



HOUSE OF COMMONS
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CANADA

EFFECTIVENESS OF THE OFFICE OF SMALL AND MEDIUM ENTERPRISES AND THE CANADIAN INNOVATION COMMERCIALIZATION PROGRAM

Report of the Standing Committee on Government Operations and Estimates

**Pat Martin, M.P.
Chair**

NOVEMBER 2011

41st PARLIAMENT, 1st SESSION

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THE STANDING COMMITTEE ON GOVERNMENT OPERATIONS AND ESTIMATES

has the honour to present its

THIRD REPORT

Pursuant to its mandate under Standing Order 108(3)(c)(i), the Committee has studied the effectiveness of the Office of Small and Medium Enterprises and the Canadian Innovation Commercialization Program, and has agreed to report the following:

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Introduction

It is generally acknowledged that small and medium enterprises (SME) are the driving force in the Canadian economy. SMEs account for 98% of the total number of businesses in Canada, 45% of the Gross Domestic Product (GDP), 60% of the total number of jobs, and 75% of net growth in employment.¹

The members of the Standing Committee on Government Operations and Estimates (hereafter the Committee) recognize the importance of SMEs in the Canadian economy and believe that SMEs should have fair, open and transparent access to federal procurement contracts. Between October 4 and November 3, 2011, the Committee met seven times to consider the effectiveness of the Office of Small and Medium Enterprises (OSME) and the Canadian Innovation Commercialization Program (CICP). This report presents the Committee's observations and the recommendations.

Office of Small and Medium Enterprises

The OSME was created in 2005 within the Department of Public Works and Government Services of Canada (PWGSC) to promote SMEs in federal procurement. In 2006, the federal government increased the OSME's presence in the regions by opening six regional offices, one each in Halifax, Montreal, Ottawa, Toronto, Edmonton and Vancouver, to support SMEs irrespective of their location.

Mandate

The OSME's mandate is to help SMEs identify opportunities and navigate the federal government's procurement system, and to advocate within the system to ensure that SMEs are treated fairly.² There are two primary ways the OSME fulfils its mandate. First, it helps SMEs gain a better understanding of the federal government procurement system by raising awareness and by providing information and assistance through its Buy and Sell website (buyandsell.gc.ca), a 1-800 telephone line and a variety of information and training sessions. Second, the OSME examines the key challenges and constraints SMEs will have to face if they wish to sell their goods and services to the federal government and advises buyers and policy makers on SMEs' concerns, recommends

1 Public Works and Government Services Canada, <http://www.tpsgc-pwgsc.gc.ca/app-acq/pme-sme/importance-eng.html>.

2 Public Works and Government Services Canada, *OSME's mandate*, <http://www.tpsgc-pwgsc.gc.ca/app-acq/pme-sme/encour-smpm-eng.html>.

improvements to the federal procurement process, and monitors the participation of SMEs in federal procurement.³

Progress

Pablo Sobrino, Associate Assistant Deputy Minister in the Acquisitions Branch of PWGSC, stated that the OSME has helped more than 140,000 individuals and suppliers since 2006, 44,000 of them in 2011.⁴ He then highlighted the progress the OSME has made in relation to the five goals for procurement practices the Committee identified in 2009 in its report titled *In Pursuit of Balance: Assisting Small and Medium Enterprises in Accessing Federal Procurement*.⁵

- Goal 1: improving the procurement process for small and medium enterprises to facilitate their awareness of and access to federal contracts;
- Goal 2: coordinating federal programs for small and medium enterprises;
- Goal 3: ensuring access by small and medium enterprises when smaller contracts are bundled into larger contracts;
- Goal 4: offering fairness instead of reserving a certain percentage of contracts, or “setting-aside” contracts, for small and medium enterprises; and
- Goal 5: allowing innovation and quality to be key selection criteria.

