

**TERMS AND CONDITIONS
ATLANTIC INNOVATION FUND**

1. Purpose

The purpose of this document is to set forth the terms and conditions for the administration of contributions under the Atlantic Innovation Fund (AIF) program.

2. Definitions

“*ACOA*” and “*Agency*” means the Atlantic Canada Opportunities Agency.

“*Minister*” means the Minister of the Atlantic Canada Opportunities Agency and other persons as authorized by the Minister to act on his/her behalf.

“*Innovation*” means a process through which economic value is extracted from knowledge through the generation, development and implementation of ideas to produce new or significantly improved products, processes, technologies or services.

“*Pan Atlantic*” means an area of coverage of a project containing at least two, but preferably all Atlantic provinces. This area of coverage refers to the scope of a project, either in terms of the reach of its intended benefits (e.g. specific clients and/or general economic benefits) or in terms of the participants in the project (e.g. a group of research institutions and/or private sector firms or associations) or both.

“*AIF Advisory Board*” means the members appointed by the Minister pursuant to Section (5)3 of the *Atlantic Canada Opportunities Agency Act*, to review project proposals and to provide advice and recommendations to the Minister.

“*Request for Project Proposals*” means a process by which eligible applicants will be able to submit proposals to compete for AIF funding of projects.

“*Incremental*” means new or additional activities over and above existing/ongoing activities that cannot proceed without funding from AIF. The project is such that it cannot be supported in-house, it cannot attract sufficient outside financing, or the project is too risky to be undertaken using internal financial resources.

“*Strategic Sectors/Technologies*” means those sectors and technologies in which Atlantic Canada possesses a comparative advantage or potential to create such an advantage.

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“*Economic Benefits*” means benefits that can be measured in the short, medium and long terms by a pre-determined set of indicators including new research competencies in strategic sectors, the development of new or improved products, processes, technologies or services, or the use of R&D results in industry with resulting new business start-ups and jobs.

“*Project*” means an undertaking as described in section 5.

“*Research and Development*” (*R&D*):

- “*Research*” means the planned search or critical investigation aimed at the discovery of new knowledge or new application of existing knowledge, with the objective that such knowledge may be useful in developing new products, processes, technologies or services, or in bringing about significant improvements to existing products, processes, technologies or services.
- “*Development*” means to convert research findings into a plan, blueprint or design for new or improved products, processes, technologies or services; an initial demonstration or pilot project and prototype; and other related pre-production activities.

“*Natural Sciences*” means such disciplines as biology, chemistry, physics, life sciences and ocean sciences.

“*Applied Sciences*” means such disciplines as engineering and computer science.

“*Social Sciences*” means such disciplines as sociology and psychology.

“*Humanities*” mean such disciplines as philosophy, arts and languages.

“*Commercialization*” means the process of introducing new products, processes, technologies or services to the marketplace.

“*System of Innovation*” means the set of institutions, firms, linkages and interactions that determine the innovation performance of firms and organizations.

3. Program/Legislative Authority

The authority for this program is pursuant to sub-section 13 (g) of the *Atlantic Canada Opportunities Agency Act* and Cabinet approvals in June 2000 and February 2005.

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4. Objectives

The objectives of the program are:

- to increase activity in and to build capacity for innovation, research and development (R&D), which leads to technologies, products, processes or services that contribute to economic growth in Atlantic Canada;
- to increase the capacity for commercialization of R&D outputs;
- to strengthen the region's innovation capacity by supporting research, development and commercialization partnerships and alliances among private sector firms, universities, research institutions and other organizations in the Atlantic System of Innovation, and to increase their critical mass; and
- to maximize benefits from the national R&D programs.

5. Expected Results and Outcomes

As articulated in the AIF Results-Based Management Accountability Framework (Appendix A), two ultimate outcomes for the AIF were defined – an increased productivity/competitiveness of the region and a stronger Atlantic Canadian innovation system.

Immediate results (1 to 3 years) expected to be generated by the AIF include, among other things, institutions that encourage applied research with commercialization intent, the development of meaningful stakeholder partnerships/alliances, the establishment of sound project management practices, the ability to leverage project funding from other sources, an increase in research and development activity and, an increased private sector participation in research and development.

On the longer term (3 to 5 year), it is expected that results tied to transfer payments investments will be in the form of successful development of technologies/products/processes/services, maintenance of ongoing partnerships/alliances beyond AIF projects, increased knowledge-based activities in Atlantic Canada, increased applied research capacity in Atlantic Canada in both private sector and institutions, increased capacity to commercialize research results through partnerships and collaboration, attraction and retention of highly qualified personnel (HQP), and establishing networks and alliances that will result in a stronger innovation system in Atlantic Canada.

