

Updating Toronto's Business Incubation and Commercialization Grant Program

Date: March 10, 2022

To: Economic and Community Development Committee

From: Interim General Manager, Economic Development and Culture

Wards: All

SUMMARY

The primary purpose of this report is to propose updates to Toronto's Business Incubation and Commercialization (BIC) Grant Program for non-profit incubators and accelerators. Informed by research and consultation with partners in Toronto's innovation ecosystem, these proposed changes will ensure that grants are awarded in a transparent, open and accountable manner in accordance with the City of Toronto's Community Grants Policy (2019) and the Economic Development and Culture Divisional Strategy 2018-2022 and Equity Plan.

The recommended changes to the BIC Grant Program are designed to increase access to funding, clarify eligibility and evaluation criteria, and offer more predictable support to recipients through a multi-year grant stream. Together, these updates should result in administrative efficiencies, improved accountability, and increased support for equity-enhancing programs and services within Toronto's business start-up and innovation eco-system.

A secondary purpose of this report is to advise on broader mechanisms of municipal government support – historic, current and for future consideration – Toronto has or could make available to accelerators, incubators and the city's wider innovation ecosystem.

The following attachments accompany this report:

Attachment 1 – overview of the history of Toronto's support for accelerators and incubators;

Attachment 2 – summary of stakeholder feedback with staff recommendations on program improvements;

Attachment 3 – stakeholder engagement report; and

Attachment 4 – the proposed BIC Grant Program Guidelines.

RECOMMENDATIONS

The Interim General Manager, Economic Development and Culture recommends that:

1. City Council approve the updated program design for Toronto's Business Incubation and Commercialization Grant Program, substantially in accordance with the City of Toronto Business Incubation Grant Program Guidelines in Attachment 4 to this report, with implementation commencing in the second quarter of 2022.
2. City Council authorize the General Manager, Economic Development and Culture to negotiate and execute on behalf of the City grant agreements related to the Business Incubation and Commercialization Grant Program, for a term of no more than three years, in a form acceptable to the City Solicitor.
3. City Council authorize the General Manager, Economic Development and Culture to periodically review and, when necessary, revise the Business Incubation and Commercialization Grant Program Guidelines to ensure alignment with the City of Toronto's Community Grants Policy and any other applicable City policy, as may be amended from time to time, or reflect changing industry needs and best practices.

FINANCIAL IMPACT

Base funding to support the recommended updates to the Business Incubation and Commercialization (BIC) Grant program, included in the Council Approved 2022 Operating Budget for Economic Development and Culture (EDC), is \$1.501 million gross and net. Of this amount, it is expected that up to \$1.245 million will be made available for grants to non-profit organizations, with the balance of \$0.256 million supporting City administrative and operational expenses.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

RECONCILIATION AND EQUITY IMPACT

The changes to the Business Incubation and Commercialization (BIC) Grant Program recommended in this report have been analyzed for their potential impacts on Indigenous, Black and other equity-deserving residents and entrepreneurs.

Access to City information, City services, spaces, economic development, training and entrepreneurship opportunities will be positively impacted by the proposed program changes. Of note, the updated BIC program identifies inclusive economic growth as one of its main goals and embeds diversity considerations in two of the four elements which will be used to evaluate funding applications. The updated Program Guidelines will also

encourage accelerators and incubators to locate or provide programming in neighbourhoods across Toronto, not only the core.

An intersectional analysis of overlapping barriers reveals that racialized, low-income women are less likely to have access to financial and other supports needed to start their own businesses, and often do not consider entrepreneurship as an option. The updated BIC Program Guidelines will consider how well applicants are able to reach and provide support for entrepreneurs from equity-deserving groups reflect a diversity and intersectionality of ages, abilities, sexual orientations, gender identities, ethnicities, cultural backgrounds, religion, language, and socio-economic status.