With respect to the first goal — informing SMEs — Mr. Sobrino stated that the OSME provides advice as well as information and training sessions on the federal procurement process. He added that these activities give SMEs a better understanding of the procurement process and teach them how to register their business, promote themselves to the federal government, search for bid opportunities and submit bids. He went to say that the OSME has also introduced seminars focusing on specific subjects in which SMEs expressed an interest in discussions with the OSME and that many OSME seminars are offered outside business hours, in several languages, in person, by

3 Ibid.

4 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5156870/OGGOEV08-E.PDF>, p. 2.

5 Standing Committee on Government Operations and Estimates, *In Pursuit of Balance: Assisting Small and Medium Enterprises in Accessing Federal Procurement*, June 2009, p. vii, http://www.parl.gc.ca/content/hoc/Committee/402/OGGO/Reports/RP4001862/402_OGGO_Rpt07/402_OGGO_Rpt07-e.pdf.

teleconference and on the Internet. According to Mr. Sobrino, feedback from the SMEs that have taken part in the OSME activities indicate a satisfaction rate of approximately 95%.⁶

Mr. Sobrino also stated that the OSME spends a great deal of time and effort reaching out to aboriginal and female business owners as well as minority-language communities in order to provide support and broaden their understanding of the federal procurement process. Shereen Benzvy Miller, Director General of the Acquisitions Branch of the OSME, stated that the OSME works closely with SME associations in all markets as well as community groups to ensure that the OSME activities are user friendly and respect the cultural differences of SME owners.⁷

We have six regional offices in Canada that offer free seminars. We are working very closely with associations in all markets and with the community organizations. Often, we even offer the outreach service in the community language, such as Punjabi or Chinese. We really try to go to vendors to help them understand the marketplace.

Shereen Benzvy Miller, Director General,
Acquisitions Branch, OSME
Evidence, No. 8, 41st Parliament, 11th Session, 1550

With respect to the second goal — coordinating federal programs for SMEs — Mr. Sobrino told the Committee that the OSME launched the website achatsetvente.gc.ca in September 2010 to provide a one-stop portal for suppliers to access the information they need to do business with the Government of Canada. He added that the website has been well received by SMEs and SME associations, and cited the opinion of Corinne Pohlmann, Vice-President for National Affairs at the Canadian Federation of Independent Business, who described the site as a big step forward in helping smaller firms get a shot at government procurement.⁸ Karna Gupta, President and CEO of the Information Technology Association of Canada, told the Committee that the buyandsell.gc.ca website was designed from SMEs' point of view, and sets the best practice for SMEs that are planning to build their own site focusing on the needs of their clients.⁹

With respect to the third goal — ensuring access by small and medium enterprises when smaller contracts are bundled into larger contracts — Mr. Sobrino told the Committee that PWGSC works with the OSME in order to consult SMEs and the SME community frequently so that PWGSC can take their concerns into account throughout the process of developing national procurement strategies. He added that the OSME consulted more than

6 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5156870/OGGOEV08-E.PDF>, p. 2.

7 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5156870/OGGOEV08-E.PDF>, p. 5.

8 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5156870/OGGOEV08-E.PDF>, p. 2.

9 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5179267/OGGOEV10-E.PDF>, p. 3.

4,000 SME in 2011 on 14 potential strategies for food and beverage, office equipment and janitorial services.¹⁰

With respect to the fourth goal — offering fairness — Mr. Sobrino stated that the OSME undertakes a variety of activities to raise awareness among PWGSC procurement staff, including formal training on the barriers SMEs face and ways of reducing and removing those barriers. He added that the buyandsell.gc.ca site gives SMEs access to the business intelligence they need to offer their goods and services to the federal government and makes the federal procurement process more transparent:¹¹

Buyandsell.gc.ca provides greater access to business intelligence and greater transparency to government processes. This site provides information to both sellers and government buyers. It reduces the time needed for SMEs to search a variety of sites, while at the same time providing deeper information sources that will assist in the preparation of bids.

