

Volume 26 Number 6  
April 17, 2012

## SDTC \$550M shortfall puts federal spotlight on value of direct subsidies for industry

By Debbie Lawes

Industry watchers describe it as one of Canada's best run innovation support programs, but that accolade didn't spare Sustainable Development Technology Canada from failing in last month's Budget to secure \$550 million to replace its almost depleted \$590-million clean tech fund. The anticipated shortfall prompted SDTC to pre-emptively reduce its operational costs by 13% in January. It is also floating a new investment model that would replace non-repayable grants with equity investments in emerging clean tech companies — money that could be used to ensure the foundation's long-term sustainability and/or reduce the federal deficit.

"I suppose that was a large amount of money to look for... obviously we're disappointed," says SDTC president and CEO Dr Vicky Sharpe.

SDTC asked for \$110 million over five years for a Canadian Cleantech Accelerator Fund to support clean tech development, demonstration and early-stage commercialization. Designed in consultation with government and industry, the CCAF would provide funding in exchange for warrants that could be exercised when portfolio companies go public.

The potential returns could be significant. Former SDTC-supported start-ups Ecosynthetix Adhesives Inc. of Burlington raised \$100 million in an IPO last year and Montreal-based Enerkem Technologies Inc is seeking more than \$135 million from its IPO this year.

Sharpe says she hopes SDTC's funding will be addressed once the government finishes reviewing the recommendations of the Jenkins report on federal support for business innovation ([R\\$, October 17/11](#)). That report stressed that more direct support programs like SDTC are required to offset the imbalance posed by large indirect measures like the Scientific Research and Experimental Development tax credit. It recommended that savings from a revamped SR&ED be redeployed to directly support small- and medium-sized enterprises (SMEs).

"SDTC is one of the few direct programs that was mentioned in the report and only one of two that have mechanisms for understanding program performance evaluation at any great depth," says Sharpe. "There's no one that can compare with us in terms of delivery of results. We're a business innovation, commercialization machine."

The numbers back up those claims. The SD Tech Fund's investment of \$560 million in 228 projects over the past decade has leveraged another \$1.4 billion, primarily from the private sector, with portfolio companies raising \$1.7 billion more in follow-on financing — more than half of that money from foreign sources. The program boasts a total leveraging effect of \$13 for every \$1 in public money. The fund has about \$30 million remaining for two competitions this year.

### **PUBLIC VS PRIVATE CAPITAL**

Green tech expert Céline Bak credits SDTC for playing "a pivotal role" in building Canada's clean tech sector, saying there is a strong economic argument for continuing its funding.

"The R&D investment in the clean tech industry in 2011 was \$985 million. That's \$225 million more than the Canadian oil and gas industry," says Bak, a partner with Analytica Advisors. "And the industry grew at almost 50% between 2009 and 2010, during the recession."

It's a sector that also hits all the right innovation policy buttons. Clean tech is dominated by technology-intensive SMEs selling high-value products, and is nine times more likely to export than the average Canadian SME, according to Analytica Advisors' 2011 Canadian Clean Technology Industry Report. The sector already generates 53% of its more than \$9 billion in revenues from outside the country and the report estimates total Canadian revenues will exceed \$60 billion — or about 2% of the projected \$3-trillion global market by 2020.

"From an economic perspective Canada can't afford not to have at least its fair share of the global clean technology market and SDTC is one of the cornerstones of what we do have in terms of a policy and innovation framework for the industry," says Bak.

Clean tech investor Dr Tom Rand says it's inconceivable the government would stop supporting SDTC, saying investors will be more reluctant to fund early stage companies that don't have SDTC involved.

"SDTC doesn't just write cheques and provide non-diluted capital. They provide a rigorous due diligence process that brings credibility to startups and gets venture capitalists and industry partners like GE, Siemens, the utilities, the distributors to the table... To have (the SD Tech Fund) disappear for a year will take a lot of wind out of the sales of that ecosystem," says Rand, who manages the newly launched \$30-million MaRS Cleantech Fund LP (see page 7).

Rand argues that SDTC "augments and catalyzes" private investment — it doesn't replace it. That issue will be front and centre as Ottawa decides how to respond to the Jenkins Report. An innovation expert who asked not to be identified blames past government policies for putting Canadian venture capital on life support. While describing SDTC as "an extraordinarily well-managed group", the individual says having government continue to act as a venture capitalist risks perpetuating what hasn't worked.

"Perhaps it's time to start different approaches," says the expert. "My personal opinion would be to go at schemes that give an increased return on success. So you'd get a tax break once your venture is successful rather than get government money to go alongside the actual investment."

Sharpe agrees more discussion on this issue is needed, but insists government funding should be part of the mix. She points to the fund-of-funds model in which groups like Alberta Enterprise Corp, Teralys Capital and the Business Development Bank successfully leverage public money to stimulate private investment. She says SDTC's involvement was pivotal in California-based SAIL Capital Partners recent decision to launch a new \$100-million Canadian clean tech fund (see page 7).

Despite the funding gap, SDTC is far from broke. It received \$500 million in 2007 for the NextGen Biofuels Fund, aimed at establishing large demonstration-scale facilities for next generation renewable fuels and co-products. But the technologies and market have been slower to mature than expected. SDTC has so far received six applications and four indications of interest, with just \$130,000 dispersed to date — an investment SDTC says could reach \$22.5 million.

Sharpe says there has been no discussions with their sponsors, Natural Resources Canada or Environment Canada, about transferring money from the biofuels fund to support earlier stage clean tech projects.

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