciplines.
- Designate a single point of contact at each institution to coordinate collaboration.
- Encourage an open, collaborative, entrepreneurial culture among students and faculty.

Recommendation 7: Create an alliance between employers and labour to foster a positive entrepreneurial environment.

The success of early stage businesses is founded on an adaptable labour force, innovation, and finance. At this crucial stage of a business's development, both employer and employees are integral to the venture's success, and a partnership between business owners and workers becomes essential. An inflexible management team or a rigid labour force will stifle even the best of ideas.

The likelihood of success increases when both partners in business – employers and employees – collaborate for their mutual benefit. On the other hand, a failure to collaborate discourages the launching of new businesses and makes it more difficult for potential workers to find desirable employment. A frank and honest dialogue about innovative work practices and remuneration strategies is needed.

Actions:

- Collaborate to help early stage businesses and entrepreneurs find the labour solutions they require.
- Facilitate dialogue between labour groups and local employers or entrepreneurs.
- Acknowledge the contribution that employees make to business innovation and financial well-being, and find ways to accommodate both business and labour requirements.

Recommendation 8: Provide better access to investment readiness tools, including marketing tools.

To take a business past the early stage (the idea phase), owners often require more capital than they can generate themselves. Obtaining additional capital – especially from non-traditional lending sources – requires a demonstration of the business's ability to handle equity investment. Entrepreneurs have to be able to sell their ideas and themselves – their passion and business acumen.

During the Roundtables, many potential lenders and investors told stories about entrepreneurs who lacked the skills and attitude needed to make that 'sale'.

Most entrepreneurs have a passion to succeed. However, to successfully court investment capital, entrepreneurs must be able to pitch their ideas using short, easily understood messages. The entrepreneur's ability to communicate effectively with investors, and identify the key points or concepts that are important to investors, is crucial to success.

Actions:

- Offer a province-wide, long-term program to provide entrepreneurs with investment readiness training and aids that will help them make successful pitches to investors. This may involve a web portal, workshops, and an awareness campaign.
- Sponsor 'open pitch' competitions to promote the value of pitch skills. For example, in educational institutions this could be offered as a component in a Grade 12 business class, as part of public speaking in university English courses, or combined with business plan competitions.

Recommendation 9: Launch education and awareness campaigns about all types of capital markets.

As an overseer of investment markets, the NBSC's role includes regulating capital markets and providing information to participants in those markets. Today, the NBSC focuses on traditional investors and traditional investments. It does not offer educational aids to investors wishing to learn about alternative forms of investment, such as private equity, or to entrepreneurs seeking to raise equity capital.

Actions:

- Offer educational materials and initiatives that focus on equity financing and that serve both investors and entrepreneurs seeking investment.
- Enhance the NBSC website by including educational content about equity capital for both investors and entrepreneurs, hyperlinks to relevant websites, education-oriented events and courses, and other relevant materials.

Recommendation 10: Educate the public, private, and academic sectors about the benefits of capital markets, entrepreneurs and 'intrapreneurs'.

The success and growth of the province's entrepreneurial culture and our capital market depends on the participation of all the province's stakeholders – public, private, and academic. We need to work together and make use of all available resources and opportunities.

To ensure that all stakeholders take advantage of all resources and opportunities, we must educate ourselves about the value of capital markets, entrepreneurs and intrapreneurs.

Actions:

- Demonstrate the value of entrepreneurship by showcasing positive examples and successes.
- Encourage the departments of the provincial government to work together to promote and support entrepreneurs.
- Educate government departments to promote entrepreneurship within those departments, and to get 'buy in' from all levels of management within the provincial government.

Recommendation 11: Create awareness within traditional financial institutions about the benefits of facilitating access to equity financing for entrepreneurs.

In a 2002 survey conducted by the London Stock Exchange, newly floated businesses (recent IPOs) were asked, "Who was your first point of contact to discuss going public?" Fifty five percent of respondents answered that it was the business's financial institution. A similar survey by the New Zealand Stock Exchange produced similar results. These surveys demonstrate the significant influence of traditional financial institutions on the success of capital markets.

In New Brunswick, stakeholders have expressed frustration with their local financial institutions, which tend to solve expansion and cashflow problems through debt financing. Commercial account managers working for financial institutions in New Brunswick and elsewhere must be encouraged to facilitate this province's capital market development by considering equity financing as a solution to these problems.

Private equity takes the form of privately held shares. Unlike publicly traded shares, privately held shares are usually held for long periods of time, and the price of purchase or sale is determined through personal negotiation.

Today, the promotion, development and support of the province's entrepreneurs and businesses is restricted primarily to a single department of the Government of New Brunswick. In contrast, in the State of Wisconsin, support of entrepreneurs is encouraged in all state departments. For example, the Wisconsin Department of Agriculture works actively with entrepreneurs to develop bio-fuels in order to better utilize the state's agricultural and forestry assets.

Actions:

- Convene a summit with the province's private lending institutions to establish a long-term awareness program promoting the use and benefits of equity financing.
- Empower commercial account managers to actively promote equity financing as a feasible funding option.

Recommendation 12: Develop a mentoring network, including a “train the mentor” component and a component that matches entrepreneurs with mentors.

The media often portrays entrepreneurs as lone individuals with innovative ideas taking on the establishment. In reality, a successful entrepreneur is surrounded by a highly capable team. The unsung hero on this team is often a mentor who provides the less experienced entrepreneur with emotional support and the benefits of the mentor's business acumen. In the corporate world, the importance of mentoring is demonstrated by the growing global use of executive coaches.

At the small and medium sized enterprise (SME) level, mentoring within New Brunswick is currently provided in most regions on an ad hoc basis, and most entrepreneurs' desires for mentorship go unfulfilled. A dynamic, province-wide mentoring network is needed to help foster and support entrepreneurial activities throughout New Brunswick.

Actions:

- Recruit and train mentors.
- Launch a Train the Mentor program, giving mentors the skills they need to mentor effectively.
- Launch a program to match entrepreneurs with mentors. Include both mentors with 'soft' skills and mentors with 'hard' skills. Soft-skill mentors possess entrepreneurial skills and experience, and are able to offer sector specific insights and contacts. Hard-skill mentors possess specific skills (for example, accountants, lawyers or marketing consultants) and are able to offer advice about technical matters.

Recommendation 13: Encourage entrepreneurial and intrapreneurial growth within academia.

There is a great deal of frustration among stakeholders over the lack of innovation in the products and services offered by New Brunswick's private sector. One way to address this issue is to commercialize research and development (R&D) within the province's universities to create opportunities for private-sector innovation.

However, we must first promote entrepreneurial attitudes and initiatives within these universities. It is important to have broad support within universities for entrepreneurial and intrapreneurial initiatives and an effective reward system that recognizes the value of commercialization. Creativity and innovation thrive in environments that empower staff to think and behave like entrepreneurs and be rewarded accordingly.

Actions:

- Collaborate to foster the development of incubators and the infrastructure needed to capitalize on R&D.
- Actively pursue and endorse the commercialization of R&D at post-secondary institutions; publicly support educators who commercialize research; and revise mission statements to prioritize economic growth and development, entrepreneurship and commercialization.
- Allow financial rewards for innovators, departments and faculties that commercialize their R&D (for example, through licensing), and champion those innovators.

Recommendation 14: Teach students that entrepreneurship is a desirable career objective.

Throughout our school years, we are told that an education will provide us with the knowledge and tools we need to obtain employment. This is reinforced in post-secondary institutions. Unfortunately, equating education with employment often excludes entrepreneurship and the idea of creating jobs rather than simply finding them. The result is a population that thinks about economic survival in terms of finding employment, instead of thinking about job creation and entrepreneurial ways to generate wealth. We must teach students that entrepreneurship is also a desirable and honourable career objective.

This is a long term problem, but it is important that we make changes now to benefit future generations of potential entrepreneurs and wealth creators. We must change how we talk to our youth about the purpose of education and what they can accomplish with it. This change needs to start in grade school and continue into our post-secondary institutions. To make this change effective, we must also convince curriculum designers and educators themselves that preparing students to become entrepreneurs is a necessary part of the educational process.

Actions:

- Equate education with success in entrepreneurship as well as employment. For example, educators could talk about how newly acquired knowledge could help an entrepreneur. Entrepreneurship could be included in mission statements. Institutions could even host on-site entrepreneurial fairs.
- Create messages about the value of education that include a focus on business creation as well as employment.

Recommendation 15: Develop a web portal aimed at high school and post-secondary students to showcase career paths and academic requirements.

In 2005, Statistics Canada successfully predicted that by 2006 the population of New Brunswick would begin to decrease. This trend, combined with one of Canada's fastest aging populations, is gradually shrinking New Brunswick's labour pool and creating a chronic skills shortage.

To reverse this trend, we must manage the province's diminishing human capital more efficiently. We need to cultivate a labour pool that can contribute to sustainable economic growth. This effort requires the collaboration of business and the entire educational system. We must support young workers and guide students into educational programs that provide the in-demand skills that New Brunswick will need to sustain its economy and infrastructure.

For the private sector, success in this effort could result in a larger supply of workers with relevant skills. For the public sector, this effort will direct taxpayer dollars into core subject areas that will benefit the province's economic growth and support wealth creation for our youth. The result will be better qualified employees and entrepreneurs.

Action:

- Create a web portal operated by the public and private sectors to give high school and post-secondary students a summary of the province's current and predicted skills shortages. In addition, provide a list of the courses or programs needed to develop skills and obtain certification, along with information about educational institutions that provide those courses and programs.

Recommendation 16: Establish university and community college 'entrepreneurs in residence'.

