

James Rajotte, Chair  
Standing Committee on Finance  
c/o The Clerk of the Standing Committee on Finance  
Sixth Floor, 131 Queen Street  
House of Commons  
Ottawa, Ontario  
K1A 0A6

August 12, 2011

Dear Mr. Rajotte:

Communitech is pleased to submit this brief for your consideration as part of your consultation process to frame Budget 2012.

A key pillar of Canada's economy is the health of our information and communications technology (ICT) sector. From Communitech's vantage point as the innovation organization in Canada's fastest growing technology cluster – Waterloo Region, Ontario – we know that strategic investments in the growth and health of this sector will yield more companies, more jobs, and more economic prosperity for Canadians.

Waterloo Region is home to more than 800 technology companies, including Canada's largest tech company, Research In Motion, Canada's largest software company, Open Text, and the world leader in projection technology, Christie Digital Systems.

We believe the federal government has strong infrastructure and capacity to grow and support the next generation of innovative ICT companies; it also has a strong track record of supporting research, innovation, and commercial enterprise with programs like NRC-Industrial Research Assistance Program (NRC-IRAP) and the Scientific Research and Experimental Development (SR&ED) tax credit program.

To grow Canada's ICT sector, the most important thing government can do is to provide increased access to capital, and encourage a climate of innovation, commercialization and investment. To that end, we offer the following recommendations:

### Three ways to Grow Canada's ICT Sector

1. **Increase access to capital – implement a commercialization tax credit to get capital off the sidelines**
2. **Improve program support for SMEs – ensure BDC is achieving investment outcomes; review definitions and eligibility criteria for SR&ED; and fund NRC-IRAP at \$500M per year**
3. **Partner with industry – create an advisory body of current CEOs and entrepreneurs to offer real-time perspective on how to grow the ICT sector**

The key to a healthy ICT sector for Canada is to take a life cycle approach to supporting companies. Providing access to capital, talent, research support, export support, and tax incentives that align to stages of company growth will promote a robust tech sector, and will drive broader economic prosperity.

Canada's technology companies need different kinds of support and investment at the different stages of their evolution. Support for the individual entrepreneur leads to a healthy crop of early stage companies. Having a funnel of early-stage companies is critical to growing greater numbers of small and medium-sized enterprises (SMEs). And strong SMEs grow into global players. For Canada to produce the next

Research In Motion, Open Text, or Christie Digital, we must pay attention to the needs of companies throughout their life cycle.

## 1. Increase access to capital

The capital crisis hits all companies equally – no matter where they are in their life cycle. Small companies, in particular, need access to capital and credit instruments to help them grow their business. Communittech’s key recommendation to help grow Canada’s ICT industry is for the federal government work with industry to address critical gaps in the financing ecosystem.

### The phases of the financing ecosystem



Government can help companies raise capital through specific instruments meant to address gaps at particular points in the funding ecosystem. For early stage companies, angel investments bridge the gap between “friends and family financing” and Venture Capital. The Government of Canada can get this important source of capital off the sidelines by providing a commercialization tax credit for investors.

A commercialization tax credit will put more capital in the Canada’s tech ecosystem for companies needing \$500K - \$2M in capital, by:

- Engaging the wealth that exists in Canada and mobilizing it for the ICT sector of the digital economy
- Providing first-time investment at the community level that is desperately needed by companies and can only be done at the community level.
- Engaging the additional value of mentorship to investment – in some cases this is as valuable to building successful businesses as the money itself
- Capturing, for the first time, a true understanding of angel investment activity in Canada

The federal government has already taken important steps to improve the financing ecosystem with the revision of Section 116 of the tax code – and we appreciate your leadership on this important change. A commercialization tax credit will make more capital available to early stage companies, leading to increased job creation for Canada.

## 2. Improve program support for SMEs

Canada has several important programs in place to support ICT companies. Specifically, the Business Development Bank of Canada, the SR&ED tax credit, and NRC-IRAP are all strong instruments to support companies in an immediate way. None are in need of a major overhaul, but select improvements to these programs would go a long way toward helping grow Canada’s ICT sector more quickly.

As part of the recent review of BDC, we recommended that government examine where funds are being invested, to ensure BDC is having the outcomes it should have from an early-stage company perspective.

With respect to SR&ED, adjustments to the expense eligibility criteria and the definition of research will lead to more strategic investments and better outcomes.

And tech companies across the country resoundingly agree on the value of NRC-IRAP. IRAP’s knowledgeable and experienced field staff are a critical resource on the ground in communities across Canada. IRAP support makes an immediate difference to companies by providing funding for staffing and

projects at a critical stage in the development of SMEs. NRC-IRAP's budget is routinely spent in the first quarter of the year.

We recommend the Government of Canada increase annual support for IRAP to \$500M to ensure that we grow the next generation of tech companies in Canada.

### 3. Partner with industry

On behalf of the Waterloo Region tech community, we offer the support of CEOs and company founders to work with government to advance Canada's digital economy.

Creating an advisory body of current CEOs and entrepreneurs will offer real-time perspective on companies' needs and challenges. It will offer insight into barriers to company growth and success, and provide a lens through which to examine government policy and programs.

This perspective will certainly yield recommendations about how government can assist companies directly. But it will also shed light on other, less obvious, areas in which government can help grow the ICT sector. Support for soft infrastructure, arts and culture, transportation resources, access to health care – all of these are important factors in attracting and retaining talent for ICT companies, and in helping regional clusters of innovation to grow and thrive.

Mr. Rajotte, with some strategic actions to jump-start the capital ecosystem, a tune-up of current programs, and some relatively modest investments in things like NRC-IRAP, Canada is poised to realize significant results – generating the kinds of companies that will help us emerge as a leader in the global digital economy.

Thank you for your commitment to supporting Canada's ICT industry, and to building the infrastructure to support our growing leadership position in the world. Please count on Communittech and Waterloo Region's tech sector to help in this important work for Canada.

Sincerely,



Iain Klugman,  
CEO and president

CC:           The Hon. Gary Goodyear, Minister of State for Science and Technology  
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