

Technology

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Report Released on Unlocking Innovation to Drive Scale and Growth in Canada

In its report released February 6, 2017, the Advisory Council on Economic Growth established by the Federal Minister of Finance (the “**Council**”) gives its suggestions for spurring innovation in Canada. The report notes that while Canada has an abundance of entrepreneurs and small and medium sized businesses (“**SMEs**”), Canadian companies lag in innovation. The report primarily attributes Canada’s innovation lag to three roadblocks: (1) a lack of connectivity between businesses and inventors, customers, experienced managers and other businesses; (2) limited access to capital for businesses; and (3) outdated government programs that are difficult to navigate.

The Council proposes the following “interlocking recommendations” which recognize and build on existing strengths and opportunities while reducing roadblocks:

- Create innovation marketplaces to foster commercialization and technology adoption;
- Build a value-added growth capital strategy focused on Canada’s fastest-growing firms;
- Implement a strategic public procurement program allowing the government to act as a first customer for innovative Canadian companies; and
- Review and rationalize government business innovation programming.

Key Features of the “Interlocking Recommendations”

1. *Innovation Marketplaces*

By building and nurturing innovation marketplaces that foster commercialization and technology adoption, the government catalyzes connections between businesses, talent and clients, while providing financial support and assistance in regulating the market.

Businesses looking to take advantage of this initiative should be willing to take a leadership role and put “skin in the game.” Projects are expected to be, at minimum, 50% privately funded. While the government will help manage projects, businesses are expected to lead in developing business models and strategies.

2. *Appropriate Access to Capital*

SMEs with the greatest growth potential have difficulty scaling up because Canadian capital markets do not supply them with sufficient investment. The Council recommends the government make up for the capital shortfall through one of two proposed schemes: (1) a government matching program, or (2) a business growth fund.

Under a government matching program, if businesses meet certain criteria, such as high growth potential and ability to raise private capital, the government will match every \$2 of private investment with \$1 of public money. Beyond money, the matching fund would offer “value-added support,” including access to leading investment firms and business mentors.

Under the business growth fund, banks and financial institutions would contribute capital which would be given preferential regulatory treatment. The government would facilitate the fund’s creation but would not commit public money.

3. *Strategic Public Procurement*

Public procurement should be reorganized to drive innovation from both the supply side and the demand side. The government can spur innovation from the supply side by restructuring its requests for specific equipment or services to requests for solutions, and by accepting unsolicited offers for innovative solutions. Such a restructuring would open up the procurement process to proposals from innovators, rather than limit proposals to potentially stagnant companies. From the demand side, public procurement can act as a first

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purchaser, financially supporting companies in the early stages and allowing them to field test products and build relationships before going to market.

4. *Simplified and Redirected Government Innovation Programs*

Government innovation programs need to be “rationalized” to better serve the needs of Canadian businesses. Numerous overlapping programs make the current environment confusing and prevent businesses from taking full advantage. Further, a critical re-appraisal is necessary to ensure that innovation programs align with the needs of the modern economy. Some of the Council’s other recommendations, such as a matching fund and strategic public procurement are easy examples of how government assistance might better support and create innovative business.

Global Examples of Successful Innovation Strategies

The success of the US Advanced Research Projects Agency-Energy (ARPA-E) program highlights the benefits of marketplace management and strategic public procurement. The ARPA-E uses solution-based RFPs and open-ended tenders to attract innovative proposals. These proposals are selected and managed by an independent and skilled team. Projects are rapidly initiated and then monitored for success or failure and quickly terminated if they do not progress. This allows for a dynamic and competitive market which supports development through trial and error.

The US Small Business Innovation and Research (SBIR) is an example of a successful yet simple program that fosters development through public procurement. The program earmarks R&D spending for certain federal agencies to validate the commercialization potential of domestic small business innovation through a highly competitive selection process. This supply side strategy has been emulated in the United Kingdom.

Reaction from the Canadian Venture Capital & Private Equity Association (CVCA)

The CVCA’s comments on the Council’s recommendations focus on access to capital. While the CVCA supports the goal of improving access to capital through a matching fund, the CVCA emphasizes the

need to mitigate the risk of public spending “crowding out” private investment. Moreover, the CVCA stated that a second Venture Capital Action Plan (VCAP) is necessary to meet the immediate needs of business, noting that neither a matching fund nor a growth fund are adequate substitutes. VCAP offers incentives so that private investors will create venture capital funds to support smaller businesses. It was created by the federal government to encourage investment by private companies in early-stage businesses.

The next step is to see how the Federal Government implements these recommendations, if at all, in the upcoming federal budget due this spring.

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