The federal government, taxpayers and some in the private sector have complained about the slow pace at which Canada's universities turn research into commercially viable products, and the high costs associated with those efforts. It is true that the commercialization of research and development (R&D) at New Brunswick's post-secondary institutions has been gathering momentum, but more can be done to hasten the process.

University staff and students who lack the insight gained by experience in the marketplace may not be the people best qualified to identify and mentor those individuals with ideas that have market potential (nor should these staff or students be burdened with that responsibility).

To help identify market-viable ideas and provide the mentorship needed to allow staff and students to commercialize their ideas, all post-secondary institutions should have an entrepreneur in residence. This approach, used by universities that are successful in R&D, provides the host institution with market insight and a focus on research that is commercially viable.

For the innovator, the resident entrepreneur can provide access to contacts and ideas from outside academia, complementing discoveries and aiding in the adoption of products and services in the market. For the post-secondary institution, the resident entrepreneur allows more efficient allocation of hard-won research dollars and the opportunity to gain much needed revenue from the licensing or sale of intellectual property.

Action:

- Host an 'entrepreneur in residence' at all universities and community colleges to provide the mentorship that staff and students need to commercialize their ideas.

Recommendation 17: Create a long-term media alliance to encourage positive messages about the merits of entrepreneurship and investing within New Brunswick.

As discussed in Recommendation 1, the lack of positive media messages about entrepreneurship in New Brunswick has created a perception that limits both investment and the willingness of entrepreneurs to take chances and launch new businesses. To change this perception, we must work more effectively to ensure that success stories get media coverage.

An alliance between media and business organizations could make it easier for the media to find and report on New Brunswick success stories. An alliance could also give successful entrepreneurs the tools they need to approach and engage with the media to have their stories told.

By collaborating, entrepreneurs and the media can promote a positive 'can-do' vision of New Brunswick that will help foster early stage businesses and garner the attention of investors from outside the province.

Actions:

- Establish contacts within enterprise networks, Boards of Trade and Chambers of Commerce to identify business success stories.
- Alert the media to success stories and facilitate contacts between the media and successful businesses.
- Create tools, templates and contact lists that entrepreneurs can use to issue press releases, host press conferences, manage interviews, and otherwise engage with the media.

Networks for entrepreneurs

It is important to develop formal networks for entrepreneurs. These networks, operating in concert with existing local networks and feeding into a single, province-wide, top-level network, will give current and prospective entrepreneurs much needed support. New entrepreneurs considering the launch of a business are more likely to proceed with their plans if they know that networks exist to promote and support new business development. These networks will provide an accessible market for services and employees, and make it easier for service providers to enter the market.

Networks that serve entrepreneurs will strengthen New Brunswick's entrepreneurial culture by directly encouraging the development of entrepreneurs and indirectly providing the human capital that entrepreneurs need to succeed.

The primary mission of the proposed networks should be the delivery of entrepreneurial resources and expertise from across New Brunswick. The networks will allow entrepreneurs with technical expertise to draw upon the resources needed for the daily running of a business. The networks would also allow for the coordination of resources by providing integrated support to entrepreneurs in all industries and stages of development. Entrepreneurs could receive personal or web-based assistance with:

- Starting and expanding a business
- Finance, accounting, business management, and marketing
- Business and strategic planning
- Intellectual property and product development
- Competitive research.

Networks have traditionally been used by entrepreneurs to trade 'war stories', gain insight about potential markets, and make contact with other entrepreneurs. These networks could be made more effective by giving entrepreneurs access to people who are familiar with equity financing, making entrepreneurs more inclined to pursue this form of financing.

Online tools should be used to enhance the effectiveness of these networks and make them convenient and accessible to entrepreneurs throughout the province. Web-based features could include:

- Tools for finding people, organizations, and incubators that could help address specific needs
- A guide to events and workshops for entrepreneurs
- A periodic electronic magazine that includes success stories and news
- A toolbox for entrepreneurs (resource centre, job board, and a range of publications).

In general, networks that serve entrepreneurs' needs will greatly enhance entrepreneurs' access to information and other resources, making it easier for New Brunswickers to successfully launch businesses.

Recommendation 18: Establish a provincial network of information resources for entrepreneurs.

Currently in New Brunswick, a number of different organizations provide information resources for entrepreneurs. Each organization has its own mandate and provides resources in very different ways. The resulting inconsistencies and duplications of effort create problems for the organizations as well as for entrepreneurs. Budgets suffer from the inefficiencies of duplication and staff fail to benefit from the insight that would be gained through inter-agency collaboration.

One solution is a network of information resources provided through a common, consistent online portal. A good example of this approach is the Wisconsin Entrepreneurs' Network (www.wenportal.org), which provides a range of useful resources and 'one-stop shopping' for entrepreneurs in that state.

Much of the needed infrastructure already exists in New Brunswick, requiring only coordination and the enhancement of the delivery of those information resources and services.

Action:

- Develop a province-wide, fully integrated enterprise network portal. This portal will give entrepreneurs access to the best available sources of business information and skill development. Resources should include discussion boards, notifications of events (such as future angel investment forums), and detailed descriptions and case studies of New Brunswick success stories.

Recommendation 19: Prepare consulting, accounting and legal firms to work with entrepreneurs and equity capital.

Fostering capital markets requires more than just entrepreneurs with vision. We also need networks of professionals – lawyers, accountants and management consultants – who are equipped to create the financial and legal structures those entrepreneurs require.

Both entrepreneurs and professionals profess to knowing little about the processes and ideal corporate structures needed to pursue private equity. This limited knowledge of equity financing leaves professionals with few incentives to actively promote the use of equity capital, limiting the potential growth of their clients' businesses and their local economies.

It may also lead New Brunswick professionals to sacrifice their own potential revenue, as entrepreneurs are forced to find expertise outside the province. Currently, many entrepreneurs report a tendency to avoid local professionals because of the ramp-up costs and risks associated with having those professionals learn about equity financing 'on the clock'.

Angel investors and venture capitalists based along Route 128 near Boston traditionally consult with their accountants or lawyers before investing outside their region. With no contacts or awareness of provincial regulations, key advisers are hesitant to support their clients' pursuit of trans-border investment opportunities.

In many regions, professionals act as conduits to capital. In New Brunswick, entrepreneurs and properly equipped professionals could work together to attract external investment to the province with far greater success.

Professional associations could also work with entrepreneurs' networks to ensure that entrepreneurs have access to qualified professionals in their areas.

Actions:

- Provide specialized training in equity finance. For example, institutions teaching the law should include securities law as part of their course curriculum.
- Sensitize professional communities to the need to support capital markets and equity financing. Highlight professionals' role in the raising of capital.
- Build relationships and partnerships with colleagues in the Boston area. □

Recommendation 20: Connect business owners who wish to retire to networks of entrepreneurs interested in acquiring businesses.

The most recognized impacts of New Brunswick's aging demographic are increasing health care costs and future shortages of human capital. However, another important but rarely discussed effect of this demographic change is its impact on the small and medium sized enterprise (SME) sector.

Research has shown that about 40% of SME owners will retire within the next five years. About one third of those will do so by closing their businesses, throwing roughly 13% of the current private sector workforce into unemployment.

Left unaddressed, this coming trend could create an employment crisis within our province. However, there is a way to turn this problem into an opportunity. Instead of simply closing their doors – and sacrificing much of the value of their businesses – retiring owners could let their businesses continue to operate while withdrawing the value of the business through the sale of shares over time. This provides a mechanism for owners to 'hand off' their businesses to new entrepreneurs.

There are clear advantages for business owners. Wealth generated from the sale of shares will benefit owners and their families. Owners will be able to gradually withdraw from their businesses and reduce their involvement as much or as little as they wish as they move towards full retirement. The businesses will continue as legacies that bring benefits to the community.

This solution offers benefits for the new entrepreneur as well: financing can take place over a longer period of time; the previous owner has an incentive to work with the new owner to continue to expand the business; and during the transition the new owner gains 'institutional knowledge' about the business and how it is run.

For local communities and our economy in general, there are also many benefits. Successful businesses will continue to operate and generate wealth and employment. In addition, the increase in available share capital will stimulate interest in equity financing.

Actions:

- Launch an awareness campaign targeting business owners, employees, and entrepreneurs, showing the benefits of succession planning and encouraging the selling of equity as a way to transition out of a business.
- Recognize the business value and low risk associated with these business transitions and provide appropriate financing to entrepreneurs buying into existing businesses.
- Establish a network to connect retiring business owners with potential entrepreneurs.

Financial incentives for business development

Statistics available from the angel and venture capital community suggest that only one in five businesses will succeed, three will break even or experience a slight loss, and one will be a complete loss.

Investors reduce this risk by performing due diligence, and in some cases by providing mentorship. Entrepreneurs also reduce this risk by seeking out employees with experience and expertise in key areas. These measures are most effective in the medium term (two to five years). The short term is more problematic.

Tax measures can help to reduce risk in the short term. A tax system that promotes small business investment by providing tax credits or capital gains tax adjustments can offset short-term risk by allowing greater returns for investors during early stage investments. There are many successful examples of this approach, including the United Kingdom's Enterprise Investment Scheme, Wisconsin's Act 255 (called the Angel Investors Tax Credit), and British Columbia's highly successful Small Business Venture Capital Act. These programs have led to many successful business growth and wealth creation stories, prompting the expansion of the programs.

Recommendation 21: Create a tax credit for community venture capital and early stage investment.

There is a risk involved with investing in early stage businesses, which makes it difficult for businesses to secure financing. To attract investment, entrepreneurs must be able to provide investors with equity instruments that provide benefits to investors but do not limit opportunities for future business growth.

