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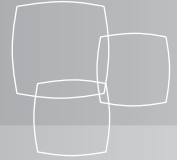
Industrie
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Information Booklet

Eligibility requirements and approval process



SADI / *Strategic Aerospace and Defence Initiative*



Accelerating Innovation



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Introduction

The Strategic Aerospace and Defence Initiative (SADI) (http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00022.html) was created to support Canada's aerospace and defence industries. Support is provided through repayable financial contributions to Canadian companies as they undertake aerospace, defence, space and security research and development projects. The initiative is administered by the Industrial Technologies Office (ITO) (www.ito.ic.gc.ca), an agency of Industry Canada.

SADI has three objectives (http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00023.html):

- to encourage strategic research and development that will result in innovation and excellence in new products and services;
- to enhance the competitiveness of Canadian aerospace and defence companies; and
- to foster collaboration between research institutes, universities, colleges and the private sector.

SADI-funded research and development contributes to the development of new products, processes, services and applications, which companies then produce and market. In so doing, they strengthen their technological capabilities and diffuse knowledge and skills in Canada.

This web document outlines the eligibility requirements and approval process for requests for SADI funding.

ITO encourages potential applicants, **prior to submitting a proposal**, to review the eligibility requirements (see page 3) and process ITO follows to review and assess applications (see page 4), and to discuss their project with ITO program officers. This allows applicants to determine whether SADI meets their needs and whether their project would be eligible for funding.

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Eligibility requirements

To be eligible for support from SADI, applicants and projects must meet five requirements, as follows:

1. The applicant must be a Canadian incorporated company that conducts strategic research and development in the aerospace and defence industries, and that creates opportunities for Canadians to contribute to a highly skilled and knowledge-based workforce.
2. The project must comprise either industrial research or pre-competitive development, as follows:
 - Industrial research: This is planned research or critical investigation aimed at discovering new knowledge, with the objective that such knowledge may be useful in developing new products, processes or services, or in significantly improving existing ones.
 - Pre-competitive development: This is the translation of industrial research findings into a plan, blueprint or design for new, modified or improved products, processes or services intended for sale or use, including the creation of a first prototype that would not be ready for commercial use. Pre-competitive development may also include the conceptual formulation and design of products, processes or services, and of initial demonstration or pilot projects. It does not include the initial demonstration or pilot projects themselves, if these could be converted or used for industrial application or commercial exploitation. It also does not include routine or periodic alterations to existing products, production lines, manufacturing processes, services and other ongoing operations, even though these alterations may be improvements.
3. The project must include strategic research and development activities involving one or more technologies that do the following:
 - support the development of next-generation aerospace and defence-related products and services;
 - build on Canadian strengths in aerospace and defence technology development;
 - enable Canadian companies to participate in major platforms and supply chains; and
 - help the sector contribute to Canada's meeting its international obligations (e.g., development programs).



4. The applicant must demonstrate that SADI support is essential to the scope and timing of the project.

5. The project must comprise strategic research and development that takes place in Canada, unless otherwise agreed to by the Minister of Industry. Similarly, any manufacturing of high-value-added technologies derived from SADI-funded projects must occur in Canada, unless the Minister approves otherwise.

Lobbying Act requirements

The applicant must comply with the *Lobbying Act* (<http://laws.justice.gc.ca/en/L-12.4/>) throughout the application process and the life of any SADI-funded project. Prior to communicating with ITO about an application or the project to which it relates, the applicant should review the provisions of the Act with legal counsel, and all company representatives (employees or advisors engaged on the company's behalf) should ensure that they are aware of the requirements of the Act and comply with them.

The applicant will be required to make representations and warranties about that compliance during the application process and as part of any contribution agreement. That agreement will state that lobbyists may not be paid a commission, contingency fee or any other consideration that depends on the agreement's execution.

Approval process

The process for approving applications for funding from SADI comprises five phases and related decision points:

1. Preparation and submission of proposal (see page 5)
2. Eligibility screening (see page 5)
3. Assessment review (see page 6)
4. Due diligence review (see page 7)
5. Project approval (see page 10)

There is a final phase of contracting for any supported project to document the mutual obligations of the applicant and the Crown in a contribution agreement.