Pablo Sobrino, Associate Assistant Deputy Minister,
Acquisitions Branch, PWGSC
Evidence, No. 8, 41st Parliament, 1st Session, 1535

Finally, with respect to the fifth goal — supporting innovation — Mr. Sobrino reminded the Committee that the OSME launched the CIGP in September 2010 as a two-year pilot project:

To promote economic growth, in Budget 2010 the Government of Canada committed to the creation of the Canadian innovation commercialization program on a pilot basis. Launched in September 2010, this two-year pilot is a competitive procurement program that helps Canadian businesses to commercialize their pre-commercial innovations through tests and evaluations in federal government departments.

Pablo Sobrino, Associate Assistant Deputy Minister,
Acquisitions Branch, PWGSC
Evidence, No. 8, 41st Parliament, 1st Session, 1540

Effectiveness of the Office of Small and Medium Enterprise

As stated earlier, the mandate of the OSME has two main components: i) helping SMEs identify opportunities and navigate the government procurement system, and ii) advocating within the system to ensure that SMEs are treated fairly. This section of the report examines the OSME's effectiveness in fulfilling the two aspects of its mandate.

10 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5156870/OGGOEV08-E.PDF>, p. 2.

11 *Ibid.*

Helping SMEs identify opportunities and navigate the government procurement system

Many witnesses told the Committee that the services provided by the OSME helped their business navigate the federal procurement system and learn how to offer their goods and services to the federal government.

Sue Abu-Hakima, Chief Executive Officer of Amika Mobile Corporation, for example, stated that before the OSME was created, her business tried to respond to requests for proposals but was unsuccessful. She said that the OSME gave her business a better understanding of how to win federal procurement contracts:

Certainly, we've used both OSME and CICP, and for OSME, it was just to get educated on the programs of PWGSC. You have to remember that I started my first company in 1998. I did the exit to Entrust in 2004. In those six years, there was no help in terms of understanding the procurement process of the government. We tried again and again to respond to these RFPs and got nowhere. OSME certainly helped us understand what a standing offer is, how to get a supply arrangement, and how to do these taskbased services and processes. We had no idea about any of these programs. That's where OSME role was very important.

Dr. Sue Abu-Hakima, Chief Executive Officer, Amika Mobile Corporation
Evidence, No. 11, 41st Parliament, 1st Session, 1605

John Rivenell, President of SageData Solutions Inc., meanwhile, stated that the OSME is very useful and helped his business navigate the federal government's procurement system:

I love OSME. They're very helpful, but they are guides. There's a jungle out there, terrible stuff is going on, and they will help to guide us through, but they can't do anything about the bad stuff that goes on. I'm here and I don't wish to sound impolite about the federal government, but the procurement is a total mess.

John Rivenell, President, SageData Solution Inc.
Evidence, No. 11, 41st Parliament, 1st Session, 1620

Herman Yeh, President of the Canadian Information Technology Providers Association, stated that from the CITPA members' point of view, the OSME is helpful and creative. He added that the buyandsell.gc.ca site makes effective use of current technologies to show SMEs how to find their way through the federal procurement system and procurement jargon.¹² Speaking about his experience with the CICP, Anthony Patterson, President and CEO of Virtual Marine Technology Inc., stated that the

12 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5222686/OGGOEV14-E.PDF>, p. 3.

OSME was innovative in using the Internet to solicit bids for the CICIP and that the OSME was very helpful throughout the CICIP process.¹³

Other witnesses stated that the OSME is not as well known in Canadian SME communities as it should be, and that it should work harder to promote itself to more SMEs:

Finally, improving communications with SMEs is also critical. The OSME and the buy and sell website are steps in that direction, but more needs to be done, as neither is that well known to small firms.

Corinne Pohlman, Vice-President, National Affairs,
Canadian Federation of Independent Business
Evidence, No. 12, 41st Parliament, 1st Session, 1540

Tom Hayes, President and CEO of GrowthWorks Atlantic and a director of Canada's Venture Capital and Private Equity Association, stated that very few of the association's members are familiar with the CICIP. In his view, the OSME should do more to promote the program to SMEs and venture capital investor associations.