New Brunswick's Small Business Investment Tax Credit (SBITC) is intended to serve as a financial mechanism to encourage individual investors to take an equity stake in early stage businesses. However, according to a majority of our stakeholders, the SBITC does not always meet that goal. The SBITC applies only to businesses that issue common share capital, and not to the preferred shares or convertible debentures that some angels desire. This restriction is further compounded by the liability of directors to repay the tax credit should the firm go bankrupt or be successfully bought out within a four-year period. The SBITC also restricts the marketing of possible investments, limits the number of potential investors, and caps the amount of investment eligible for the tax credit. The SBITC can only be used by New Brunswick residents, even though a growing number of New Brunswickers have been forced to leave the province to secure high paying opportunities and would otherwise represent a significant pool of investors. All these limitations have restricted the usefulness of the SBITC.

Many local interest groups, including Chambers of Commerce, would like the opportunity to more directly support their communities through investment. Without suitable investment vehicles, such as community venture capital funds, local interest groups forgo the opportunity to direct and support local initiatives.

The government should eliminate the restrictions on the tax credit and better market it to investors. A restructured tax credit would reduce risk and encourage investments in early stage businesses at a minimal cost. The more flexible tax credit program adopted in British Columbia has allowed the successful development and growth of many innovative businesses. The British Columbia tax credit program has created wealth for a large number of entrepreneurs and investors, and for the provincial government itself. The payback of the tax credit occurs about 21 months after an investment. The tax revenue received from businesses funded through investments enabled by the tax credit has exceeded the cost of the tax by approximately 30% over a five-year period.

Actions:

- Establish a tax credit for community venture capital and early stage investment similar to those used in British Columbia, Wisconsin and the UK. The tax credit should include the following features:
 - A provincial tax credit of 30%, as is currently offered, but with no limit on investment or the total amount of tax credits granted
 - Coverage of investments other than common shares
 - No director's liability for the tax credit should the business fail or be bought out
 - No minimum number of investors
 - Accommodation for corporate entities to invest, as is done in British Columbia
 - A simplified registration form that provides eligibility for a one-year period
 - Allowance for the establishment of small pools of venture capital, to be managed by special interest groups for the purpose of investing in local businesses

- Audit of the use of the tax credit to ensure that the credit fulfills its intended goals
- Actively market the tax credit to entrepreneurs, accountants and other business advisors.

Recommendation 22: Increase the dividend tax credit for New Brunswick private corporations.

After the dot.com meltdown, angel investors began seeking equity stakes in early stage businesses in the form of preferred shares. The inherent safety of these shares, combined with the potential to earn dividend income from early stage investments, acts as an incentive for investors.

Unfortunately for New Brunswick early stage businesses, this province's dividend tax credit rate makes these shares less attractive to investors. In fact, New Brunswick has the lowest dividend tax credit for small and medium sized enterprises of any Canadian jurisdiction.

The current dividend tax rate blocks potential investment, reduces investor returns, and does nothing to minimize risk in early stage investments. The dividend tax credit should be increased for investments in early stage businesses. For early stage investors buying preferred shares, this change will minimize the risk of their investment and offer the potential to earn tax-favourable income in the form of dividends. For early stage businesses in New Brunswick, this change will mean increased investment and a more attractive capital market.

Action:

- Raise the dividend tax credit for small, private New Brunswick corporations to 12%. That is the rate available to large Canadian corporations (effective January 1, 2006, as announced by the New Brunswick Department of Finance). In order to control the tax costs of this change, the increased tax credit should apply only to those businesses incorporated in the province and having net tangible assets of less than \$25 million (in line with the current and proposed small business tax credit program).

Recommendation 23: Repay student loans for graduates of New Brunswick universities and colleges who remain in the province and become entrepreneurs or are employed in their field of study.

During the period 2000 to 2005, 16,000 people moved away from New Brunswick. Thirty four percent (5,440) were university graduates and 20% (3,200) were graduates from community colleges.

For the taxpayer, each under-graduate represents an investment of between \$50,000 (for a Bachelor of Arts degree) and \$125,000 (for an Engineering degree) in post-secondary education. For the economy of New Brunswick, this has meant the loss of potential entrepreneurs and invaluable employees for small and medium sized enterprises. For example, it is estimated that 80% of employees at early stage businesses are community college graduates.

There are many reasons for the exodus. One reason often cited is the economic necessity caused by high student debt loads and low potential earnings in New Brunswick.

Another region in Canada that faces the same challenge is the Northwest Territories (NWT). Like New Brunswick, the NWT has long suffered a loss of talent and investment in human capital. To address this problem, the NWT Department of Education launched a forgivable loan program in the late 1990s to alleviate the burden of post-secondary student debt. The program offers eligible candidates a quarterly payment on their outstanding student loan up to a maximum of \$47,000. Regular loan payments resume if the candidate leaves the NWT. According to the NWT Department of Education's Audit and Finance group, anecdotal evidence indicates that the program has been effective.

More recently, the Province of Manitoba introduced a tuition deal that uses a combination of tax credits to give graduates a 'tuition-free education', should they remain in the province for six years.

Action:

- Make an annual payment directly against the student loan of any New Brunswick graduate who remains in the province or returns and becomes an entrepreneur or secures employment in a field related to his or her discipline of study. This would only apply while the student resides in New Brunswick and continues to work for a New Brunswick incorporated business. To remain revenue neutral, the amount paid by the government against the student loan would be equal to or less than the amount of provincial tax paid by the recipient. This payment would in effect be a short term reduction or waiver of provincial income tax.

Recommendation 24: Promote executive recruitment using financial incentives.

A key challenge identified during the Roundtables is the recruitment of experienced managers. In fact, many early stage businesses fail to reach the next level in growth not because of a lack of vision or motivation, but because of a lack of specialized management skills within the founding team. Such skills might include the design of innovative financing packages, or human resource management.

Entrepreneurs who understand their strengths and limitations often seek to hire managers who can provide these missing skills. However, candidates with the required skills may be difficult to find in New Brunswick. For some businesses, the candidate search or the required compensation may also be too expensive.

What is required is a way to attract and retain the skilled managers needed to enable the creation of successful businesses. Recruitment relies in part on financial incentives.

Other regions have approached this problem in a variety of ways. The UK offers the Enterprise Management Incentive, which exempts recipients of company options from income tax. The province of Quebec provides a declining tax-free status to senior managers brought in from outside the province. Both these programs have made it much easier for businesses in those regions to attract skilled senior management.

A similar program in New Brunswick would make the province financially attractive to senior managers, and make it easier for businesses to attract the management skills needed to enable growth.

Action:

- Establish a tax incentive program to help early stage businesses attract and recruit management. It should be structured to promote equity participation, reduce the cost to business, and increase the level of knowledge capital and human capital in the province.

Recommendation 25: Encourage businesses and employees to participate in employee share purchase or share option plans.

An aging demographic is expected to make New Brunswick's current labour shortage even more severe, increasing the cost and effort needed to recruit and retain qualified employees. Strong economic growth in other regions of the country is triggering labour shortages here, which in turn can trigger an increase in the salary expectations of skilled workers who remain.

To address this challenge, we encourage businesses to launch employee share purchase or share option plans. These plans give employers a way to attract, motivate and reward their employees and to provide market-level wages while increasing cash flow. Such plans can increase available cash flow by giving employees opportunities to buy additional stock.

These programs deliver other advantages as well. Business case studies have proven that employees who participate in company share plans feel more involved in and committed to the business's mission and vision. A share plan provides employees with an incentive to promote the business, find cost savings and develop innovations. These plans can also give the employer an advantage in the competitive hiring market.

A successful example of this type of program is Westjet's employee share purchase plan, which allows employees to buy up to 20% of their annual salary in company shares, with the company matching the invested amount dollar for dollar. Nearly 90% of the business's employees are shareholders, and the business has reaped benefits in terms of employee motivation and commitment.

Employees see clear advantages too, and often find these plans very attractive. Share purchase and share option plans give employees access to opportunities for wealth creation not available in most privately run businesses.

Actions:

- Implement share purchase and share option plans for employees.
- Create a new culture of share ownership to encourage economic growth and make it easier to promote investment and retain workers. A provincial tax credit of 30% of the amount invested should be granted for investments in New Brunswick employee share plans.

Angel activity

The seed money for many businesses starts with investments by business founders, their families, their friends, and in some cases government. Once that seed money runs out – and long before venture capital becomes available or going public becomes an option – entrepreneurs face a funding challenge.

New Brunswick entrepreneurs trying to develop their businesses have relied to a great extent on private investors, who typically wish to remain anonymous. Private investors seeking opportunities tend to restrict their search to investments in local businesses similar to the ones that created their wealth, and operated by people they know. This creates an inefficient market for matching ideas with investment, and is not favourable to economic growth or wealth creation. A solution to this problem is the promotion and creation of angel investing and networks.

The synergy of angel networks should not be underestimated when it comes to helping New Brunswick develop its capital market, allowing businesses to expand, and creating wealth. For the entrepreneur, angel networks provide access to known sources of investment, mentorship and funding for growth. For the private investor, these networks provide superior due diligence, access to a pool of expertise, and admission to deals that would otherwise be unavailable to most individual investors. Working with other angel networks across Canada, entrepreneurs and investors can gain access to additional funds and even more opportunities.

Recommendation 26: Create a New Brunswick Angel Network.

Recent observations in the UK and the United States show that the investment required to take today's early stage high tech and biotech businesses out of the lab is rising to levels beyond the reach of most individual angels. Thus, there is now a greater need for angel networks, which can support angel investors and allow them to work together and connect with investment opportunities.