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6. Program Description

The Minister may make a contribution in support of R&D projects and related initiatives that are focussed in the areas of natural sciences; applied sciences; and social sciences and humanities, where these are linked explicitly to the development of technology-based products, processes or services or their commercialization, and thereby strengthen the region's System of Innovation. The AIF focuses on increasing Research and Development linked to economic development and commercialization objectives in areas that are of strategic importance to the region, particularly those that support the growth of strategic sectors/clusters. Related initiatives emphasize building the Atlantic System of Innovation, including those components that bridge the gap between research institutions and the marketplace, and encouraging synergies among the various components of this system through partnerships, alliances and networks.

7. Eligible Recipients

Eligible recipients include commercial and non-commercial entities such as, but not limited to, universities, colleges, other post-secondary educational institutions, business associations, research institutions and private sector firms.

Federal departments, including federal research laboratories and institutes, and provincial government departments, are not eligible recipients.

8. Stacking Provisions

Contributions shall be negotiated to be the least amount required to allow a project to proceed and shall conform to the Treasury Board Policy on stacking.

For non-commercial applicants

- Total government assistance (federal, provincial and municipal) to non-commercial applicants shall not exceed 100% of total eligible costs.
- Only on an exceptional basis would total assistance from AIF exceed the percentages below:
 - 80% of total eligible costs excluding new buildings and renovations; and
 - 30% of new buildings and renovations.

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For commercial applicants

- Total government assistance (federal, provincial and municipal) to commercial applicants shall not exceed 75% of total eligible costs.

The AIF program will require all recipients to disclose all confirmed and potential sources of funding for a proposed project before the start and at the end of the project. In a case where a contribution exceeds the stacking limit, immediate repayment of the excess amount will be sought from the recipient.

9. Request for Project Proposals

Implementation shall normally be delivered through the Request for Project Proposals process. The Request for Project Proposals shall be open to eligible recipients as per Section 6.

However, all other project selection processes would continue to apply (such as the use of the Advisory Board).

Proposals for commercial projects with a contribution amount of \$1,000,000 or less are not eligible as per Section 19.

10. Application Requirements

The Request for Project Proposals will provide potential applicants with detailed guidelines for preparing project proposals. A project proposal will include a description of the proposed project, a description of the applicant including any partners, the project team and management structure, the technical proposal, commercialization potential, economic benefits and financial information.

Essential criteria for consideration of project proposals are as follows:

- must be compatible with the AIF objectives;
- must be scientifically and/or technically sound;
- must demonstrate management capability to successfully undertake the project;
- must demonstrate significant economic benefits for Atlantic Canada;
- must demonstrate commercialization potential of project;

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- must support new or improved technologies or new applications of technologies;
- must have adequate financing for the duration of the project;
- must be incremental; and
- must support one or more Strategic Sectors/Technologies.

Desirable criteria for consideration of project proposals are as follows:

- includes private sector participation (for institutional proposals);
- fills a gap in the Atlantic System of Innovation;
- improves innovation capacity of private sector;
- is pan-atlantic in scope;
- builds critical mass through networks/co-operation of existing and/or additional talent (researchers);
- leverages funding from other public and private sector sources;
- attracts new firms, institutions and researchers to Atlantic Canada;
- builds on research excellence; and
- fosters national and international affiliations.

The recipient of funding certifies that any former public office holder or public servant it employs complies with the provisions of the relevant Conflict of Interest and Post-Employment Code for Former Public Office Holders and the Value and Ethics Code for Public Servants respectively.

11. Eligible Costs

Eligible costs shall include reasonable incremental costs deemed essential for the implementation of the project including the following:

- wage and salary costs of personnel, including payroll burden, incurred as a result of the project;
- building and major renovations;
- equipment, installation costs, and software required for the project; and
- operating costs for the project including direct materials and consumables, general office expenses, leasing, consulting services, R&D sub-contracting, and travel and direct overhead costs.

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Eligible costs exclude costs of land and goodwill, vehicles not used specifically for the project, selling and advertising expenses, general expenses, and financing costs such as interest and bond discount. Also excluded are asset costs in excess of fair market value.

12. Maximum Amount Payable

The maximum contribution to any project will not exceed \$10 million, unless otherwise approved by Treasury Board.

The program encourages collaboration; therefore, per-project and per-applicant limits would work against this by imposing arbitrary limits that may conflict with the program's objectives.

13. Approval / Financial Signing Authorities

The Minister has the authority to approve projects. The AIF Advisory Board shall provide the Minister with substantive recommendations on strategic directions and specific project proposals.