While some of the evidence heard by the Committee suggests that the OSME should make more effort to promote its services and programs to Canadian SMEs and SME associations, the majority view is that the OSME is effectively carrying out the component of its mandate intended to help SMEs identify opportunities and navigate the federal government's procurement system.

Advocating within the system to ensure that SMEs are treated fairly

One of the topics raised during the Committee's proceedings was that SMEs and SME associations do not perceive the OSME as having a great deal of influence over PWGSC's policies relating to the federal procurement process.

Influence of the Office of Small and Medium Enterprises

Speaking about the complexity of the federal government's procurement system, John Rivenell, President of SageData Solutions Inc., stated, for example, that the OSME has in his view no power to streamline the system:

13 *Ibid.*

OSME are very sympathetic. They're a bit like the therapist who sits down and goes, "Yes, it's awful, isn't it?" I go, "Yes, it is awful". [...] But there's not much they can do, because they don't have the power to change stuff.

John Rivenell, President, SageData Solutions Inc.
Evidence, No. 11, 41st Parliament, 1st Session, 1620

Jeff Lynt, former chair of the Canadian Business Information Technology Network, stated that the OSME is not an effective advocate for Canadian SMEs and has very little influence over PWGSC's procurement policies. He believes the OSME should be independent of the Acquisitions Branch of PWGSC:

We need OSME to be more effective when it comes time to convince senior managers that SMEs can provide them innovative solutions at lower costs. We don't want it to be just an advocate for SMEs, or a public relations effort for the government. We want it to be a real proponent for SMEs. It should facilitate contacts. It should help us to be present when senior officials plan for large projects in order for us to provide them with information on how we can help. It should be more active. It should be independent from the procurement side of Public Works and Government Services Canada.

Jeff Lynt, Former Chair,
Canadian Business Information Technology Network
Evidence, No. 11, 41st Parliament, 1st Session, 1530

Although some witnesses made the point that the OSME has little influence within PWGSC, they disagreed on the department to which the OSME should be transferred so that it can be a better advocate for SMEs. Cathy McCallion, a member of the board of directors of the Canadian Business Information Technology Network, suggested that the OSME be transferred from PWGSC to Industry Canada, with the view that it would be separated in terms of governance, so that it would report directly to the Minister of State (Business and Tourism):

We're hoping for a situation where they feel comfortable to act on our behalf and question procurement. When you're constantly questioning your colleagues, it can become quite adversarial and uncomfortable. We are hoping for the creation of a new OSME where they are comfortable speaking out against their current colleagues and improving the procurement processes. I think they want to do a great job for us in the current situation, but their voice is muted.

Cathy McCallion, Board Member,
Canadian Business Information Technology Network
Evidence, No. 11, 41st Parliament, 1st Session, 1640

Corinne Pohlmann, on the other hand, stated that the OSME could be transferred to the Office of the Procurement Ombudsman,¹⁴ while Herman Yeh, President of the Canadian Information Technology Providers Association, indicated that his preference would be for the OSME to remain at PWGSC.¹⁵

Recommendation 1

The Committee recommends that the government study the possibility of ensuring greater independence in the governance of the Office of Small and Medium Enterprises.

Contract bundling

Many witnesses shared with the Committee their concern that the federal government would from time to time bundle small contracts into mega contracts, thus creating barriers for SMEs that would like to bid. According to those witnesses, the OSME should make more of an effort to ensure that PWGSC procurement staff take the interests of SMEs into consideration when they bundle contracts.

Jeff Lynt, former chair of the Canadian Business Information Technology Network, stated that the bundling of small federal contracts would leave SMEs unable to compete with big companies. In his view, when the size of a contract makes it possible for SMEs to bid, they often win because of their lower prices, innovation, flexibility and ability to adapt:

Let me be clear. We do not want set-asides for small companies. We do not want special deals. We're not looking for made-for-SME solutions. We want to compete with large companies. In most cases, SMEs win contracts against large companies based upon their lower prices, innovation, flexibility, and capacity to adapt. To do this, we have to be allowed to compete, and on occasion, contracts are bundled in order to stop SMEs from being able to compete.