There are a number of examples of successful angel networks, and of organizations that promote angel network creation and angel activity. One such example is the Wisconsin Angel Network (WAN), funded by the Wisconsin Technology Council, the Department of Financial Institutions and the private sector. WAN, with a staff of one and an annual budget of USD \$250,000, helped double the number of angel networks from 6 to 12 in only 18 months. WAN was also involved in the launch of one of the few women's angel networks in the United States.

Action:

- Establish a province-wide 'umbrella' angel organization with a mission to increase the quantity and size of equity investments in New Brunswick early stage businesses. This "New Brunswick Angel Network" should involve public and private sectors, and provide services to create and strengthen angel networks and enhance cooperation among early stage investors. It should also serve as a partner to smaller regional or special interest angel networks. The province-wide angel network could be based

on the WAN model. It should develop resources that:☐

- Connect investors and entrepreneurs ☐
- Educate investors and entrepreneurs using seminars and workshops ☐
- Provide investors and entrepreneurs with useful web-based tools ☐
- Attract more investors to participate in entrepreneurial deals.

Recommendation 27: Create a web portal for New Brunswick angels.

A key challenge for the operation of angel networks is information access. Angels need access to information that will help them understand New Brunswick industries and sectors, find and assess New Brunswick businesses, entrepreneurs and opportunities, and make investment decisions.

Angel networks also rely on efficient, effective communications and the formation of relationships among angels. Since many angels interested in New Brunswick may not actually live or currently do business here, it is very important that we not rely solely on traditional, face-to-face networking.

An angel web portal can provide effective communications and easy access to information, regardless of where the angels are located. It can also provide a meeting space and workspace that allows angels to foster relationships, find opportunities, and make collective decisions about investment opportunities.

Action:

- Create a web portal specifically designed to serve angel investors interested in opportunities in New Brunswick. The web portal should offer the following features:☐
 - Secure login ☐
 - Verification of user identity ☐
 - Discussion boards ☐
 - Private workspaces and meeting spaces ☐
 - Indexes of entrepreneurs, businesses and resources for angels ☐
 - Topic and region specific email bulletins or newsletters ☐
 - Tools to help angels find and evaluate investment opportunities

Recommendation 28: Promote the creation of angel networks that serve specific regions or demographic groups.

Angel networks made up of like-minded angels, or angels interested in specific industries or regions, can be very effective in the promotion of business. Angel networks that bring together investors from specific demographic groups (for example, women investors) can also provide a great benefit. ☐

Actions:

- Provide resources that angels need in order to establish new angel networks.
- Actively promote membership in special interest or regional angel networks.
- Highlight the benefits provided by smaller angel networks.

Options for raising capital☐

New Brunswick entrepreneurs seeking early stage financing can approach economic organizations such as the Atlantic Canada Opportunities Agency, the Community Business Development Corporations, and the National Research Council, but options are limited. Only a small number of organizations provide capital for growth in New Brunswick. With the winding down of the Atlantic Canada Fund, there is one less organization to which businesses can turn.

The actions that are required to increase the financial resources available to developing businesses must occur at many levels. The responsibility for this effort cannot rest with one stakeholder or group. Corporate, academic, and government leadership is needed to ensure that the risks and rewards of growth finance are shared.

Recommendation 29: Establish an annual Lieutenant-Governor's Venture Plan competition.

New Brunswick's entrepreneurs struggle largely in silence to gain access to funding, mentoring and recognition. To support and encourage early stage entrepreneurs, Chambers of Commerce and local enterprise agencies host business plan competitions. At the post-secondary level, some universities and the New Brunswick Innovation Foundation also host similar competitions. However, these competitions focus primarily on start-up businesses. Also, due to the small number of hosts of these competitions, the resources and exposure provided to winners is usually limited. Entrepreneurs with established teams and businesses that are in the process of moving into the growth phase usually miss out. These early stage businesses need recognition, access to greater amounts of capital, and greater market awareness to attract new customers and potential business partners.

An example of an effective contest program is the highly successful Wisconsin's Governor's Business Plan Contest, which has been running since 2004. During that time, hundreds of business plans have been put forward and 60% of the finalists have secured financing from angel investors, banks, and other business partners. The contest not only provides a short-term benefit to those who win, but also gives finalists access to mentors, and semi-finalists entrance to a boot camp program which focuses on preparing business plans and communicating with investors.

Other benefits of such competitions include the increased quality of submissions and opportunities to find new customers and business partners prompted by the publicity surrounding the contest.

Action:

- Establish a high-profile annual business venture plan contest. The contest, perhaps championed by the Lieutenant-Governor, will raise public awareness, create new business opportunities and wealth, and demonstrate to the public the province's commitment to new business. This will also provide a public forum for angels who wish to explore local investment opportunities. The contest should be opened to all New Brunswick residents 19 years and older who have established a business in the province. There should be four categories: Information Technology, Business Services, Advanced Manufacturing, and Life Sciences. It is proposed that the winner of each category receive \$10,000, and that the overall winner receive an additional \$40,000 in combined funding and resources. There should also be prizes for second and third place in each category. Funding for the prize money should be arranged through an alliance of private and public stakeholders. Angels from established New Brunswick networks will be given the first option to invest in the competitors' ideas.

Recommendation 30: Promote awareness among entrepreneurs and the advising professions about the ability to 'test the waters' and publicly solicit capital investment.

A recurring issue identified by entrepreneurs and investors during the Roundtables is the challenge of connecting businesses seeking funding and investors seeking investment opportunities.

Some entrepreneurs felt it would be helpful to be able to test the waters to determine the potential interest of investors. This means the active and public solicitation of interest about investment in a business without the disclosures or regulatory requirements typically imposed by the securities regulator. Such an approach would let entrepreneurs measure the viability of their ideas. Through advertising, investors may be able to find previously unknown investment opportunities.

Public solicitation of investment interest is legal in New Brunswick. What is needed is a greater corporate and public awareness of this option. □

Actions:

- Undertake a wide-ranging awareness and education program that touches all the relevant stakeholder groups – in particular, accountants, lawyers, economic development agencies and those associated with the education of entrepreneurs. This program should inform stakeholders about how to seek investments through the media while complying with the NBSC's regulations.
- Update the criteria for the Small Business Investment Tax Credit (SBITC) to harmonize requirements with the new securities regulatory regime imposed by the adoption of new securities legislation in 2004.

Recommendation 31: Establish university and community college angel capital funds.

As discussed in Recommendation 16, the federal government, taxpayers and some in the private sector have complained about the slow pace at which Canada's universities turn research into commercially viable products, and the high costs associated with those efforts.

An approach that has been used successfully by universities to promote the commercialization of research and development (R&D) is the angel capital fund, which provides the host institution with market insight, a focus on commercially viable R&D, and the funding needed to turn that R&D into marketable products.

Actions:

- Appoint an 'angel in residence' in addition to an entrepreneur in residence at post secondary institutions, to aid in the identification of ideas with market potential. This angel would provide a link to angel networks and establish a more direct path between researchers with viable ideas and investment funds.
- Provide a fund to finance the ideas of recent graduates who establish businesses near their alma mater. This would encourage graduates to remain in the province, help facilitate the launching of businesses, and foster the development of innovation centres.

Recommendation 32: Establish a New Brunswick sidecar financing fund.

Sidecar financing can boost innovation and help early stage businesses get past the equity gap hurdle. A sidecar fund is a source of capital that rides or invests alongside an angel group. Sidecar funds participate in transactions where angels have performed the due diligence and have decided to invest. Sidecar funds accept the same terms and conditions as those granted to the angels, and may provide matching funds or a ratio of funds (for example, a ratio of 1 to 2, sidecar to angel).

As the investment portfolio grows over time, sidecar funds typically become self-financing. Sidecar funds currently exist in the United States, and were established in March 2006 in the UK by the Department of Trade and Industry. In an April 2006 report released by Industry Canada, entitled *People and Excellence: The Heart of Successful Commercialization*, a recommendation called for the creation of co-investment fund programs. These funds leverage private investments and provide entrepreneurs with access to angel investor expertise and mentorship.

Action:

- Create a sidecar financing fund. The total investment of the angel and the sidecar fund should not exceed 40% of the total value of the company, as determined at the point when the investment is made. The sidecar fund should aim to become self-sustaining within 10 years.

Recommendation 33: Encourage the New Brunswick Investment Management Corporation to allocate its stated 2% objective for 'alternative' investment.

During the 1970s and 1980s, pension funds were permitted to diversify their investment portfolios by allocating up to 5% of the portfolio's value in alternative investments, such as private equity. The limit was subsequently raised to 10%, and more recently has been superseded by the prudent person portfolio, which places no limit on alternative investments. In 2005 the Ontario Teachers' Pension Fund had 11.46% of its portfolio in private equity, which has returned an average of 25% per annum since 1991.

In the United States, two types of successful small business investment "models" are used by public pension funds for in-state investments:

- Direct loans, as used by the State of Wisconsin Investment Board (SWIB). Due diligence is provided by the fund's extensive internal direct loan mechanism. More recently, SWIB has begun to outsource the due diligence work for private equity investments to a venture capital firm.
- Using the outside expertise of venture capital funds to evaluate investment, as is one by the Massachusetts Pension Investment Management Board. This method demonstrates that significant investments can be committed to the small business sector without the need for significant internal administrative support.

Here in New Brunswick, the New Brunswick Investment Management Corporation (NBIMC) manages the provincial government employees' pension fund investments. Under the existing mandate of the fund, 2% can be invested in alternative investments, including private equity. However, the portfolio allocation has traditionally been less than this prescribed level. This represents a missed opportunity to invest in local business opportunities.

