



A paradigm shift in the financial industry: Harmonizing Crowdfunding within Canada

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ABSTRACT

In Canada, we currently have a number of entrepreneurs and dedicated inventors who do not have access to sufficient start-up capital, thus stifling innovation and economic growth. By analyzing global trends over the last few years, crowdfunding has been shown to make a huge impact in entrepreneurial and even business needs.

An overview of the state of global crowdfunding shows that it is growing and has the ability to impact multiple industries. As for the current situation of crowdfunding in Canada, it is nascent with potential for growth. Now the role it can play in economic development is important, especially for entrepreneurship: a sector that had the most crowdfunding volume worldwide, nearly US\$7 billion (in 2014).

To allow Canada to benefit from the power of crowdfunding and its ability to help entrepreneurs, Canadian crowdfunding portals must have access to a nationwide market, via a harmonized regulatory framework. This would have a beneficial impact on national economic growth, job creation and thus contribute to a strong Canadian economy.

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INTRODUCTION

There is a financial gap between entrepreneurs and the existing financial structures. The current banking system does not respond to today's entrepreneurial needs, as we have witnessed over the last few years, as a business development director of a bank, within the regular banking system, and as a professional within the technology transfer and innovation world.

In many cases, inventors and companies with innovations (and high growth potential) must shelf their projects due to lack of funding. It is a growing problem which ultimately contributes to a sluggish and stagnating economy. In order to stimulate economy growth, we must create jobs and prosperity. How can we do this if entrepreneurs are getting refused by existing financial structures and have no access to credit within the first three years of operations?

In this white paper, we will provide global crowdfunding statistics which show how crowdfunding itself has contributed to different sectors, especially entrepreneurship. Our focus will be that of economic impacts of crowdfunding.

PROBLEM: ACCESS TO CAPITAL

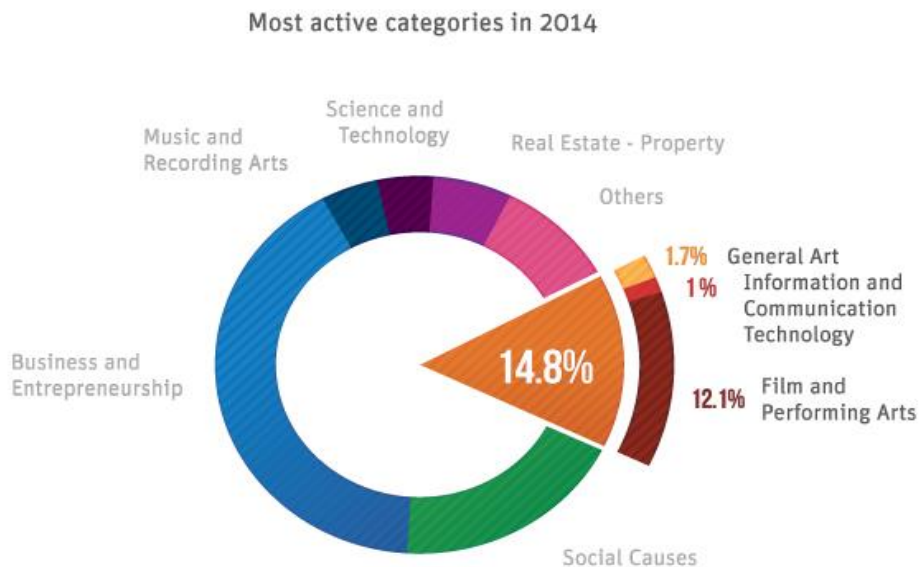
The current situation is we have many entrepreneurs and dedicated inventors who just do not have access to start-up capital. The problem is, for startups or even companies in pre-commercialization phase, that there is no "seed money" which results in lack of cash flow to support these endeavors. As a result, these innovations, products, and projects cannot sustain themselves, thus cannot be kept alive, let alone thrive.

SOLUTION: CROWDFUNDING

This is where crowdfunding can make a huge impact for today's entrepreneurial needs, as a new complementary financing tool, filling a gap not provided for by the current banking system.