Jeff Lynt, Former Chair,
Canadian Business Information Technology Network
Evidence, No. 11, 41st Parliament, 1st Session, 1530

Herman Yeh, President of the Canadian Information Technology Providers Association, meanwhile, stated that PWGSC procurement staff would from time to time bundle small contracts based on the erroneous assumption that it would be less costly, more simple and more effective to deal with big companies. Mr. Yeh then drew the Committee's attention to the fact that PWGSC has no policy framework on the bundling of federal contracts. In his view, a policy framework would help PWGSC and the OSME guarantee SME's fairer access, and at the same time generate savings for Canadian

14 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5200623/OGGOEV12-E.PDF>, p. 10.

15 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5222686/OGGOEV14-E.PDF>, p. 9.

taxpayers.¹⁶ Corinne Pohlmann, Vice-President for National Affairs at the Canadian Federation of Independent Business, suggested that the OSME's mandate should be amended to allow the organization to review large contracts and determine whether they could be split. In her view, the results obtained by the OSME's American counterpart, the U.S. Small Business Administration, which uses that practice, suggest the practice is effective.¹⁷

On the subject of the bundling of small federal procurement contracts, Pablo Sobrino told the Committee that his department is currently developing a new procurement mechanism that should enable PWGSC to avoid bundling small contracts so that federal departments and agencies can procure goods and services locally. He expects the new mechanism to be in place no later than a year and a half from now:

If we have this instrument that we're putting in place over the next year or year and a half, it will allow you as a buyer to just say, "Okay, I need to buy this piece of equipment", and it just goes out and you buy that piece of equipment. You don't have to go through a big procurement process. You don't end up bundling things, which is one of the big concerns; that does cut out small and medium-sized enterprises. This is the framework we've put in place to deal with that issue. Also, it has to be something that's sustainable. It can't be a quick fix. It has to be a more permanent fix, which is what's taking us time to put in place.

Pablo Sobrino, Associate Assistant Deputy Minister,
Acquisitions Branch, PWGSC
Evidence, No. 8, 41st Parliament, 1st Session, 1620

In light of this evidence, the Committee is of the opinion that many SMEs do not believe that the OSME is taking effective action on their behalf to ensure that they are treated fairly. The Committee supports PWGSC's efforts to develop new procurement mechanisms that could enable it to reduce the use of bundling in the future. Nevertheless, the Committee also feels that some of the challenges SMEs face because of the bundling of small contracts will persist if PWGSC puts these new procurement mechanisms in place without a policy framework for bundling. Consequently:

Recommendation 2

The Committee recommends that the Department of Public Works and Government Services and the Office of Small and Medium Enterprises consider developing a policy framework for bundling of contracts accompanied by guidelines for federal procurement staff to help them determine the types of contract that should be bundled.

16 Ibid., p. 4.

17 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5200623/OGGOEV12-E.PDF>, p. 11.

Canadian Innovation Commercialization Program

The truth is that one of the things that happen in a program like this is that it changes the nature of procurement. Historically procurement is about the government defining its need rather than asking suppliers for solutions to government problems. This is a wide-open procurement that says bring us your untried ideas and let's give it a shot.

Shereen Benzvy Miller, Director General,
Acquisitions Branch, OSME
Evidence, No. 9, 41st Parliament, 1st Session, 1620

The CICP was launched in September 2010 as a two-year pilot project. The aim of the program is to match SMEs' innovative products and ideas with federal departments that will test and evaluate them and provide critical feedback. It targets innovations in environment, safety and security, health and enabling technologies. In the course of its proceedings, the Committee learned that the CICP has two main components, an innovation fund and a liaison strategy for informing SMEs.