Actions:

- Ensure that the full 2% alternative investment is allocated subject to the NBIMC's overriding fiduciary obligations.
- Make an aggressive effort to provide information about successful alternative investment strategies. A lack of information is a major impediment to small business investment.
- Consider adopting the UK government model of fund matching, in which funds are given to recognized angel networks that provide the necessary due diligence, investment monitoring, and reporting to shareholders.

Acknowledgements

The New Brunswick Securities Commission wishes to thank the many people both outside and inside our province who provided time, research, and guidance to help make this Report and its recommendations possible. Commission staff were fortunate to speak with passionate and knowledgeable individuals around the globe who work daily in the world of capital markets and entrepreneurship. From Australia to Britain, those people lent a strong sense of purpose and joy to our work.

The Commission would like to thank the people of Wisconsin. As our research progressed, this state revealed itself as a centre of excellence for capital markets and the promotion of entrepreneurship. We spoke with and visited many individuals in Wisconsin and gained valuable insight that greatly benefited our own work. This would not have been possible without the capable assistance of Tom Still and Joe Kremer from the Wisconsin Technology Council and Lorrie Keating-Heinneman, Secretary of State for the Department of Financial Institutions.

Closer to home, we would like to thank the individuals and organizations that represent the private and public capital markets in Canada: the National Angel Organization, the Canadian Venture Capital Association, and the TSX Group Inc.

We would like to thank Linda Bulmer at the University of New Brunswick in Fredericton and Ellen Farrell at Saint Mary's University in Halifax for their support and guidance in helping us formulate the recommendations presented in this Report. For helping guide the writing and re-writing process, we thank David Drinnan of Nocturne Communications.

Finally, the Commission extends its gratitude to all the New Brunswickers who have supported us during this effort. You took the time to tell us about your work, your lives, and your dreams. We hope that this Report reflects your vision for New Brunswick and helps turn those dreams into reality.

Appendices

Role of the New Brunswick Securities Commission

The New Brunswick Securities Commission (NBSC) is the industry-funded Crown Corporation responsible for overseeing the capital market in New Brunswick. The Commission administers the New Brunswick Securities Act, the General Regulation, and New Brunswick Securities Commission Rules. This legislation is designed to ensure that New Brunswick's capital market operates fairly and efficiently for participants, and that investors have timely, accurate information on which to base investment decisions. It also ensures that those who sell securities in New Brunswick are registered and conduct themselves according to applicable laws and professional standards. Commission Members, appointed to the NBSC by the Lieutenant-Governor-in-Council, establish policies to ensure an appropriate balance between regulatory costs and benefits. As a quasi-judicial agency the NBSC hears enforcement proceedings and considers applications for exemptions from the requirements of securities legislation.

Commitment and accountability

The NBSC also has another important mandate: to benefit both entrepreneurs and investors in New Brunswick by promoting investment and fostering a dynamic, competitive capital market. The Members and staff of the NBSC are committed to this role, and to the Fullsail initiative. The NBSC's success will be measured in terms of increased entrepreneurial activity and growth in the province's capital market.

The NBSC is committed to acting as a catalyst, facilitating and hosting the Fullsail Summit and providing post-Summit support. The NBSC will work to:

- Raise public awareness
- Act as a communications portal
- Provide a network for sharing information
- Coordinate efforts between owners and across programs
- Organize a followup conference
- Monitor progress and project developments
- Develop and cultivate partnerships
- Try to remove regulatory barriers and build a regulatory framework to support the Fullsail initiative
- Develop measures of success in concert with owners.

The NBSC has a capital market specialist dedicated to providing support to the Fullsail initiative.

Vision and passion

The NBSC is honoured to serve as the overall champion of the Fullsail initiative. In fact, we view this mandate as a key reason for our organization's very existence.

Our vision is one of a more prosperous, sustainable future for New Brunswick, built on a strong capital market and a mature, dynamic culture of entrepreneurship. We believe passionately that this future is possible. However, we also understand that the steps needed to realize this future go far beyond our own reach. We will rely on your vision as Fullsail participants to work with us, to become champions and to take concrete action to help New Brunswick find its full economic potential.

Defining the current capital market environment

When entrepreneurs or businesses seek money or capital for growth they have two options: debt or equity investment.

Debt usually comes in the form of loans, mortgages, lines of credit and – for larger businesses – debentures. The main characteristics of debt are that it is typically repaid by a series of instalments over a set period of time, and the lending institution may have some claim over business or personal assets. Traditional providers of debt include banks, credit unions and some government economic agencies.

Equity usually comes in the form of shares, with each share representing part ownership in an incorporated business. The main characteristics of equity are that it is typically repaid through a sale at a price and time agreed by the holder of the shares (seller) and unless dividends are paid, no money is received by the investor until a sale is completed. Unlike lending institutions, shareholders' claim on the business is represented by the value of the business after all outstanding debt has been repaid. Traditional providers of equity capital include friends, family and business associates, angels, venture capitalists and the general public (should the business choose to 'go public' on a stock exchange).

New Brunswick's capital market, as of 2005

Much like other provinces in Canada, New Brunswick has a well developed and mature capital market for debt. Unfortunately, the same cannot be said for the province's equity market. It is the equity capital market that was the focus of the series of New Brunswick Securities Commission *Roundtables on Fostering Capital Markets*.

Equity capital comes in two forms: public and private equity.

- Public equity is represented by shares or stocks in a company that are usually held by individuals, businesses or institutions such as pension funds and are traded on a public forum like a stock exchange.
- Private equity is represented by privately held shares that signify the interest of a limited number of individuals or investors in a business. Unlike publicly traded shares, privately held shares are customarily held for long periods of time, and the price of purchase or sale is determined through personal negotiation.

The most recognized public equity market for New Brunswickers is the Toronto Stock Exchange (TSX) and to a lesser extent the TSX Venture Exchange, home to early stage and smaller businesses. New Brunswick has six publicly traded businesses on the TSX exchanges. Based on provincial gross domestic product (GDP; see Figure 1) and population (see Figure 2), New Brunswick ranks ninth among the provinces in terms of the number of listings. If New Brunswick could emulate the listing levels in similar size provinces, the number of listed businesses would increase two to four fold.

The World Federation of Exchanges, an agency that represents the world's stock exchanges, uses total equity market capitalization (the number of outstanding shares times their price) against GDP as an indicator of economic vitality (see Figure 3). By using this measure in 2005, at \$852 million, New Brunswick rates ninth in Canada with 3.6%. In comparison, with 16.5%, Newfoundland and Labrador ranks eighth with a total market capitalization of \$3.5 billion. (As a country, Canada's market capitalization to GDP is 125%)

