

A MODEL FOR THE PUBLIC FINANCING OF ENTREPRENEURIAL FIRMS: ALBERTA'S JUNIOR CAPITAL POOL PROGRAM

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ABSTRACT

Entrepreneurial firms face significant difficulties when raising equity capital. Public equity markets that might represent a significant source of capital have been relatively inaccessible, and past programs designed to facilitate this access have been unsuccessful. Programs that do not account for the special financing needs of entrepreneurial firms have performed poorly. We study Alberta's Junior Capital Pool (JCP), a program that since 1986 has been helping high-risk small firm ventures gain access to Canada's public equity markets. On the surface, the program is similar to U.S. blind pool programs; however, Alberta's more comprehensive regulations not only provide better surveillance but also address the specific needs of these firms. We study the 1,070 JCP's listed from 1986 to 1999, approximately 70% of which were still listed on the Alberta Stock Exchange (ASE) by the end of 1999. Our database records the growth of an initial equity base of \$113.7 million, but JCP entrepreneurs went on to build an aggregate equity capital base of \$3 billion. While our study finds that the program works best for firms managing tangible assets, we also document how the program has benefited firms in other industries.

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