

SUMMER



**Building an Innovation Agenda:
Investing in Economic Growth and Effective Services**

Pre-Budget Submission

**MaRS Discovery District
February 2016**



EXECUTIVE SUMMARY

The Government of Canada has made a range of important commitments, including to invest in innovation, to build a social innovation and social finance strategy, and to make data open by default. These are areas in which the MaRS Discovery District has unique expertise. Based in Toronto, MaRS is the one of the world's largest urban innovation hubs. MaRS supports promising young ventures tackling key societal challenges in the health, clean technology and advanced information technology sectors. In the last three years, these ventures have raised \$1.3 billion in capital and earned \$640 million in revenue.

We recommend that the Government consider including the following commitments in its 2016 Budget, to advance key pillars of its agenda:

1. Advancing an Innovation Agenda

- a. Create a national data-tracking framework to build evidence on gaps, opportunities, and program impacts in Canada's innovation economy.
- b. Build a national network of innovation hubs, incubators and accelerators that shares data, programs, and best practices.
- c. Create an innovation advisory committee to support the Minister of Innovation, Science and Economic Development.

2. Building a Social Innovation and Social Finance Strategy

- a. Strike a multi-sector task force to co-create this strategy with the Government, with an emphasis on applying tools such as impact investment capital matching programs, pay-for-success funds, and prototyping in priority policy areas across government.
- b. Implement the recommendations of Canada's National Advisory Board to the G8 Social Impact Investment Taskforce to enable both social finance and social enterprise in the charitable and non-profit sector.

3. Accelerating Open Data

- a. Engage stakeholders to identify data needs, design usable data formats, and develop new platforms for collaborative evidence collection.
- b. Work with privacy commissioners and regulators across Canada to develop a consistent approach to enabling citizen access to personal data held by governments.

1. Advancing an Innovation Agenda

Issue: The success of Canada's economy depends in part on tapping into our entrepreneurial capacity and helping a new generation of promising young companies to grow and compete in domestic and international markets. There is a vital federal government role in building a national innovation system that is data-driven, cohesive, relevant and compelling to international partners, investors, talent and multinational corporations.

The pace of change in Canada's emerging innovation economy is accelerating and the tools for addressing gaps and challenges are not obvious. MaRS continues to refine its own tools, building from international best practices and from a growing body of experience, particularly in Ontario where efforts to knit together a coherent startup ecosystem have advanced significantly in recent years.

Considerations:

- There are valuable federal programs aimed at supporting innovation, but they are often confusing to navigate, and many focus on research and development, with less emphasis on downstream value capture through commercialization and international market access.



- Ventures are more likely to become drivers of new industries, create new jobs, and succeed globally with the help of a strong and supportive ecosystem, in which connections to business support, research, talent, investors, multinational customers, and domestic and foreign markets can be readily made. The Regional Innovation Centre model has helped knit together a collaborative ecosystem in Ontario, from which lessons could be borrowed to build similar networks across Canada.
- One of the critical challenges for real-time, evidence-based innovation policy is the lack of quality data tracking the development of young high-growth firms. We cannot build a high-performing national team without focused development of the strongest emerging players. For this reason, MaRS has developed and now leads a data sharing initiative with the Regional Innovation Centres that aims to establish credible baseline data on program impacts and to track the emergence of high-growth firms and new clusters. Data is matched to government statistics and private sources to create a usable evidence base for innovation programs. This has attracted interest from international partners and other provinces as it is helping to address a significant data gap in our understanding of Canada's innovation economy. This model could be scaled across Canada.

Recommendations:

- a. Focus on building an innovation system that is driven by data. Lead the creation of a shared data-tracking framework to build evidence on gaps, opportunities and program impacts in Canada's innovation economy.
- b. Focus on building a cohesive innovation system. Create a national network of innovation hubs, incubators and accelerators that shares data, programs, and best practices, builds research and development (R&D) and customer partnerships with corporations, connects high-growth ventures to export opportunities in emerging markets, and attracts capital to Canada.
- c. Create an innovation advisory committee to support the Minister of Innovation, Science and Economic Development.

2. Building a Social Innovation and Social Finance Strategy

Issue: New approaches are needed to tackle the intractable social challenges of the 21st century. Entrepreneurship and private capital are largely untapped tools for driving social sector innovation and impact. In the public sector, services have often been managed with a focus on delivery and outputs – such as the number of people reached – rather than on the citizen experience or target outcomes.

Considerations – social enterprise and social finance:

- There is growing interest in social enterprise among Canadian entrepreneurs, particularly young entrepreneurs. About 70 percent of MaRS ventures report that they are aiming to deliver a social or environmental impact. These ventures are tackling important challenges, including youth unemployment, housing and homelessness, climate change, and chronic disease. A growing cadre of impact investors in Canada and around the world – including foundations, philanthropists, corporations, and financial institutions – is interested in aligning financial return with social impact. This trend could significantly increase the capital available for social ventures.
- Impact investment funds are being developed across the country, focused, for example, on affordable housing, charitable sector loans, and clean technology. However, these funds are still too small to attract sufficient investor capital, including from large institutional investors such as pension funds. The Government could play a vital role in aggregating and de-risking investment opportunities as the market develops through a capital matching or fund of funds initiative, with appropriate credit enhancement. The potential to catalyze significant growth in impact investment is particularly apparent in the areas of affordable housing and clean technology, and is growing in the health sector.