Figure 1

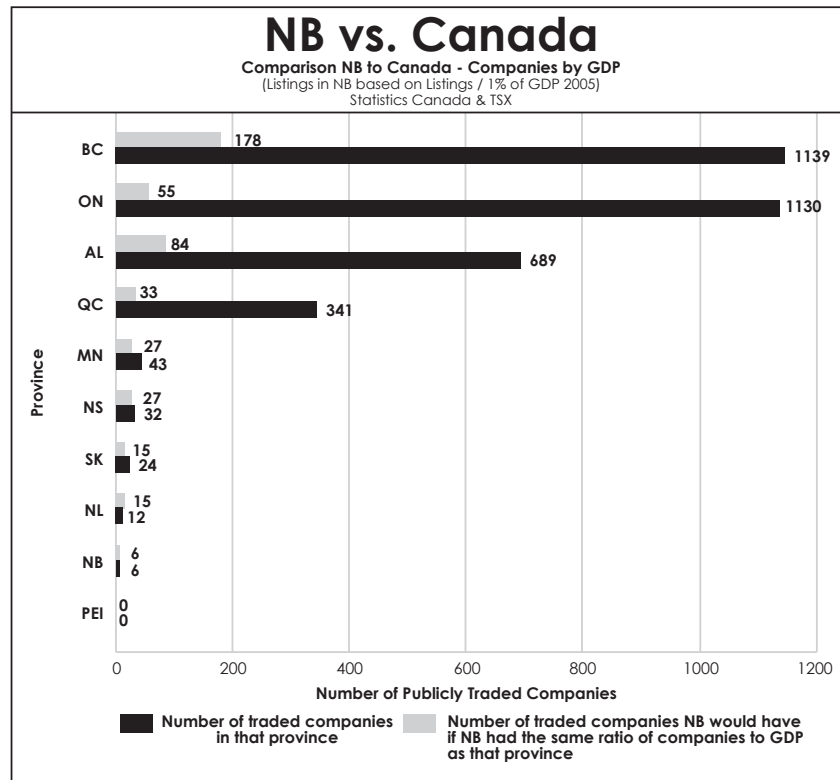


Figure 2

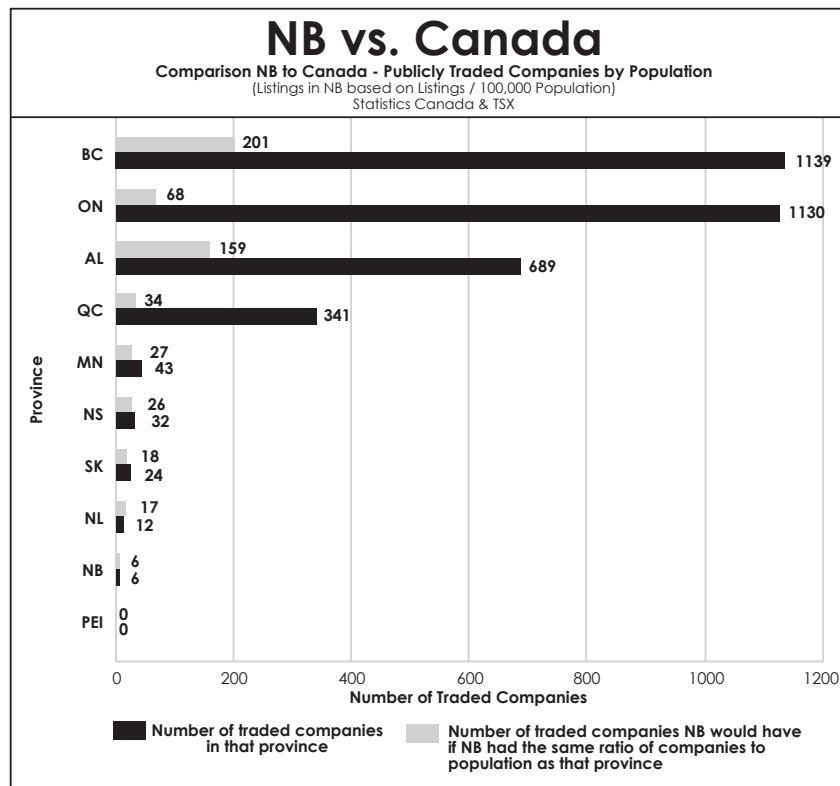
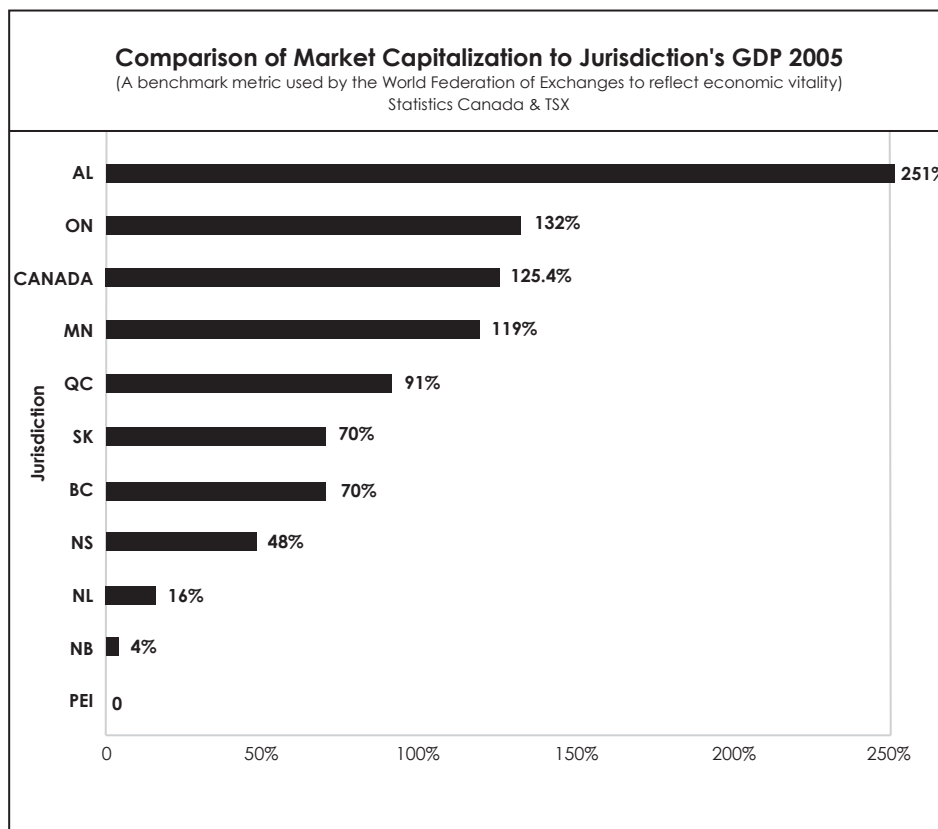


Figure 3



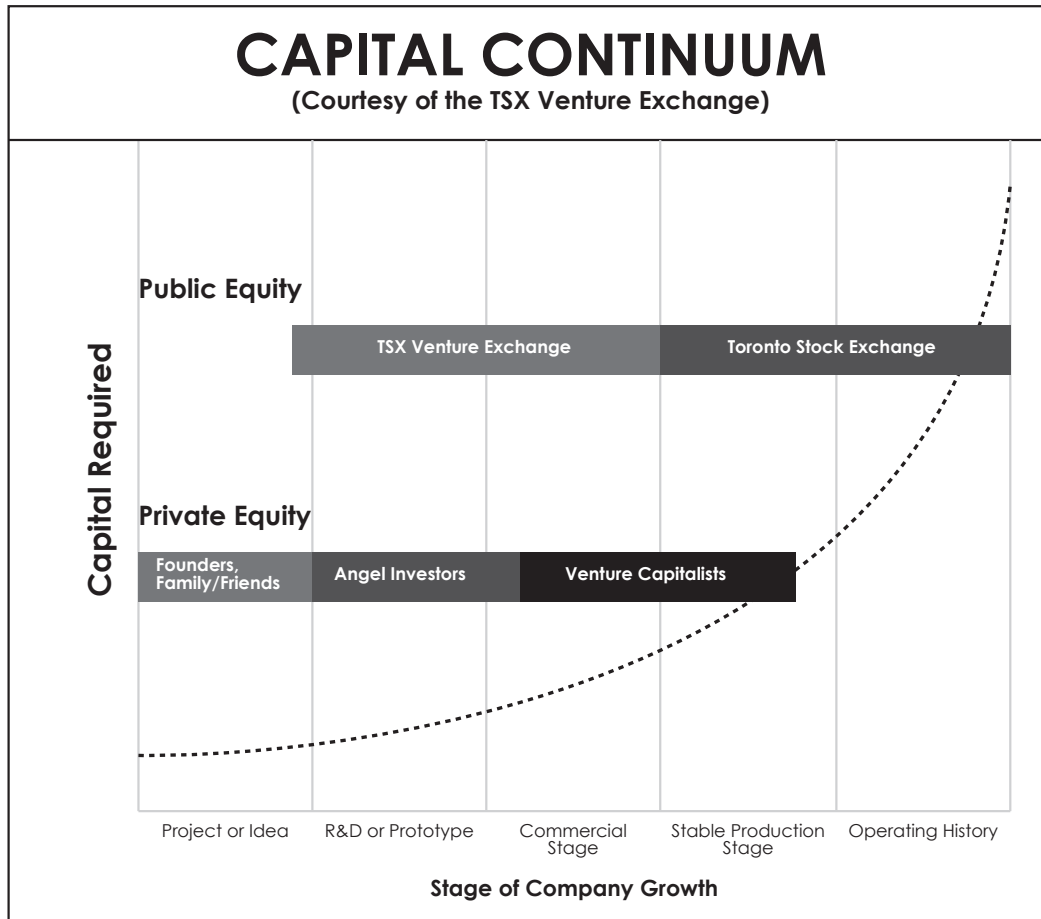
The road to going public is long and usually requires some form of private capital investment before an entrepreneur can contemplate floating an issue on a stock exchange. Prior to going public, a business may acquire private equity investment from friends and family, an individual or group of individuals seeking investment opportunities (sometimes referred to as angels) and possibly even a venture capital firm (see sidebar). With the exception of venture capital, the size of the private equity market is harder to quantify but it is understood to be small, fragmented and difficult to access.

Over the past three years, venture capital investment has fluctuated widely in New Brunswick and throughout Canada. For 2005, venture capital investment in New Brunswick totalled \$15.6 million, which represented .85% of the nation's total investment. With few venture capitalists located in Atlantic Canada, it is a challenge for expanding businesses to secure second or third round financing.

The capital market continuum is summarized in the graph Financing Growth Companies (see Figure 4). Early stage capital investment provided by the entrepreneur and his or her friends and family is replaced by angel investors, who in turn are replaced by venture capitalists as the need for capital intensifies to help facilitate business growth. At some point, the business may seek public equity to gain access to a larger pool of capital.

A venture capital firm or venture capitalist traditionally invests a minimum of \$2,000,000 in technology and other value-added sectors in return for a share in future business growth and value. Venture capital represents a specialized form of private equity, characterized chiefly by high-risk investment in new or young businesses.