The innovation fund is administered like a procurement, which means that businesses have to qualify in a competitive request-for-proposals process before they can participate in the program. In their response to the call for proposals, SMEs have to provide information on their innovations, their business and the testing requirements. Proposals are evaluated using a three-step process. The first step, carried out by PWGSC, determines whether each proposal received meets all the mandatory criteria. PWGSC has to check, for example, whether the business is Canadian, the Canadian content of the proposed innovation is at least 80% of the value of the product, the value of the proposal is below \$500,000, and the proposal is at the appropriate stage of development prescribed by the program. Proposals that meet the criteria move to the second step in the evaluation process, which consists in examining the level of innovation and the SME's business and marketing plans. Experts with the National Research Council of Canada's Industrial Research Assistance Program (IRAP) evaluate the proposals and rank them in descending order. The third step in the evaluation process is carried out by the Innovation Selection Committee (ISC). The ISC reviews the top-ranked proposals in order to validate the findings of the IRAP experts. Pablo Sobrino told the Committee that to protect bidders' interests, PWGSC asks the members of the ISC to sign a non-disclosure agreement and a conflict of interest agreement.¹⁸

Once the selection process is complete, the selected businesses have to go through two more steps: matching with the department or agency that will test the innovation; and negotiation of the contract. To match a business with a department or agency, PWGSC selects the top-ranked proposals based on the funding available for the request for proposals. The bidders are informed that they have been pre-qualified and are

18 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5166141/OGGOEV09-F.PDF>, p. 2.

authorized to start looking for a department that would like to test their innovation. Once the preselected innovation has been matched with a department, PWGSC negotiates a contract with the business, and the business and the department establish the testing parameters.

With regard to the second component, namely the liaison strategy for informing SMEs, Mr. Sobrino stated that the OSME's regional offices promote to SMEs CICIP and all of the other potential benefits of doing business with the federal government, and contact federal departments to make them aware of Canadian innovations that could help them carry out their activities and fulfil their mandates more effectively.¹⁹

Effectiveness of the Canadian Innovation Commercialization Program

Mr. Sobrino told the Committee that PWGSC received 375 proposals in the first round of the CICIP. Of those, 27 were selected for matching with a federal department. In the second round of the CICIP, PWGSC received 335 proposals and the evaluation process is under way. At the time this report was written, no innovation had been fully tested because the CICIP was created only a year ago. Senior PWGSC staff told the Committee that it should take 5 to 10 years to get the innovations to market. For those reasons, the Committee was unable to directly assess the impact of the CICIP on the commercialisation of the selected innovations and instead assessed the effectiveness of the CICIP based on the body of evidence it heard.²⁰

Petr Hanel, Associate Professor of Economics at the University of Sherbrooke, told the Committee that over the past few years, Canadian businesses have dropped to twentieth place in the world in terms of spending on research and development (R&D). He stated that most Canadian economists attribute the decline in businesses' R&D spending to the weak demand for innovation in Canada. In that context, Mr. Hanel believes that the CICIP is economically effective because it stimulates the demand for innovation through public support, reduces the risks for prospective private- and public-sector buyers, and shows that the new technology lives up to the business's promises. He noted, however, that the CICIP's budget is relatively small compared to similar programs in the United States, Japan and Germany.²¹ Lianne Ing, Vice-President of Bubble Technology Industries Inc.; Sue Abu-Hakima, Chief Executive Officer of Amika Mobile Corporation; and Anthony Patterson, Chief Executive Officer of Virtual Marine Technology Inc., also suggested to the Committee that the CICIP's budget be increased.

19 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5166141/OGGOEV09-F.PDF>, p. 2.

20 Ibid.

21 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5189126/OGGOEV11-E.PDF>, p. 5-6.

Karna Gupta, President and CEO of the Information Technology Association of Canada, added that the CICIP is a key program for SMEs and that the federal government should increase its budget and make it a permanent component of Canada's innovation policy:

The Canadian government's willingness to play a central role in this process through an organized program is critical to small business. It is also wise public policy. I cannot overstate ITAC's support for CICIP. The only recommendation I can make for its improvement is to make it a permanent part of the Canadian innovation policy.

