

# VENTURE CAPITAL FUNDING FOR START-UPS AND EMERGING COMPANIES

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## General Information

In May 2022, the Government of Canada launched a request-for-proposal for the renewed Venture Capital Catalyst Initiative (VCCI), which would provide access to up to \$450 million in funds to the venture capital (VC) sector.<sup>[1]</sup> These investments are intended to support Canadian entrepreneurs in their efforts to start and grow new businesses, and to build on the momentum of the Government's previous VC programs, namely, the Venture Capital Action Plan and the original VCCI.

## How much funding is available?

The renewed VCCI includes targeted funding for those in the life sciences sector and for underrepresented Canadian entrepreneurs. The Government has introduced three new streams under the VCCI to allocate the \$450 million in funds:

1. \$350 million dedicated to funds-of-funds;
2. \$50 million dedicated to support VC investments in life science technologies; and
3. \$50 million (split into two application rounds of \$25 million each) for the inclusive growth stream, dedicated to support VC access to underrepresented groups, such as women and racialized communities.<sup>[2]</sup>

## Are you eligible to apply for VCCI funding?

An important condition to qualify for either of the three streams of VCCI funding is that successful applicants are prohibited from investing in companies whose primary activities include holding or managing real estate, extracting resources, and selling or marketing tobacco, alcohol, gambling, pornography, weapons, and illegal goods. In addition, there are some specific requirements particular to the specific streams, as set out below.

### 1) Funds-of-funds

The renewed VCCI program requires that funds-of-funds applicants secure \$3 of private-sector capital for every

\$1 that they receive from the federal government. In addition, in the original VCCI offering in 2017, applicants were required to meet a specific degree of gender parity to be eligible to participate. In the renewed VCCI, the government has taken this requirement further. To be eligible to apply for VCCI funding under the renewed program, an applicant must meet certain reporting requirements around diversity, equity and inclusion (“DEI”) intended to address both perceived and genuine challenges faced by disadvantaged groups such as women and racialized communities.

## 2) Life sciences funds

Eligible applicants for this stream include VC funds that aim to provide investors with long-term returns through investments in VC opportunities, primarily in technology-focused companies in the Canadian life sciences sector.<sup>[3]</sup> Successful applicants are expected to secure at least \$1 from private-sector investors for every \$1 of VCCI funding that they receive from the federal government.

The life sciences funds will be allocated to between two and seven fund managers, each receiving amounts between \$5 million and \$25 million.<sup>[4]</sup>

## 3) Inclusive growth stream

Eligible applicants include VC funds that aim to provide investors with long-term returns through investments in VC opportunities, primarily in technology-focused companies and high-growth-potential firms in the Canadian VC sector.<sup>[5]</sup> Successful applicants are expected to secure at least \$1 from private-sector investors for every \$1 of VCCI funding that they receive from the federal government.

Consideration is given to applicants proposing investment strategies that target entrepreneurs from underrepresented groups, as well as applicants that feature diverse fund managers.<sup>[6]</sup>

The inclusive growth stream funds will be allocated to approximately five to ten fund managers.<sup>[7]</sup>

## What is required in the application for VCCI funding?

Applicants must submit a proposal (an “expression of interest”) for the stream in which the applicant is interested. And applicants to all streams must include the following information in their expression of interest:

- **Investment strategy:** the applicant’s process for selecting VC funds for investment, proposed investment strategy for the funds for which the applicant is applying, and the impact on the Canadian VC ecosystem.<sup>[8]</sup>
- **Manager capabilities:** the applicant’s fund managers’ experience in raising and managing funds, and the investment team’s knowledge of Canadian VC.<sup>[9]</sup>
- **Fundraising strategy:** the applicant’s well-developed strategy to attract and engage long-term investors,

Canadian or international.<sup>[10]</sup>

- **Diversity, equity and inclusion strategy:** a detailed strategy on how the fund manager will advance DEI in the Canadian VC ecosystem.<sup>[11]</sup>

Applicants must also meet the minimum thresholds for Canadian presence, Canadian investment, and private capital leveraged.<sup>[12]</sup> Each stream will require different minimum thresholds for these factors. Additionally, applicants must adhere to a code of conduct and certain reporting requirements, which includes the collection of gender and diversity metrics.<sup>[13]</sup>

Please note that there are additional elements required to apply for VCCI funding that are not mentioned above. The full requirements can be found in the [VCCI – Call for Expression of Interest](#).

### When are the application deadlines?

- **Funds-of-funds stream:** 5:00 p.m. PT on June 23, 2022
- **Life sciences stream:** 5:00 p.m. PT on September 7, 2022
- **First-round applications for inclusive growth stream:** 5:00 p.m. PT on November 30, 2022
- **Second-round applications for inclusive growth stream:** 5:00 p.m. PT on June 2, 2023

### What does this mean for you?

The VCCI program provides an opportunity for start-up and emerging businesses to gain access to additional funding as they grow and get established in an effort to create a strong ecosystem of new anchor businesses upon which the Canadian economy will be based into the future. By using the VC community to increase the funding accessible to emerging Canadian businesses, the Government of Canada is hoping to contribute to the continued growth of Canadian high-potential and innovative companies, especially those in the life sciences sector and those entrepreneurs from underrepresented groups.

As inflation continues to rise and global pressures otherwise impact Canadian businesses, access to such additional funding can be an extremely important lifeline for many businesses allowing them to continue to develop their innovative products and services.

The VCs applying to manage these funds can play an influential role in helping the Canadian business ecosystem grow and remain competitive on a global scale. Please contact the authors or anyone on our McMillan Start-ups and Emerging Companies team if you have any questions or would like any assistance with respect to the VCCI program.

[1][ps2id id="1" target=""] Canada, Department of Innovation, Science and Economic Development Canada, [Venture Capital Catalyst Initiative – Call for Expression of Interest 2022](#), accessed 30 May 2022 (at Part 1).

[2][ps2id id='2' target=''] *Ibid* (at Part 1).

[3][ps2id id='3' target=''] *Ibid* (at Part 3).

[4][ps2id id='4' target=''] *Ibid* (at Part 3).

[5][ps2id id='5' target=''] *Ibid* (at Part 4).

[6][ps2id id='6' target=''] *Ibid* (at Part 4).

[7][ps2id id='7' target=''] *Ibid* (at Part 4).

[8][ps2id id='8' target=''] *Ibid* (at Parts 2.1, 3.1, 4.1).

[9][ps2id id='9' target=''] *Ibid* (at Parts 2.2, 3.2, 4.2).

[10][ps2id id='10' target=''] *Ibid* (at Parts 2.3, 3.3, 4.3).

[11][ps2id id='11' target=''] *Ibid* (at Parts 2.4, 3.4, 4.4).

[12][ps2id id='12' target=''] *Ibid* (at Parts 2.6, 3.5, 4.5).

[13][ps2id id='13' target=''] *Ibid* (at Part 1).

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### **A Cautionary Note**

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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