- Non-profit organizations and charities are increasingly turning to entrepreneurial approaches that will allow them to maximize their impact, and many foundations are looking to align their investments more closely with their charitable mandates. Current rules, however, inhibit this activity. A recent change (which has yet to pass into law) enabling charities to invest in limited partnerships has been welcomed by the sector.
- As Canada's sector representative on the G8 Social Impact Investment Taskforce, the MaRS Centre for Impact Investing has had the opportunity to witness the momentum of social finance markets globally. The Centre convened Canada's National Advisory Board to this Taskforce, which set out specific recommendations to accelerate the growth of Canada's impact investment market in its 2014 report *Mobilizing Private Capital for Public Good: Priorities for Canada*, with particular reference to modernizing the rules governing the non-profit and charitable sector:
 - Allow charities and a sub-set of non-profits with clear public benefit objectives to pursue certain related business activities on an income tax exempt basis, and to pursue other business activities subject to income tax.
 - Allow charities to provide a private benefit where it is necessary to achieve a broader public benefit.
 - Allow charities to invest in limited partnerships.
 - Allow charities to make below market rate investments, where appropriate to advance their charitable objectives.

Considerations – social innovation:

- Government services do not face the same imperative as private sector services to innovate and keep pace with changing client needs. However, citizens are increasingly expecting more responsive government services, and governments are recognizing that public sector productivity is lagging. The Government has made important commitments to dedicate a fixed percentage of program funds for experimenting with new approaches, to measure what works, and to focus funding on services that are effective.
- One vehicle for achieving these goals is a pay-for-success fund, which allows governments to specify maximum prices they are willing to pay per outcome, enabling the market to respond with innovative solutions. Governments only pay if success is achieved, with private investors providing working capital. A focus on outcomes typically means a longer time horizon for funding and evaluation. The risk transfer to investors can make longer-term and larger-scale funding more attractive, as it provides a stronger value for money guarantee. The MaRS Centre for Impact Investing is working with the Public Health Agency of Canada and the Heart and Stroke Foundation to launch a pay-for-success contract based on a healthy lifestyle program for pre-hypertensive seniors. Six private investors have agreed to provide working capital for this program.
- Another vehicle is collaborative and iterative service design, with end users and other stakeholders helping to shape prototypes. The MaRS Solutions Lab has used social innovation labs to bring stakeholders together to co-create solutions to challenges such as youth unemployment. The Solutions Lab is also working with partners to streamline government rules and processes from the perspective of citizens and businesses – an approach that has led to cost savings and improved efficiency in other countries.

Recommendations:

- a. Strike a multi-sector task force to co-create a social innovation and social finance strategy with the Government, with an emphasis on applying tools such as impact investment capital matching programs, pay-for-success funds, and prototyping in priority policy areas across government.
- b. Implement the recommendations of Canada's National Advisory Board to the G8 Social Impact Investment Taskforce to enable both social finance and social enterprise in the charitable and non-profit sector.



3. Accelerating Open Data

Issue: Innovation requires data. However a significant amount of data, including on vital sectors of the economy, is not accessible outside of the governments that house it.

Considerations:

- Making data and information available by default has the potential to create new market opportunities and improve service delivery. This is particularly true where data fills an identified information gap and is provided in usable formats. Stakeholder engagement is therefore important to identify priority datasets and to test data formats.
- A fragmented data environment challenges the ability of ventures to compete and of service providers to address client needs. The Government could play a lead role in coordinating a shared data system between federal departments, provinces, territories and municipalities, using common privacy, legal, and technological standards and linking otherwise disjointed datasets.
- Citizen access to government-owned personal data can lead to more informed decision-making, empowered citizens, greater government accountability, and efficiency gains. For example, the MaRS Data Catalyst team has worked with the Government of Ontario to implement the Green Button initiative, which puts energy use data in the hands of consumers and businesses, allowing them to make informed choices that save them money while reducing peak energy consumption. Similarly, the MyHealth initiative aims to put personal health data in the hands of Canadians, enabling them to better manage their health while reducing pressure on the formal health system. A similar approach could be taken to personal finance data.

Recommendations:

- a. Engage stakeholders to identify data needs, design usable data formats, and develop new platforms for collaborative evidence collection.
- b. Work with privacy commissioners and regulators across Canada to develop a consistent approach to enabling citizen access to personal data held by governments.

Conclusion

This brief proposes actions that could be implemented in the next year to drive economic and social sector innovation. MaRS was created to foster, accelerate, scale and diffuse innovation, and to help build Canada's innovation economy in a highly competitive global environment. Our country is at a critical inflection point on this agenda, as others are rapidly escalating their innovation efforts. We are committed to supporting the Government of Canada as it shapes its path forward to deliver on key priorities.

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