

47. All-of-Government Metrics Needed to Measure Federal Procurements Supporting Canadian Innovation Across All Business Sizes

Issue

The federal government has emphasized the importance of Canadian innovation and our small- and medium-sized enterprises (SMEs) as economic drivers. When Hon. Scott Brison was appointed President of the Treasury Board in November 2015, he stated that he was committed to using the federal government's purchasing power to allow Canadian businesses to commercialize their innovations. In the Prime Minister's mandate letter to the Hon. Bardish Chagger, the Minister of Small Business and Tourism, it states that the minister will "ensure that our programs are supportive of small businesses that are seeking to become more productive, more innovative and more export-oriented".

Background

In a world where we can no longer count on competing by being the lowest-cost producers of goods, Canada's competitiveness and economic prosperity depends upon our ability to innovate with - and add value to - the goods we make and the services we provide at home and internationally.

Today, Canada is losing the innovation race. One of the ways we can move closer to the head of the pack is through the federal government investing in R&D and taking the lead in deploying Canadian innovation in the products and services it purchases on Canadians' behalf. This is particularly true for SMEs, for which having a marquee client like the federal government can make the difference between an innovation moving to market or being shelved. Other countries, such as the United States, have initiatives such as the Small Business Innovation Research (SBIR) program, which requires that US federal agencies with R&D budgets greater than \$100M allocate at least 3.2% of those budgets to U.S. small businesses for fiscal year 2017 onward. In fiscal year 2015, the SBIR program provided more than \$2 billion USD of research funding to U.S. small businesses¹.

While innovation exists in firms of all sizes, Canada's SMEs (firms with fewer than 500 employees) punch above their weight in their contribution to our economy. Less than five per cent of Canada's SMEs (which provide nearly 90% of private sector jobs) are "high-growth"² yet Industry Canada found they created 45 per cent of new jobs in 2012³. Another misconception is that high-growth SMEs are restricted to the tech sector. High-growth SMEs are located across all sectors of the economy.⁴

The federal government's Build in Canada Innovation Program (BCIP) - which is open to firms of all sizes - was created to assist companies to bridge the pre-commercialization gap by procuring and testing late-stage innovative goods and services within the federal government before they are taken to market. This is an important initiative and a positive step towards supporting Canadian innovation and exports.

According to one Canadian Chamber SME member, "When it comes to new products, it's hard to over-emphasize the importance of making a first sale. That first sale is always the hardest, because many customers don't want to risk being the proverbial guinea pig. Particularly in our industry, where law enforcement and defence customers are looking for proven solutions, not science experiments, every potential customer asks, 'Who else is using this?' For us, to be able to say that our own national police service is using the equipment, makes it significantly easier to sell the product to customers in the U.S. and abroad".

At present, there appears to be no all-of-government data regarding federal procurement by business size, sector, Canadian content, and use of innovation/R&D content available. This makes it impossible to measure how much of

¹ https://www.sbir.gov/sites/default/files/SBA_SBIR-STTR_Overview_October_2015.pptx

² The Organisation for Economic Co-operation and Development (OECD) defined high-growth firms as those with average annualized growth rates greater than 20 percent per year, over a three-year period, and with 10 or more employees at the beginning of the period. (*Key Small Business Statistics*, August 2013, Industry Canada)

³ *Key Small Business Statistics*, July 2012, Industry Canada

⁴ *Ibid.*

total Canadian federal government procurement is directed to Canadian companies by size, nor is it possible to determine how much procurement spending goes towards R&D, innovation, or commercialization across all business sizes. (Limited procurement information is available in the annual Main Estimates on a department-by-department basis.)

Comprehensive, accurate data and performance metrics - that are easily-accessible to Canadians - are essential to measuring the effectiveness of federal procurement policies developed by the Treasury Board and implemented by federal departments. This ensures fact-based policy development and aligns with the Prime Minister's mandate letter to Minister Brison, which states that that the minister will "Take a leadership role to review policies to improve the use of evidence and data in program innovation and evaluation, more open data, and a more modern approach to comptrollership."

Data from Public Services and Procurement Canada (PSPC), which acts as the federal government's central (but not exclusive) purchasing agent⁵, indicates that from fiscal years 2012-13 to 2014-15, on average, SMEs won 33.2% (or \$5.45 billion annually) of the total value of procurements awarded by PSPC to suppliers (total of \$16.4 billion)⁶. In the same period, SMEs' share rose to almost 80% (78.33%) when looking at procurement awards under \$1 million⁷. While this data paints a positive picture of general federal procurement relating to SMEs, PSPC's data also shows that for fiscal years 2012-13 to 2014-15, on average, only 2.1% (or \$113.8 million annually) of federal procurements from SMEs were related to R&D spending⁸.

This fragmented approach begs the question: How will the government, Canadian businesses, and the public measure the degree to which the government has/has not fulfilled its commitment to use the federal government's purchasing power to bring Canadian innovation to market and to support businesses, and support "small businesses that are seeking to become more productive, more innovative and more export-oriented"?

Recommendations

That the federal government – beginning in fiscal year 2016-17:

1. Provide data (percentage and absolute numbers) that are easily-accessible on the Treasury Board Secretariat website, encompassing the following information on an all-of-government basis, as well as by department/agency:
 - a. Canadian vs. foreign suppliers;
 - b. suppliers' company size (micro (1-10); small (11-99); medium-sized (100-499); large >500 employees);
 - c. suppliers by sector; and
 - d. procurements supporting R&D, innovation, and commercialization (through research contracts, adoption of innovative technologies, etc.)
2. Using the above data, establish metrics to track the effectiveness of federal procurement policies in supporting Canadian R&D, innovation, and commercialization across all business sizes.

⁵Public Services and Procurement Canada oversees 80% of the federal government's procurement spending, but only 20% of its volume of contracts (smaller contracts are awarded by individual departments).

⁶ Public Services and Procurement Canada, AIS: Acquisition Information Services, 07 March 2016

⁷ Public Services and Procurement Canada, AIS: Acquisition Information Services and PAR: Purchasing Activity Report, February 2016

⁸ PSPC-APAWarded Documents to SMEs by Top R&D GSINs - 3 Year Average (FY 2012-13/FY 2014-15), March 7/16