DECISION HISTORY

At its meeting on May 5, 6 and 7, 2015, Toronto City Council endorsed "From Concept to Commercialization: A Startup Eco-system Strategy for the City of Toronto" (2015), a vision and strategic framework to enable the sustained growth of small businesses in Toronto and make the city a preferred global location to start and grow a business.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.ED3.6>

At its meeting on April 1, 2 and 3, 2014, Toronto City Council requested the General Manager, Economic Development and Culture, in consultation with the Deputy City Manager and Chief Financial Officer, to identify a recommended funding approach for the Business Incubation and Commercialization program for consideration in the 2015 budget cycle; and directed the General Manager of Economic Development and Culture to report back in the 2015 budget cycle on a strategic vision for business incubation activities across the City.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.ED29.10>

At its meeting on April 3 and 4, 2013, Toronto City Council adopted "Collaborating For Competitiveness: Building Toronto's Incubation Network (Implementation Action 1)," that outlined a number of actions to strengthen Toronto's incubation network.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.ED20.4>

At its meeting on October 29, 2008, Toronto City Council considered a "New Model to Enhance Toronto's Economic Competitiveness" and approved a recommendation whereby effective January 1, 2009, "Toronto Economic Development Corporation's current incubator programs along with the associated funding and staffing be managed by and subsequently transferred to EDCT (Economic Development, Culture and Tourism) and included in the 2009 budget."

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2008.EX24.1>

COMMENTS

Background

A Long History of Business Incubation in Toronto

The City of Toronto has supported business incubation activities for over three decades. The number of not-for-profit incubators and accelerators funded by the City of Toronto has grown significantly in recent years in line with the broader evolution of the city's innovation ecosystem. In 2020, the City provided funding to 35 different organizations. This investment has contributed to the success of many Toronto-based start-ups and helped to establish Toronto's international position and reputation as a vibrant hub for innovation and entrepreneurship.

Toronto's support for the city's innovation eco-system dates back to the late 1980s when the Toronto Port Lands Company (TPLC), then operating as the Toronto Economic Development Corporation (TEDCO), was directed by its shareholder, the City of Toronto, to oversee and fund business incubation activity.

In 2009, responsibility for TEDCO's business incubation program was transferred to the City of Toronto's Economic Development, Culture and Tourism Division (now Economic Development and Culture), and this program was renamed the Business Incubation and Commercialization Program (BIC). At the time, EDC supported business incubation activity in Toronto through focused support to three long-standing incubators, namely: the Toronto Fashion Incubator (TFI); the Toronto Business Development Centre (TBDC); and the Toronto Food Business Incubator (TFBI).

While continued support for existing incubator collaborations was important, in 2013 Toronto City Council approved "Collaborating for Competitiveness," a strategy that enabled EDC to broaden the reach and impact of the BIC program across the startup eco-system. Among its other features, Collaborating for Competitiveness called for increased job creation, business formation, and business attraction and investment efforts by the City in high-value sectors.

In 2015, City Council endorsed "From Concept to Commercialization: A Startup Ecosystem Strategy for the City of Toronto." This strategy identified specific roles the City can play to support the development of business incubators and accelerators and advised the City to:

- strengthen the ecosystem around startups;
- support regional growth by focusing on where sectors meet, particularly in fruitful convergence between tech and established sectors such as law, retail and education; and
- support the development of entrepreneurship in Toronto neighborhoods by focusing on community development.

Consistent with City Council's directions, since 2015 EDC has supported several large incubation projects including the expansion of a food commercialization production facility (formerly known as TFBI and Food Starter) and the development of the Indigenous Centre for Innovation and Entrepreneurship (ICIE), as well as community-

based organizations delivering business pre-incubation and incubation services and place-based neighbourhood initiatives. BIC program grants have been provided to community-based organizations like The Parkdale Centre for Innovation and Business in the Streets; network organizations such as TechTO and SheEO; and academic institution-based incubators, including HELIX at Seneca College and DMZ at Ryerson University.

A timeline and overview of the growth of accelerators and incubators in Toronto from 1974 through 2020 can be found in Attachment 1.