Figure 4



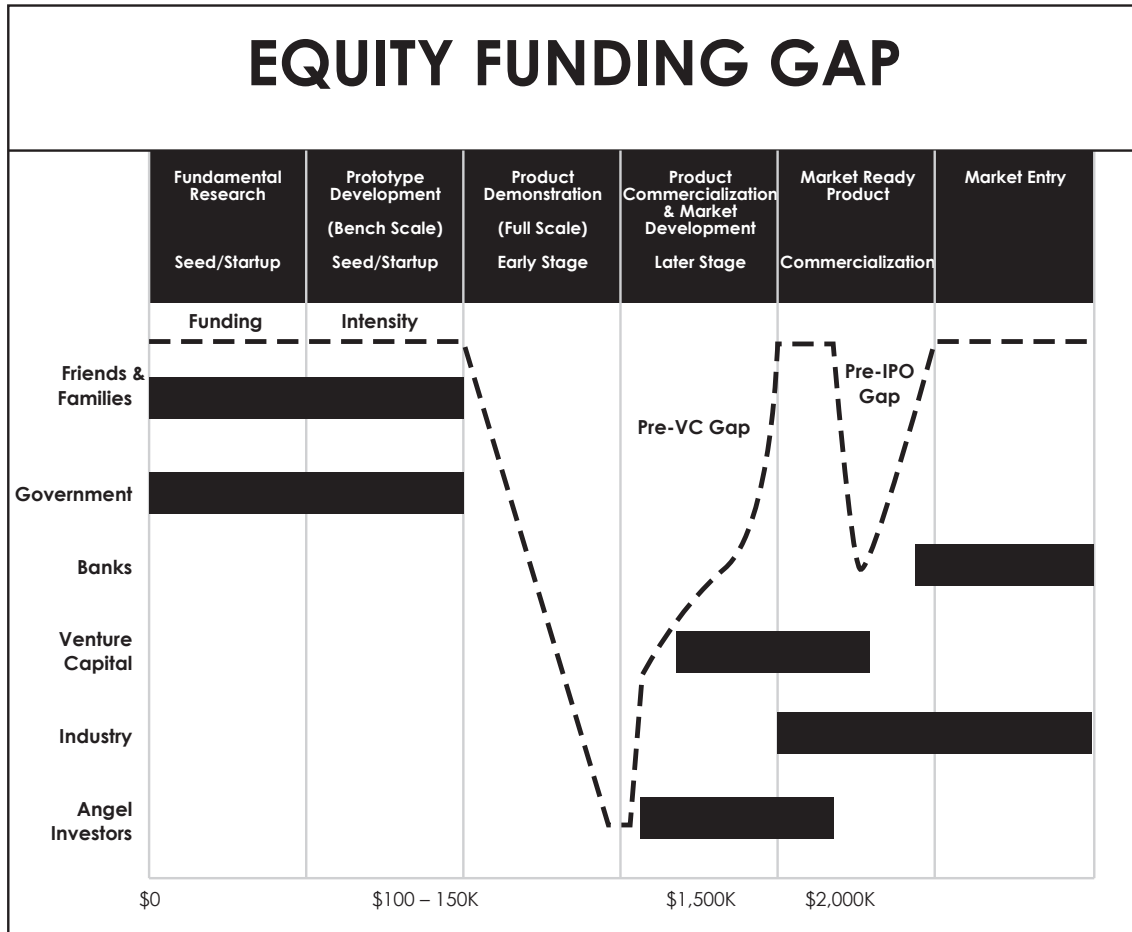
What has our capital market research shown?

The Valley of Death is a reduction in the equity financing provided to businesses as they grow, resulting in the failure of businesses that try to move beyond the early stage. The valley (seen as a dip in financing charts) means that few businesses make it to commercialization. Prior to crossing the Valley of Death, it is estimated that only 1 in 300 businesses will eventually become publicly traded. For businesses that make it across the valley and reach the commercialization stage, the chance of success rises to 1 in 7.

The NBSC conducted research into the province's capital market and looked at how New Brunswick fares against other Canadian provinces and other countries. We also looked at what other jurisdictions have done to foster their domestic capital markets.

To better understand our capital market we looked to the existing providers of capital, where they participate in the evolution of a business, and the approximate dollar value of their investment. This work is summarized in the graph *Capital Market Continuum* (see Figure 5). Note the large dip in funding sources between \$200,000 and \$1.5 million. This dip is not exclusive to New Brunswick; in fact most jurisdictions in North America face a similar problem – namely, the need for capital to take a business past the early stage or proto-type stage to commercialization. This dip in funding resources is often described as the Valley of Death (see sidebar). The more capable a jurisdiction is at reducing the impact of the Valley of Death, the greater the likelihood of economic growth and development.

Figure 5



Consulting our stakeholders – The Roundtable process

Beginning in January 2006 and concluding in April, the NBSC conducted a series of Roundtable discussions throughout the province. The purpose was to confirm the findings gathered through empirical research and innumerable conversations with individual stakeholders.

The nine one-day Roundtables provided key New Brunswickers of influence the opportunity to discuss the issues and gaps in the province's capital market. Stakeholders were also asked to provide ideas that would help minimize or eliminate the identified obstacles.

Stakeholders included:

- Entrepreneurs
- Accountants
- Lawyers
- Angel investors
- Economic development agencies
- Academics
- Management consultants
- Mentors
- Bankers
- Investment professionals
- Experienced business owners.

The Commission's early research and discussions revealed a number of issues that affect the growth of the province's capital market. A review of these issues indicated that they could be grouped into six basic themes:

1. Business development culture
2. Making deals
3. Capital market education
4. Leadership in capital market development
5. Money for investment
6. Taxes related to investment

The identified themes became the foundation on which each day's discussions were based. Our primary objective was to confirm that all the identified themes contributed to the fostering of the province's capital market. Further, the Roundtables were used to confirm the issues our initial research had uncovered and allow the NBSC to hear ideas that could help shape an effective, realistic action plan.

Reviewing the challenges and solutions

Notes taken at each Roundtable provided the NBSC with valuable insight into the issues plaguing entrepreneurs and investors in the areas we visited. Collectively, the notes were compared for similarities in issues and recommendations. When this information was viewed collectively, it quickly became apparent that most of the issues are province-wide in nature, as are the proposed recommendations.

The Roundtables not only confirmed the challenges and recommendations but also confirmed the initial themes on which the sessions were based. The conclusion we drew is that fostering the capital market requires a holistic approach. To succeed we need to draw on the skills, strengths and collaboration of all the identified stakeholder groups.

Making choices

Prior to the NBSC reviewing the Roundtable process, we developed a set of criteria from which our recommendations would arise. The criteria we set were that the recommendations:

- Must positively touch as many stakeholder groups as possible
- Can be implemented or begin the process of implementation within 12 months
- Can be grouped into 'bite-sized' projects to encourage champions to take ownership
- Must allow for easy and meaningful measurement of progress
- Will require the action of all stakeholder groups, with no single group being disproportionately over-burdened, and
- Will collectively stimulate the development of the province's capital market far more efficiently than an isolated approach.

With our stakeholder input and using these criteria, the NBSC identified 33 recommendations. These recommendations, if implemented as a whole, will have a greater impact than if they are implemented separately.

External recommendations

A number of recommendations identified during the Roundtables were not included in the Summit programs because those recommendations require action on the part of owners and champions outside New Brunswick. Those 'external' recommendations are outlined below.

Recommendations that can be implemented only through lobbying

Recommendation 34: Reduce immigration restrictions.

To survive and grow in the global environment, businesses need to attract highly skilled employees. A large number of skilled workers are interested in immigrating to Canada, but delays in immigration processes can limit access to those workers. Immigration delays can also limit access to high net worth immigrants who could act as angels. The immigration process must be expedited to increase access to immigrants with desirable skills or capital resources.

Recommendation 35: Empower local and regional bank managers.

Too many loan decisions in major Canadian banks are escalated to levels of management that have little local knowledge and follow central Ontario risk based models. By empowering local managers to make lending decisions, we will give entrepreneurs better opportunities to raise capital.

Recommendation 36: Allow the factoring and sale of tax credits.

Start-up businesses and those in the early stage are unable to benefit from tax credits, since they usually do not show a profit. These businesses should be allowed to factor or sell their tax credits to other more profitable businesses. This would allow buyers to reduce their tax burdens and provide start-ups with much needed cash flow.

Recommendation 37: Provide front and back end tax incentives.

The federal government should provide 20% income tax relief on capital investments by early stage investors. This will reward investors for accepting the higher risk of early stage investments. If the early stage business succeeds, the investor should also be exempt from capital gains. This will provide an incentive for investors to remain involved and to work to build the business's success.

Recommendations requiring the participation and agreement of parties outside New Brunswick

Recommendation 38: Launch a pan-Atlantic initiative to build a talent pool.

The talent pool in New Brunswick and Atlantic Canada is fragmented, making it difficult to find sufficient populations of workers with needed skills. We need to encourage the clustering of workers with in-demand skills, making it easier to create economically viable businesses that rely on those skills.

Recommendation 39: Promote greater regional partnering.

Stakeholders in New Brunswick and throughout Atlantic Canada must work together and create partnerships that are large enough to provide economies of scale and influential enough to attract investment and skilled personnel. We need to focus in this region on collaboration and not competition.

Recommendation 40: Create a single securities regulator for Atlantic Canada.

Consolidating current securities regulators into a single Atlantic Canadian regulator would allow us to lower fees and standardize listing requirements. A consolidation would also reduce the competition for limited resources and give Atlantic Canada a greater voice on the political and regulatory stage.

Recommendation 41: Develop a formal 'sister' relationship with the State of Wisconsin.

Wisconsin is very similar to New Brunswick in terms of its economy and the challenges it faces. However, Wisconsin is five years ahead of New Brunswick with regard to the development of its capital markets. The creation of a formal relationship between Wisconsin and this province would provide a greater cross-fertilization of ideas and bring value to all stakeholders.

Recommendation 42: Launch a pan-Atlantic initiative to develop technology and start-up companies.

We should promote collaboration between universities, economic agencies and other stakeholders in order to aid the development of an Atlantic Canadian technology industry and support the launch of start-up companies.

Recommendation 43: Create an Atlantic Canada early stage tax credit agreement.

Encouraging the free flow of early stage investment money between provinces will increase opportunities for investment and give entrepreneurs greater access to equity and mentorship. This may lead to the development of clusters and provide economies of scale.

Additional recommendations

A number of recommendations identified during the Roundtables were not included in the Summit programs because they could not begin within the next 12 months or had no obvious owners. Those additional recommendations are outlined here.

Recommendation 44: Reward attempts at development.

Stop praising the winners (and promoting a 'scarcity mentality'). Instead, reward those who attempt something new or different. A business loss should represent a lesson learned, not a failure. This is the established norm in Silicon Valley.