Karna Gupta, President and Chief Executive Officer,
Information Technology Association of Canada
Evidence, No. 10, 41st Parliament, 1st Session, 1540

Ms. Ing, Vice-President of Bubble Technology Industries Inc., identified the critical feedback and references provided by the department responsible for testing as the two main benefits of the CICIP for her business.²² Monica Preston, President of AMITA Corporation, agreed that a solid reference from the Government of Canada would increase sales of her innovation.

John Rivenell, President of SageData Solutions Inc., stated that his participation in the CICIP boosted his business's sales and enabled him to hire new employees:

Where do I think it's going? I'm very pleased about this because it does give us the opportunity to break away from the sort of hand-to-mouth existence a lot of small companies have, and it gives us a little bit of strength to plan for the future and to make some investment.

What practical difference does it make on the ground? I have more people working for me today, I am paying wages, and I guess you guys are taxing these folks, so you get a little bit of money back as well. That's all working well. We look forward to good things in the future from the program.

John Rivenell, President, SageData Solutions Inc.
Evidence, No. 11, 41st Parliament, 1st Session, 1550

Jason Gillham, Director of Operations, 2G Robotics Inc., gave similar evidence, stating that his participation in the CICIP enabled him to double his staff and secure six new contracts with foreign buyers; he had never before sold a copy of his innovation.²³

22 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5179267/OGGOEV10-E.PDF>, p. 2.

23 <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Evidence/EV5222686/OGGOEV14-E.PDF>, p. 9.

Dr. Geoff Hayward, President and CEO of DataGardens, told the Committee that his business's participation in the CICIP generated additional revenue and provided references from a federal department, critical feedback, future sales prospects, a reputation with other government clients, new channels and strategic partners. He added that the CICIP had a positive impact on the value of his business and his ability to obtain financing.

After pointing out the importance of the CICIP to his business, Mr. Patterson, President and CEO of Virtual Marine Technology Inc., suggested that the CICIP could be further improved by eliminating the restrictions that prevent businesses, after they have been through the program, from selling their innovation to other federal departments and agencies if the critical feedback provided by the department or agency that carried out the testing enabled the business to improve its prototype.

The seven SMEs questioned told the Committee about the different opinions on the complexity of the CICIP process. Generally, SMEs that had never dealt with the federal government considered the CICIP process long and hard to understand, whereas SMEs that had previously dealt with the federal government found it straightforward and clear.

It is too soon to assess the impact of the CICIP on the commercialization of the selected innovations, but the body of evidence heard by the Committee suggests that the CICIP is effective and makes it possible for federal departments and agencies to obtain innovative solutions that enable them to fulfil their mandates more effectively, and at the same time support innovation within Canadian SMEs. Consequently:

Recommendation 3

The Committee recommends that the Department of Public Works and Government Services consider making the Canadian Innovation Commercialization Program permanent in order to further stimulate innovation in Canada if it is possible in the current reality.

Weakness in the program selection process

In the course of its proceedings, the Committee identified a serious weakness in the CICIP evaluation process.

Asked about the mechanisms PWGSC has put in place to prevent conflict of interest, real or perceived, between members of the Innovation Selection Committee (ISC) who come from the private sector and SMEs that have submitted bids under the CICIP, Mr. Sobrino stated that he realizes that even though PWGSC asks the members of the ISC to complete a form stating that they have no conflict of interest, the fact that some members of the ISC come from the private sector raises some concerns. He told the Committee that PWGSC is currently looking to develop a different model for the ISC in

which most of the committee members would come from universities rather than the private sector:

However, we understand that there are concerns. A number of small companies are taking part in the program. Consequently, we are trying to establish another model for the future. Members of universities who have considerable innovation knowledge would be more involved, and the industry would be less so. That's another model that we're examining in order to resolve this problem.

Pablo Sobrino, Associate Assistant Deputy Minister,
Acquisitions Branch, PWGSC
Evidence, No. 9, 41st Parliament, 1st Session, 1550

Although the evidence heard by the Committee does not suggest that there has been any conflict of interest between the private-sector members of the ISC — 70% of the total number of members²⁴ — and SMEs that have submitted proposals under the CICP, the Committee is nonetheless of the opinion that PWGSC should change the composition of the ISC in such a way that the private sector is less involved in evaluating proposals. Consequently:

Recommendation 4

The Committee recommends that the Department of Public Works and Government Services takes appropriate measures to find a balance between industry, academic and other non-private sector experts to ensure that perceptions of conflict of interest are mitigated.