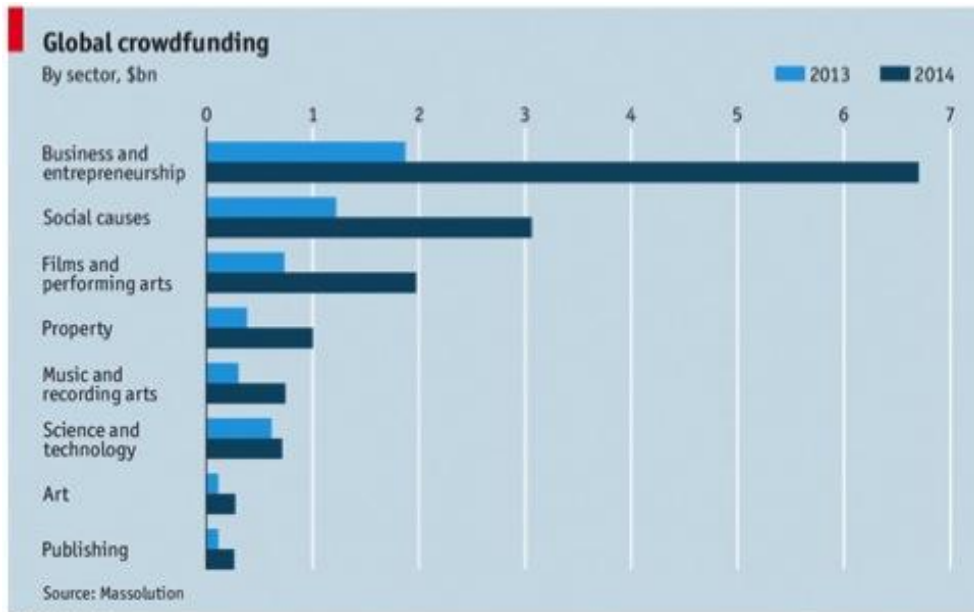
In Figure 1, we see which sector was the most active globally in 2014, that of business and entrepreneurship. And besides just the activity, that sector also had the most volume, nearly US\$7 billion, as well as the most growth over a one-year period (see Figure 2).

Figure 1. Sectors Active within Global Crowdfunding (2014)



Source: [Massolution, Crowdfunding Industry Report - Market trends, Composition and Crowdfunding Platforms.](#)

Figure 2. Global Crowdfunding Funding Volume (2013, 2014)

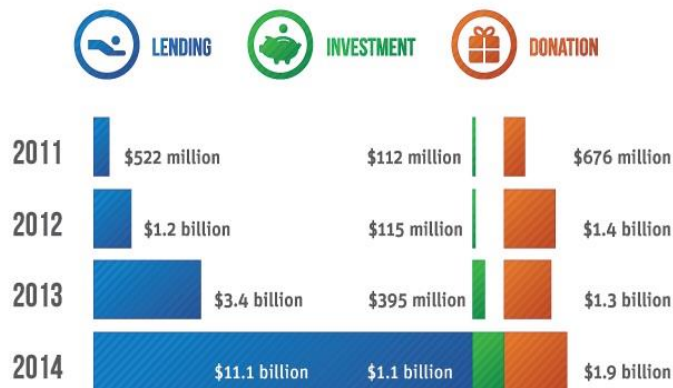


Source: The Economist

Now crowdfunding comes in many different forms, allowing for flexibility when it comes to providing funds to support projects and initiatives in various sectors of the economy. In Figure 3, we have an overview of the 3 main crowdfunding initiatives (Lending, Investment, and Donation), and their respective global funding volumes over a 4-year period. It is important to note that all three types had volumes of over at least US\$1 billion by 2014. The general trend is for continued growth.

Figure 3. Global Crowdfunding Funding Volume (2014)

Total funding volume raised globally through different crowdfunding initiatives (USD)

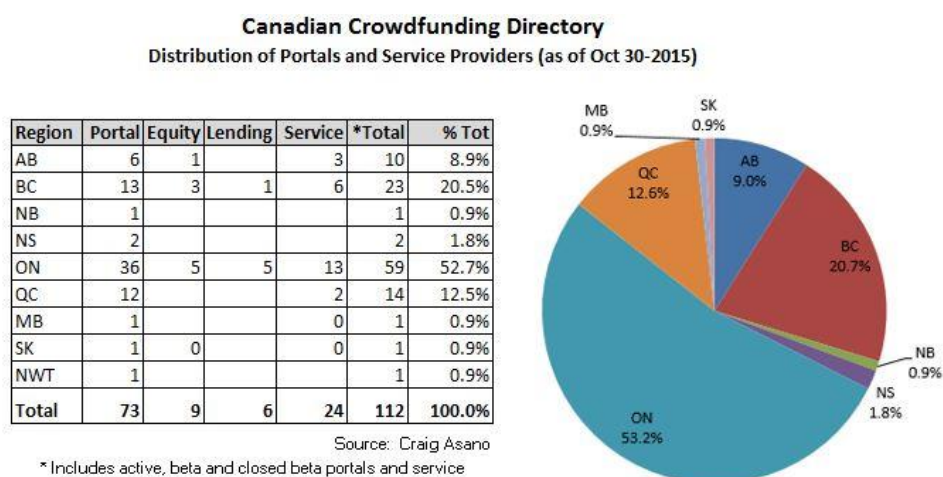


Source: [Massolution, Crowdfunding Industry Report - Market trends, Composition and Crowdfunding Platforms.](#)

Now crowdfunding portals, which provide an alternative tool for raising capital, can also have notable impacts on product visibility, allow for product and market validation, and assist in branding and social capital, all of which are measurable data. Source: <http://en.wikipedia.org/wiki/Crowdfunding>

In Canada, crowdfunding is a growing yet nascent industry, scattered across different provinces and different types of crowdfunding (Figure 4).