Recommendation 45: Create a greater awareness of regional listed companies.

All Chambers of Commerce, Boards of Trade and enterprise agencies should list companies in their area on their websites. This will create a greater awareness of capital market and investment opportunities for local residents. It will also create a "culture of capital".

Recommendation 46: Provide an exit strategy for Community Economic Development Investment Funds through a capital pool company.

If New Brunswick adopts a model similar to that of the Community Economic Development Investment Funds (CEDIF), the option to roll the fund over to a capital pool company should be provided. This will provide an exit strategy for some investors, and additional capital for the fund. Experience in Nova Scotia has shown that CEDIFs can make it difficult for investors to realize their investment gains.

Recommendation 47: Do not use the number of jobs created as a key metric for economic development.

Identify and support opportunities based on their long-term effects on the economy. We need to measure opportunity and success strategically.

Recommendation 48: Attract more venture capital firms to Atlantic Canada.

Since venture capital firms tend to make investments close to home, more venture capital firms are needed in Atlantic Canada. ACOA has done this successfully with Growth Works (in Halifax), and should try to attract more venture capitalists to Atlantic Canada.

Recommendation 49: Host regular investor forums that travel the province.

The enterprise organizations should host regular (six month) investor forums in Fredericton, Moncton and Saint John. Allow up to ten approved entrepreneurs to make sales pitches to invited debt financiers, equity financiers and angels.

Recommendation 50: Bring top-level management marketing executives to New Brunswick for speaking tours.

We should expose New Brunswick companies to management concepts that will help those companies grow. Entrepreneurs need to understand that in order to excel they must look past the New Brunswick border.

Recommendation 51: Provide introductions and professional coaching to entrepreneurs so they can access venture capitalists.

Provide personalized professional coaching to improve pitch delivery. This will also help introduce entrepreneurs to venture capital firms and angels. Provide a dedicated consultant to act as a 'deal manager'.

Recommendation 52: The Government of New Brunswick should buy New Brunswick products.

The Government of New Brunswick should purchase New Brunswick products and intellectual property whenever possible. Currently, government revenue may be going outside the province to more established businesses that offer products very similar to those provided by local businesses.

Recommendation 53: Encourage venture capital investment in New Brunswick from 'Route 128'.

Use the Boston office of the Canadian Consulate to encourage and educate venture capital firms around the Boston 128 (the second largest venture capital market after Silicon Valley) to look north. The Boston market is extremely competitive with regard to both funding and investment opportunities, making venture capitalists in that region very motivated to find favourable relationships. 'Familiarization tours' will help to promote investment from the Boston area.

Recommendation 54: Actively solicit regional and national conferences in New Brunswick for high-growth sectors.

Get economic agencies and cities to focus their convention and conference marketing on organizations that represent high-growth sectors. This will encourage collaboration, showcase New Brunswick companies and intellectual property, and raise the profile of this province in the eyes of sector leaders.

Recommendation 55: Do not use government funds to maintain the viability of existing industries.

Do not use government money to fight industry trends. A single region cannot fight the market and succeed. Mature industries do not grow (and do not create new jobs or tax revenue). Instead, use the money to help early stage businesses and provide tax incentives for growth.

Recommendation 56: Reduce the cost of starting new businesses.

The regulatory fees associated with the launching of a business should be reduced or even eliminated. This should include the fees charged by the NBSC when a business goes public. This reduces risk and increases the reward for entrepreneurs.

Recommendation 57: Mandate government and related institutions to invest in early stage companies.

Get crown-owned organizations and departments of the Government of New Brunswick to invest a portion of their budget in early stage businesses that could provide a benefit to those organizations or departments. For example, the New Brunswick Liquor Corporation could invest in a software business that is developing inventory management software, police departments could invest in businesses that research Internet security, or the NBSC could invest in local data management businesses.

Recommendation 58: Discourage businesses from listing too early.

Businesses that do not list too early enjoy a far greater rate of success. This leads to more success stories, creates a positive momentum for future listings, and promotes buy-in from investors.

Recommendation 59: Establish a fund to provide early stage capital investment.

Get five or ten businesses to establish a venture capital fund, with the businesses acting as a board and serving as mentors to early stage companies.

Recommendation 60: Find and nurture gazelles.

Gazelles are high-value entrepreneurs who operate companies that grow quickly and focus on export. Typically, these companies double in size and sales within a couple of years. In Nova Scotia, 35 companies operated by gazelles provided 10% of the province's job growth in five years. Most gazelles are under 35 and started their first company by the time they turned 25.

Recommendation 61: Spend 20% of regional economic development money on the promotion of informal investment.

Redirect the Government of New Brunswick's economic spending to help foster local angel groups, host seminars on private investing, entrepreneurship and other relevant topics, provide financial incentives, and pay for administration and office space.

Recommendation 62: Make the New Brunswick Investment Management Corporation part of a pan-Atlantic or New Brunswick wide angel network.

If the New Brunswick Investment Management Corporation (NBIMC) is given access to an angel 'clearing house', the NBIMC will become aware of future deals (in the 2nd/3rd round) and may eventually be able to participate in earlier stages. A representative from the NBIMC could sit on the board of an angel network, helping entrepreneurs and angels take steps to increase the likelihood of success.

Recommendation 63: Create a public or private body to identify New Brunswick opportunities.

Create an organization that is mandated to find and foster financing for New Brunswick opportunities and entrepreneurs. This should be done through a public/private partnership, and should eventually become self-funding through equity ownership in growth companies.

Recommendation 64: Provide an initial public offering of a New Brunswick Crown Corporation.

Create a province-wide investment culture based on the leadership of organizations such as New Brunswick Liquor Corporation, Service New Brunswick, NB Power, the Lotteries Commission of New Brunswick. This would help generate taxes and provide a stimulus for a New Brunswick based investment culture.

Recommendation 65: Waive the NBSC's initial registration fee for capital pool companies and initial public offerings.

Waiving the NBSC's initial registration fee for capital pool companies and public offerings would make the process of raising capital less expensive. The cost would be no more than a few thousand dollars a year, and the benefits would include a greater public awareness of the NBSC and its commitment to fostering the raising of capital.

Recommendation 66: Develop, brand and market a technology zone.

Develop, brand and market a geographical technology area or zone (similar to Silicon Valley, Silicon Valley North, Route 128, or Celtic Tiger). In New Brunswick, this might be the Innovation Triangle or the Innovation Pyramid, based on an imaginary straight line between Fredericton, Moncton and Saint John. Advertise the area using road signs, government literature, and Chamber of Commerce or Board of Trade literature. A collaboration among the three cities will provide economies of scale and allow an optimization of marketing and government funding.

Recommendation 67: Provide an education tax credit to encourage undergraduates to acquire technology-related post-graduate degrees at New Brunswick universities.

Provide an incentive for New Brunswick businesses to seek out the best and brightest from around the world to attend technology programs at New Brunswick universities. Sponsoring businesses could then hire those students when they graduate. This provides a number of benefits, including a cross-fertilization of ideas and a potential increase in population through immigration.

Recommendation 68: Permit the delivery of disclosure documentation over the Internet.

Permit the delivery of preliminary and final prospectus documentation along with financial statements and other continuous disclosure documents to investors over the Internet, to eliminate the cost of printing and mailing and free up cash flow for profit-generating activities.

Recommendation 69: Provide regionally based commercialization internships.

Copying the Alberta-based WestLink Technology Commercialization Internship Program would provide an opportunity to gain new skills, experiences, and perspectives that could be of tremendous value to university students. Interns would work with their placement hosts to develop new sets of skills associated with the placement site.

Recommendation 70: Encourage economic agencies to be proactive with growth companies.

Economic agencies tend to be reactive; they help you only once you approach them. We should encourage agencies to actively seek out high-growth companies to find out what can be done to help foster even greater growth. The metric of success should be growth, not the number of companies contacted or jobs created. We should encourage agencies to fully use their networks and to be more collaborative and transparent.

Recommendation 71: Encourage agencies to hire connectors.

Encourage economic agencies to seek out connectors for employment and promote the free flow of information and contacts. Use employees as a catalyst to bring together people, ideas and money.

Recommendation 72: Increase the investment tax credit to 40% on profits that are re-invested.

Increasing the investment tax credit on re-invested profits would encourage investment. It would also reward investors for maintaining their investments and pursuing a long-term investment strategy.

Recommendation 73: Establish public and private funded business incubators.

Provide subsidized premises for business start-ups. These business incubator premises should provide space and basic office equipment (photocopier, wireless Internet, etc.) for little or no rent. This will allow businesses to use early stage cash flow for business creation activities. Incubators allow the cross-fertilization of ideas and provide a focal point for mentors, angels and pro-active economic development agencies. To qualify for incubator space, a business should demonstrate technological innovation, a willingness to learn and a significant market opportunity.

Recommendation 74: Create a PNB \$1,000,000 annual revolving Entrepreneurial Investment Fund.

Provide an annual fund and publicize a province-wide competition for start-up businesses. The top ten presentations or business plans should receive \$100,000 each.

Recommendation 75: Allow students and staff to own intellectual property.

To provide an incentive for the development and marketing of ideas developed in post-secondary settings, allow staff and students at universities and colleges in New Brunswick to own 100% of the intellectual property they develop. This model is already used at the University of Waterloo, Queens University, and McGill.

Recommendation 76: Establish a New Brunswick Distinguished Professors program.

Establish a \$100,000 annual reward program for four professors (allowing no more than two at any one university). The award program would match distinguished researchers with champions in the business sector who can apply the research for the benefit of New Brunswick's economy.