Conclusion

The Committee salutes the progress the OSME has made since it was created in 2005. Many of the witnesses who gave evidence in this proceeding suggested that the OSME is effectively carrying out the component of its mandate aimed at helping SMEs identify opportunities and navigate the federal government's procurement system.

Regarding the second component of the mandate, the Committee believes the OSME could advocate more effectively to ensure that SMEs have fair, open and transparent access to federal procurement contracts by implementing the first recommendation made in this report, the purpose of which is to reduce barriers related to the bundling of contracts.

24 Public Works and Government Services Canada, *Pre-qualified Proposals from First Round of the Canadian Innovation Commercialization Program*, <http://www.tpsgc-pwgsc.gc.ca/medias-media/2011-03-09-00-eng.html>.

LIST OF RECOMMENDATIONS

Recommendation 1

The Committee recommends that the government study the possibility of ensuring greater independence in the governance of the Office of Small and Medium Enterprises.

Recommendation 2

The Committee recommends that the Department of Public Works and Government Services and the Office of Small and Medium Enterprises consider developing a policy framework for bundling of contracts accompanied by guidelines for federal procurement staff to help them determine the types of contract that should be bundled.

Recommendation 3

The Committee recommends that the Department of Public Works and Government Services consider making the Canadian Innovation Commercialization Program permanent in order to further stimulate innovation in Canada if it is possible in the current reality.

Recommendation 4

The Committee recommends that the Department of Public Works and Government Services takes appropriate measures to find a balance between industry, academic and other non-private sector experts to ensure that perceptions of conflict of interest are mitigated.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Department of Public Works and Government Services Shereen Benzvy Miller, Director General, Acquisitions Branch - Office of Small and Medium Enterprises Pablo Sobrino, Associate Assistant Deputy Minister, Acquisitions Branch	2011/10/04	8
Department of Public Works and Government Services Shereen Benzvy Miller, Director General, Acquisitions Branch - Office of Small and Medium Enterprises Pablo Sobrino, Associate Assistant Deputy Minister, Acquisitions Branch	2011/10/06	9
AMITA Corporation Monica Preston, President	2011/10/18	10
Bubble Technology Industries Inc. Lianne Ing, Vice-President		
Information Technology Association of Canada Karna Gupta, President and Chief Executive Officer		
Amika Mobile Corporation Sue Abu-Hakima, Chief Executive Officer	2011/10/20	11
Canadian Business Information Technology Network Jeff Lynt, Former Chair Cathy McCallion, Board Member		
SageData Solutions Inc. John Rivenell, President		
University of Sherbrooke Petr Hanel, Associate Professor, Department of Economics		
Canadian Federation of Independent Business Louis-Martin Parent, Policy Analyst Corinne Pohlmann, Vice-President, National Affairs	2011/10/25	12
National Angel Capital Organization Michelle Scarborough, Co-Chair		
2G Robotics Inc. Jason Gillham, Director of Operations	2011/11/01	14

Organizations and Individuals	Date	Meeting
Canada's Venture Capital and Private Equity Association	2011/11/01	14
Tom Hayes, President and Chief Executive Officer, GrowthWorks Atlantic		
Canadian Information Technology Providers Association		
Herman Yeh, President		
DataGardens	2011/11/03	15
Geoff Hayward, President and Chief Executive Officer		
Virtual Marine Technology Inc.		
Anthony Patterson, President and Chief Executive Officer		

APPENDIX B LIST OF BRIEFS

Organizations and Individuals

Canadian Business Information Technology Network

Canadian Information Technology Providers Association

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 8, 9, 10, 11, 12, 14, 15 and 16](#)) is tabled.

Respectfully submitted,

Pat Martin, M.P.
Chair