Phase 1 is the responsibility of the applicant, after self-assessing for eligibility (see page 5).

Phases 2 through 4 are undertaken by ITO officials, based on the information provided in the proposal, and through meetings with the applicant and reviews by third-party experts.

Final approval is given, depending on the dollar amount involved, by the Deputy Minister or Minister of Industry, Treasury Board or Cabinet.

1. Preparation and submission of proposal

ITO accepts proposals for SADI support at any time. There are no submission deadlines, and ITO considers proposals in the order they are received. ITO sends a letter to the applicant confirming receipt of a proposal.

Proposals must provide detailed information describing the following:

- the research and development project to be undertaken and the associated costs;
- the financial assistance required from SADI to complete the project;
- the technological innovations that will be achieved through the project;
- the market opportunities available for the outcomes of the research and development;
- the expected outcomes and benefits to Canada as a result of the project; and
- the company's managerial, financial and technical capabilities.

The SADI *Proposal Preparation Guide* (http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00108.html) contains detailed information about preparing and submitting a proposal, including required forms. Applicants are encouraged to follow the guide as they develop their proposals.

ITO uses the information in the proposal to conduct its eligibility screening (see below) and assessment review (see page 6), as well as to carry out its due diligence review (see page 7).

2. Eligibility screening

ITO officials review each proposal they receive to ensure that the applicant and project meet the five eligibility requirements (see page 3) and that the project is consistent with SADI's objectives (http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00023.html).

The screening is based on the information in the proposal, so applicants must ensure that it clearly addresses all of the eligibility requirements. If these basic requirements are not met, ITO will not consider the proposal further.



An officer will communicate the results of the eligibility screening to the applicant. Applications that pass this screening will then be subject to the assessment review (see below). Please note that at this point, ITO will have only accepted the application for further consideration, not approved it.

3. Assessment review

During this phase, ITO determines whether the project can reasonably be expected to be completed as described and to deliver the proposed benefits. Specifically, ITO conducts a high-level evaluation to determine whether the applicant has the capability to complete the project, whether the project will result in an innovative technology application and whether the project will deliver benefits to Canada, consistent with SADI's objectives (http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00023.html).

The assessment review is based on the information in the proposal, so applicants must ensure that it clearly sets out the required information. For more information on what a proposal must contain, see the *SADI Proposal Preparation Guide* (http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00108.html).

Company capability

ITO assesses whether the applicant possesses the financial and managerial capability to complete the project and to achieve the anticipated results and benefits.

During the assessment review, ITO examines the company's financial resources, management expertise, business plan, and technical experience and expertise. Proposals must show that the company possesses sufficient capabilities in **all** of these areas.

Technology benefits

To ensure that providing financial assistance for the project can reasonably be expected to result in an enhanced technology base in Canada, ITO assesses the following:

- the degree of strategic technology innovation and/or excellence; and
- the feasibility of the research and development leading to product and/or service applications.

Proposals must clearly demonstrate that the project would create sufficient technology benefits in **at least one** of these areas.

Social and economic benefits

One of the objectives (http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00023.html) of SADI is to help Canadian aerospace and defence companies generate social and economic benefits for Canada. While assessing the potential benefits of the project, ITO will consider the following:

- the feasibility of achieving the stated economic benefits; and
- any collaborative partnerships that will be developed during the course of the project with post-secondary institutions, public research institutes or other private sector firms.

Proposals must show that the project would create sufficient benefits in **both** these areas.

ITO will inform applicants of the results of the assessment review. Those proposals that pass will proceed to the due diligence review (see below). ITO will suggest to companies whose projects do not pass the assessment review that they withdraw their proposal.

4. Due diligence review

The due diligence review involves a rigorous and in-depth analysis of the applicant and the project in order to validate the information in the proposal.

The review comprises a series of meetings with company managers, a review of additional supporting information and confidential discussions with external experts to ensure that financial assistance from SADI will result in the anticipated benefits to Canada. ITO officials will respect applicants' confidentiality requirements throughout the due diligence review.