The authority to approve amendments to contribution agreements and to approve payments will be exercised in accordance with the Agency's Financial Signing Authority Delegation Instrument. This instrument is maintained in accordance with the Treasury Board Policy on Transfer Payments, the Policy on Delegation of Authorities and any other applicable policies, acts or regulations.

14. Basis and Timing of Payment

Contributions shall be administered and paid in accordance with contribution agreements that identify all conditions pertaining to the contributions, the expected results to be achieved, the obligations of both parties involved and the conditions under which payments and repayments shall be made in accordance with the Treasury Board Policy on Transfer Payments.

The Minister may pay a contribution in the form of an advance, progress payment(s) during the project and/or in a final payment following the completion of the project provided that the project has proceeded, or is proceeding, to the satisfaction of the Minister.

Payments will be based on either a reimbursement of eligible costs identified in the

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contribution agreement or advance payments in accordance with the Policy on Transfer Payments - Appendix B: Installment Payments of Grants and Advance Payments of Contributions.

All payments shall be made in accordance with Treasury Board policies and procedures.

Any deviation from Treasury Board policies will require Treasury Board approval.

15. Repayable Contributions

All contributions approved by the Minister shall conform to the Treasury Board Policy on Transfer Payments. Contributions to non-commercial organizations shall be non-repayable. Contributions to the private sector that involve the commercialization of a product, process, technology or service shall be conditionally repayable based on successful commercialization of the project. Recipients are normally expected to provide yearly auditor-prepared certificates on commercialization revenues to enable ACOA to determine amounts due to the Crown.

The Agency's Corporate Finance and Program systems will be used to assist Account Managers with verification of invoice dates, appropriate follow-up on overdue accounts, viability reviews, collections or rescheduling decisions, and referring defaulted accounts to the Recovery Unit. To facilitate collection, the use of pre-authorized debit (PAD) will be mandatory for all repayable contributions. In addition, each project will be risk-rated so that appropriate due diligence can be carried out.

Where an account is overdue, the recipient shall, in addition to any amount payable, pay interest on that amount. The interest, calculated daily and compounded monthly, shall accrue from the due date until the payment is received. The rate of interest shall be equal to three percent (3%) higher than the average Bank of Canada discount rate for the previous month.

16. Duration

Pursuant to the Treasury Board Policy on Transfer Payments, the terms and conditions of this program shall continue and shall be in effect until March 31, 2010. (This represents an extension of four years to the program from its initial period of April 1, 2001 to March 31, 2006.)

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17. Due Diligence

The Agency gives its assurance that departmental systems, procedures and resources for ensuring due diligence in verifying eligibility and entitlement, approving transfer payments, managing the Requests for Project Proposals process, and management and administration of the program, are in place.

All projects will be subjected to a rigorous due diligence process. This will involve an evaluation of the economic benefits of each proposal and the recommended funding level, and will be consistent with the federal government's economic policies and strategic priorities.

18. Results-based Management and Accountability Framework

An accountability framework is attached as Appendix A. This identifies the responsibility for evaluation activity and data collection, major evaluation issues, the character and timing of data collection, the approach for project monitoring, and the nature of program reports.

19. Risk-based Audit Framework

An audit framework is attached as Appendix B. This identifies the roles, responsibilities and relationships with respect to program management, the significant risk areas of the program and the pro-active measures taken to mitigate these risks to an acceptable level.

Furthermore, an audit strategy with respect to recipient audits, including the role of the Audit Directorate and the methodologies and frequencies employed, is defined in this document.

20. Other Terms and Conditions

The program will not support commercial R&D projects with total proposed contributions of \$1,000,000 or less. These will continue to be eligible under the ACOA Business Development Program, and will be assessed and processed under the Terms and Conditions for this program.

All contributions approved by the Minister shall conform with the requirements of all applicable federal and provincial government regulatory regimes including, but not limited to, the *Canadian Environmental Assessment Act* and the *Official Languages Act*.

All contributions approved by the Minister shall conform to the Agency's Sustainable

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Development Strategy.

All approved contributions shall be acknowledged by the recipients in accordance with the Communications Policy of the Government of Canada and the Federal Identity Program.

All contributions approved by the Minister shall conform to applicable ethics requirements involving human and/or animal research.

All contribution agreements will include provisions for cancellation or reduction of transfer payments in the event that funding levels are changed by Parliament.

Costs of managing and administering the program will be approximately \$5 million annually.

Attachments

Appendix A - Results-Based Management and Accountability Framework
Appendix B – Risk-Based Audit Framework