

SUBJECT: Availability of Investment Capital in Saskatchewan

SUBMITTED BY: Investment and Growth Committee

BACKGROUND

A national and international spotlight has been shining on the positive growth of Saskatchewan's economy over the last few years. While that attention has brought some investment interest, the level of new investment into existing businesses or into the creation of new businesses has not reached its full potential, especially considering the number of investment opportunities available in Saskatchewan.

There is usually a focus within Saskatchewan's economic development dialogue on the need to have business planning services available to assist new entrepreneurs, such as how to write a business plan or do basic bookkeeping. Through the services provided by Community Futures, online services and other economic development agencies, this need for advice on the details of starting a business is fairly well met. The availability of money to fund and grow these start-up ventures is a topic less often discussed in depth by both the government and business community.

Saskatchewan's large publicly traded companies are generally easily able to obtain additional money for expansion or acquisitions. However, a majority of Saskatchewan businesses, 98.4%, are classified as small business and the ability of these companies, including smaller publicly traded companies, to access the capital that is required for them to grow effectively is limited. Further, although the entrepreneurial spirit is alive and growing in Saskatchewan, the ability for new businesses to find the initial capital for start-up continues to be an issue.

ISSUE

Historically, Saskatchewan investors have not had the mindset to invest in local smaller publicly traded companies or startup companies. Investment dollars are raised in capital markets outside of the province, which means that the benefits are then reaped by investors that are from outside of Saskatchewan. The critical mass of investors in Saskatchewan willing to take greater risks has not yet been developed.

The ongoing provincial government support of the Invest in Saskatchewan Program, which encourages Saskatchewan people to invest in small and medium-sized businesses, is helping to slowly change this mindset but awareness of the program and the opportunity it represents is very low.

In regard to start-up companies, there is also a lack of angel investors and other sources of early stage funding which smaller companies can use. Banks can certainly provide a large number of loans to people starting businesses, but there is also an ongoing need in Saskatchewan for investors that are more comfortable with the greater

risk that comes with investing in start-up companies. As it currently stands, typically out of 10 angel investments, 2-3 will fail, 5-6 will survive but never make much money, and only 1-2 will become the investment that provides enough of a return to make up for the rest. These odds do not provide a strong incentive to attract additional new investors to the angel investment program. Incentives to support this activity could spark more investments and launch more start-up businesses in Saskatchewan.

Expanding and diversifying Saskatchewan's economy requires a large and steady stream of capital investments. Incorporating traditional funding sources, venture capital corporations and angel investors to a larger extent will help grow the province's economy into the future.

RECOMMENDED

- 1) That the Government of Saskatchewan continue to support agencies and companies such as labour sponsored venture capital funds, in order to increase the number of Saskatchewan investors and create the critical mass necessary to ensure Saskatchewan-based capital is available for Saskatchewan companies.
- 2) That the Government of Saskatchewan raise awareness of the benefits of Saskatchewan capital being utilized in Saskatchewan for the growth of Saskatchewan companies.
- 3) That the Government of Saskatchewan encourage entrepreneurs in Saskatchewan to develop the expertise and professional resources to allow them to form investment funds for the purpose of investing in Saskatchewan companies.
- 4) That the Government of Saskatchewan explore ways of encouraging greater levels of angel investment in the province, potentially through enhanced tax credits for Saskatchewan-based angel investors.