



Opinion: Feds must act now, or risk losing generation of entrepreneurs

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With the possibility of a second wave of COVID-19 on the horizon and borders restricted, federal and provincial governments have called for the establishment of domestic supply chains and doubled down on support for Canadian innovations, opening up new procurement opportunities and funding programs.

While these efforts will help mid- and large-size companies survive, what remains to be seen is how our early-stage startup ecosystem, once touted as first in class, will weather the storm.

Early indicators are not encouraging. Startup Genome reported that 58 per cent of startups in Canada said their industry has been “affected significantly” by the COVID-19 crisis, which is higher than the global average. In addition, the effects of the pandemic have been intensified for companies led by traditionally underrepresented groups, including those with women, Black, or Indigenous founders, too many of whom did not qualify for the COVID-19 response programs. This further widened existing gaps and reinforced systemic barriers.

Immediate action must be taken to create a domestic supply chain of capital, both public and private sector, working in tandem to support all entrepreneurs. We must ensure that founders can access the investment they need to turn their big ideas into opportunities, jobs and prosperity. Without a reliable access to informed capital at the early stages of the innovation pipeline, we risk losing a generation of entrepreneurs and their future economic and social contributions.

Angel investors are individuals who provide crucial investment, mentorship and network support to early-stage startups. They create jobs and support company growth—every dollar of angel investment resulting in \$156 in revenue for a startup, according to the National Angel Capital Association’s 2020 Annual Report on Angel Investing in Canada.

Angel investment also paves the way for future investment from venture capital firms, government, and/or large financial institutions as was the case with homegrown success stories Slack, Skip the Dishes, Verafin, and Shopify. There is a direct correlation between the rate of angel investment and the strength of our entrepreneurial ecosystems.

Our national ecosystem has matured, with NACO leading the formation of nonprofit angel investor groups across Canada, creating a more accessible pathway to capital for entrepreneurs and the diversity of our angel investment communities. Many of NACO’s members report that they are not motivated by a return on investment, pointing instead to a desire to pay it forward to help create economic opportunity in their community and a lasting social impact.

Angel investors are community builders, a fact that is illustrated by the work of Northern Ontario Angels, North America's most successful angel group. Since their launch in 2005, NOA has invested over \$155-million, protecting more than 4,000 jobs across Northern Ontario, a region that previously had been disadvantaged by a lack of venture capital and slower growth.

A decrease in angel investment could create aftershocks felt for years to come. We must act now to mobilize private sector capital, stimulating angel investment to support entrepreneurs from coast to coast to coast. Leveraging the experience of mature innovation ecosystems around the world, we propose the implementation of the following mechanisms to achieve this goal.

1. Government co-investment or "matching funds": leveraging angel investment and increasing support to entrepreneurs.
2. Tax incentives: reducing angel risk in order to expand the total funds invested.
3. Securities regime exemptions: expanding the pool of potential angel investors.
4. Nonprofit angel group network support: increasing access to capital and resources for all entrepreneurs, regardless of who they know.

This powerful, proven combination will entice new angel investors off the sidelines, unlock their private capital, and give them the confidence to begin to invest in their communities. Compelling evidence shows that when these private investors are active, innovative small businesses and startup companies have access to the capital they need to grow.

Canadians have invested billions of dollars into the development of our innovation ecosystem and we cannot afford to stall this momentum. Now is the time to double down and support the development of new jobs and made-in-Canada solutions by mobilizing private capital to rebuild from the economic and social devastation reaped by COVID-19.

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