Figure 4. Crowdfunding Portals and Service Providers in Canada (2015)



Source : <http://ncfacanada.org/canadian-crowdfunding-directory/>

It is important to note that most countries, unlike Canada, have a harmonized national financial securities framework, allowing crowdfunding to contribute to economic growth via national standardized regulations. This is precisely the case with our neighbors to the south, the US. There they recently implemented the “**Jumpstart Our Business Startups**” Act. As stated by the SEC, the JOBS ACT “is a law intended to encourage [funding](#) of United States [small businesses](#) by easing various [securities regulations](#). It passed with [bipartisan](#) support, and was signed into law by President [Barack Obama](#) on April 5, 2012. The term "The JOBS Act" is also sometimes used informally to refer to just Titles II and III of the legislation^[1] which are the two most important pieces to much of the [equity crowdfunding](#) and [startup](#) community. Title II went into effect on September 23, 2013. On October 30, 2015, the SEC adopted final rules allowing Title III [equity crowdfunding](#). The final rules and forms are effective May 16, 2016.” Source: <http://www.sec.gov/spotlight/jobs-act.sht>

For a more practical example, an incorporated donations-rewards based platform based in the province of Quebec can only raise funds within that same province. This is a big problem not only for the crowdfunding portals but also for the entrepreneurs (Note: The donations-rewards model is the one used at Momentum Crowdfunding Inc.). So although a platform in Quebec might want to

contribute to the economic growth without limited operations throughout Canada, the current regulatory framework does not allow for it. In the US, this is not an issue.

Now crowdfunding is not just for helping entrepreneurs, it can also have a great impact on getting new innovations made, perhaps even get them out of our universities and into the market. On average, research-specific crowdfunding campaigns of under \$10,000 have had success in funding projects where the data was used help attract funding from other sources. Source: <http://fundedscience.com/is-crowdfunding-a-good-option-for-your-research/>

Of course, the amounts needed can vary depending on the research field as well as the possible societal and market impact of the research and/or innovation in question.

And can crowdfunding really make a difference? We are not the only ones to think so: "A Call to Action: a powerful new merger of social media and finance called "Crowdfunding" is promising to accelerate innovation around the world. Canada needs to adopt Crowdfunding to allow the nation's emerging, small and medium sized companies to keep up with the pace of change. Now legalized in the US, UK and Australia, we cannot let Canada fall further behind. Crowdfunding can help create and sustain new markets, new jobs and connect buyers and sellers in low cost models. Innovation is declining in Canada; we need to change more rapidly to become a more intelligent nation." Source : <http://www.cata.ca/files/PDF/misc/Crowdfundingwhitepaper.pdf>

RECOMMENDATIONS

Although crowdfunding does look promising to kick-start the Canadian economy, there are still issues which must be addressed. Each province of Canada has its own financial regulations, which impedes crowdfunding accessibility and market growth.

By looking at what crowdfunding has done globally for entrepreneurs and business, we need the home-grown crowdfunding industry to be helped with a cross-Canada policy to harmonize the crowdfunding industry. The United States did precisely this with the JOBS ACT (The “**Jumpstart Our Business Startups**” Act), legalizing and facilitating crowdfunding nationwide.

The benefit of having a harmonized national framework would help many industries, even research, across provincial boundaries, in a difficult economy and permit its diversification in the long run, by allowing innovations to take root and to make an impact.

CONCLUSION

By looking at the global impact of crowdfunding, we see a solution to provide entrepreneurs and innovators the initial funds they need to give their innovations an opportunity to enter the market. This chance is provided by crowdfunding, an alternative yet complementary financing tool to the current banking system.

In regarding to nationwide legislative harmonization of crowdfunding in the US, as well as its legalization in the UK and Australia, Canada should have a national crowdfunding policy to allow harmonization of the industry across the provinces. This would lead to crowdfunding accessibility and market growth, which would help many industries, even possibly research. Crowdfunding will thus allow Canada's emerging, small and medium sized businesses to keep up with the pace of change through innovation.

The end result would be a new route for economic growth, job creation, and the funding of innovation leading to market diversification.

ADDITIONAL RESOURCES

<http://www.cata.ca/files/PDF/misc/Crowdfundingwhitepaper.pdf>

<http://crowdfunding.cmf-fmc.ca/fr/>

<http://www.sec.gov/spotlight/jobs-act.shtml>

<http://entreprisescanada.ca/eng/page/4311/>

<http://crowdfunding.cmf-fmc.ca/>

<https://www.marsdd.com/mars-library/crowdfunding/>

<http://crowdquebec.org/>

<http://en.wikipedia.org/wiki/Crowdfunding>

FOR MORE INFORMATION

For more information, please contact info@momentumcrowdfund.com

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