ITO informs applicants that projects for which the due diligence review is satisfactorily completed will proceed to project approval (see page 10). ITO and the company must have agreed on a repayment plan (see page 10) by this point.

If the results of the due diligence review do not support the conclusions of the assessment review, ITO will reject the proposal.

The *SADI Proposal Preparation Guide* (http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00108.html) provides detailed information on each of the main areas that ITO will investigate during the due diligence review and that, consequently, must be covered in the proposal. These are described briefly below.



Company capability

Financial resources

The proposal must clearly demonstrate that the applicant has, or can reasonably be expected to obtain, the financial resources to complete the project and achieve the stated economic benefits from the resulting technology.

During the due diligence review, ITO officials will examine historical financial information, the underlying assumptions and reasonableness of the company's financial projections, and the potential sources (internal and external) of any required financing.

This review is designed to identify the financial risks to both the successful completion of the project and delivery of the intended benefits. Any identified financial risks and corresponding mitigation strategies will be discussed and evaluated with company management.

Management expertise

The proposal must show that the applicant's management team has strengths in the core areas of project management, strategic, marketing and technology management, and financial planning and controls.

During the due diligence review, ITO officials seek to determine whether company management possesses the capability to complete the project and deliver the intended benefits as described in the proposal. In particular, ITO assesses the experience of key members of the management team and the company's plans to address any gaps in management capability.

Business plan

The proposal must demonstrate that the applicant has a clear plan to allocate the resources required to complete the project, that the project is integrated with the applicant's overall corporate strategy and that an effective marketing and distribution strategy, or technology insertion plan, is in place. The business plan must also provide market and financial projections.

During the due diligence review, ITO officials assess the risks inherent in completing the project and delivering benefits to both the applicant and Canada. The applicant is required to substantiate information contained in assumptions underlying the business plan and to provide third-party validation of the marketing and sales assumptions.

Technical expertise

The proposal must demonstrate that the applicant possesses, or can be reasonably expected to secure, the technological capability to achieve the stated objectives of the project.

To verify this during the due diligence review, ITO officials ask the company to provide information on its research and development track record, its current laboratory and equipment capacity, the knowledge and skills of the current technical team and its plans to address any gaps in expertise required to complete the project.

Feasibility of research and development

The proposal must demonstrate that the project is technologically feasible, setting out a plan that shows a clear understanding of the activities, resources and management processes required to ensure success. The proposal should also outline the technological risks and risk mitigation strategies.

During the due diligence review, ITO officials will ask the company to substantiate that the research and development is technologically feasible in relation to the current state of the development, the resources available for the work, the progress to date and the challenges remaining.

Expected outcomes and benefits to Canada

SADI aims to strengthen the Canadian economy and the competitiveness of the aerospace, defence, space and security sectors. The proposal must contain information that shows how the project will meet SADI's three objectives (http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00023.html). In each case, the text must include details about how the company will measure the expected results.

During the due diligence process, ITO officials seek to verify that the company has realistically assessed the outcomes and benefits, and how they would be achieved. Officials also assess the commitment by research partners to increase the level of collaborative effort between them by, for example, developing new collaborations or taking an existing relationship to a new level to achieve a higher degree of knowledge and/or technology transfer.



Repayment negotiations

All SADI financial contributions are repayable. During the due diligence review, the applicant and ITO negotiate a repayment plan based on the standard available repayment options (<http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/00747.html#Repayment>), as part of developing the draft terms of a contribution agreement.

Repayment may be conditional, based on a percentage of gross business revenues, or unconditional with fixed annual repayment amounts. A medium-risk project will likely have a repayment cap of 150 percent of the value of the SADI contribution over a repayment period of 15 years.

Entering into repayment negotiations does not imply that the project has been approved for funding.

5. Project approval

Project approval involves extensive consideration of the results of the assessment review and due diligence review by senior ITO officials as well as a panel of senior Industry Canada officials to ensure that SADI funds are invested to achieve broad benefits for Canada.

Final project approval rests with the Deputy Minister and/or Minister of Industry. When the funding request is for more than \$10 million, approval of Treasury Board is also required. Cabinet and Treasury Board must both approve requests for more than \$20 million.