



July 26, 2024

PUBLIC COMMENT

To: Innovation, Science and Economic Development Canada (ISED), Ottawa

Re: Consultation on legislated procurement targets in Canada

The Centre for Canadian Innovation and Competitiveness at the Information Technology and Innovation Foundation (ITIF) appreciates the opportunity to comment on potential legislated targets for Canadian SMEs to meet the Government of Canada's innovation needs. The Centre applauds the government for pursuing legislated targets for SME procurement to drive innovation, but urges the government to address a number of other challenges that the Innovation Solutions Canada (ISC) program previously faced on top of legislating targets. If the goal for this legislated target is to drive innovation, it is also important to not lose focus of the R&D and challenge aspect of the ISC program.

Public sector procurement has the potential to help boost Canadian technological innovation. As the largest employer and organization in Canada, the federal government can serve as the basis for innovative ideas to become both commercialized and commercially viable, with the government serving as an important testbed and early market. Indeed, the U.S. Small Business Innovation Research (SBIR) program has helped many U.S. tech startups to commercialize and become highly successful scaleups.

It is important to first note that if the goal of the legislated targets is to drive innovation among Canadian SMEs, the federal government should continue the focus of procuring R&D. To put it bluntly, allowing departments to meet their legislated targets by simply procuring more pencils and desks sourced from small businesses will not drive innovation, but it will reduce productivity, because by definition, departments will not be buying from the cheapest and best value provider. Doing so would shift the focus from being innovation-focused to being a subsidy for small businesses that have the time and expertise to fill out public procurement requests for proposals. Moreover, Canada should not lose sight of the fact that the United States' SBIR program discussed in the consultation document is an R&D program first and foremost, as noted in [a previous ITIF report describing SBIR's model](#).

Issues that the ISC program encountered, that will partially be addressed by legislated targets are:

- The culture and expectations of procurement officers being such that the utilization of procurement for non-procurement objectives generally takes a backseat for delivering value for money;
- A long-standing lack of clarity on whether innovation procurement violates existing trade agreements between Canada and other countries;

- Line departments sometimes not having the capacity to properly engage with the tech companies to determine whether a proposal involves a feasible solution or to address challenges surrounding intellectual property; and
- Line departments not having the money to fund ISC projects they have committed to.

To that end, setting legislated targets will go a long way towards solving the first point about procurement culture and value for money. The ISC program faces a great deal of institutional difficulty in reconciling the objectives of procurement officers—getting goods and services for the lowest possible price—with the need to use procurement as a tool to support social and broader economic objectives, like supporting innovation. By legislated mandatory targets for SME procurement, this will provide an institutional reason for procurement teams to cooperate on SME procurement. These legislated targets should first be set upon the ten largest departments to ensure that any issues are addressed, and capacity is managed before rolling out the targets across the federal government.

However, merely setting legislated targets will be insufficient to drive the necessary change. In order to succeed, the government also needs to address, once and for all, whether innovation procurement programs run counter to trade agreements that Canada has with other countries. Delays encountered when seeing ISC projects through often relate to internal disagreements on the trade issue. If there is no trade issue, or that Canada comfortable feels there will be no retaliatory action from other countries due to them having similar programs (U.S. SBIR, UK Contracts for Innovation), then clarification needs to be shared across government on the matter. If there is indeed a trade issue in agreements like the United States-Mexico-Canada Agreement or the Canada-European Union Comprehensive Economic and Trade Agreement, then a potential solution could be to allow companies from countries that Canada has a free trade agreement with to participate in the program and seek to secure reciprocal access to other programs in other countries as well. Moreover, many countries are not members of the WTO Government Procurement Agreement and therefore have no standing in this issue.

In addition, the federal government will need to identify some department or team that will be able to greater support to line departments during the ISC process. Some departments may not possess the expertise or capacity to determine the feasibility of the proposed solutions or to be able to engage with the companies involved to adequately lay out requirements or changes. In the interest of preventing the duplication of labour, this does not necessarily need to be mandatory. If the Department of National Defense, for instance, feels that they do not need this kind of support, then they can certainly choose to forego this support.

Finally, to address the issue of departments not actually allocating the appropriate funds to ISC projects, the legislated targets could also lay out a requirement that departments have money set aside when setting out ISC tenders.

Legislated targets have the opportunity to greatly increase departmental participation in SME procurement, but the federal government needs to not lose sight of the innovation objective. The legislated targets should be a tool used to support the stimulation of technology research, development, and commercialization of Canadian innovations, and not seen as a goal in and of itself. Focusing on firms that develop innovative

solutions for government problems will create opportunities for Canadian firms to scale up and being globally competitive companies, driving Canadian innovation, productivity, and competitiveness.

Thank you for your consideration.

Sincerely,

Lawrence Zhang

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Information Technology and Innovation Foundation