Assessing Toronto's Support for Incubators and the Innovation Ecosystem

In 2020, the newly established Innovation Economy Council (IEC)¹ was engaged by the City to assess the focus, impact, coverage, service offerings, funding sources, demographics and institutional relationships of Toronto's incubators and accelerators (collectively referred to as "hubs"). The IEC also examined whether local start-up hubs are meeting the needs of Toronto's diverse communities. The resulting report, "A City of Entrepreneurs: Building a Supply Chain of Innovation" (June 2021)² analyzed data from a survey of 36 hubs across the Toronto region and found the following:

- The 36 hubs examined employ 440 staff and are currently supporting 5,293 start-ups across more than 11 sectors;
- Sixteen hubs are embedded in academic institutions, a trend that began in 2010 with the creation of DMZ at Ryerson;
- Fourteen hubs receive some kind of funding from the City;
- Eight hubs specialize in innovation in the arts;
- Eight hubs provide co-working space;
- Six hubs focus on social entrepreneurship;
- The top industries supported by these hubs include: digital and mobile media; creative industries; and cleantech;
- The top services provided by the hubs include: capacity building; training and courses; network connections; and mentorship;
- Almost half of the companies supported by the hubs have a least one female founder, while 60 percent have at least one Black founder or another person of colour on their founding team; and
- Combined, these accelerators and incubators have to date connected more than 30,000 start-ups with the mentors, talent, capital and space they need to get their products to market and create sustainable jobs.

While not every new start-up has been supported by an incubator or accelerator, the report notes that Toronto's hubs have become an integral part of the city's innovation ecosystem and are supporting new businesses in various sectors, including digital technology, healthcare, clean energy, and creative industries. However, the report also

¹ The Innovation Economy Council (IEC) is an informal coalition of industry leaders advocating on behalf of startup ventures, including MaRS, the Ontario Centre of Innovation, Communitech, DMZ, Invest Ottawa and the Centre for Commercialization of Regenerative Medicine (CCRM).

² "A City of Entrepreneurs: Building a Supply Chain of Innovation," Innovation Economy Council, June 2021, <https://www.toronto.ca/wp-content/uploads/2021/06/90c1-CityofEntrepreneurs.pdf>.

notes that many new ventures in Toronto are undercapitalized and grow more slowly compared to similarly situated businesses in the United States.

Incubators affiliated with post-secondary institutions have emerged over the past few years to be a significant contributor to start-up success and the broader innovation ecosystem, and now make up more than half of the hubs in the city. These hubs support the commercialization of research projects fostered by Toronto's various universities and colleges.

The IEC report observes that City funding for incubators is, at present, skewed towards those that serve digital and mobile media; creative industries; cleantech; and construction. In contrast, hubs and accelerators focused on the legal, social, retail/enterprise, education, and health sectors do not receive direct City funding at this time.

Respondents to the IEC survey indicated that more attention needs to be paid to the entrepreneurship pipeline, "from learning business skills and doing market research to accessing capital and addressing regulatory hurdles." Inclusion and equity are also highlighted as key challenges to be addressed. The report notes that not only do incubators need to be more inclusive of gender, race and sexual orientation, for example, but that class or economic mobility is also an issue.

Finally, the IEC report analyzes the goals of the City's 2015 "From Concept to Commercialization" strategy, and how much progress has been made with regards to its three major recommendations.

"From Concept to Commercialization" Recommendations	Progress since 2015
<p>1) Toronto should work to strengthen the ecosystem around start-ups.</p>	<p>Great success as measured by massive growth of organizations dedicated to supporting entrepreneurship and creative activity.</p> <p>In the past five years, Toronto gained more tech jobs (70,000) more than any North American city bar San Francisco.</p> <p>In 2021, Venture Capital firms invested \$1.2 billion in Toronto companies.</p> <p>36 hubs are supporting 5000+ start-ups in Toronto</p>

"From Concept to Commercialization" Recommendations	Progress since 2015
<p>2) The City should support regional growth by focusing on where sectors converge, particularly in fruitful convergence between tech and established sectors, such as law, retail and education.</p>	<p>Reasonable success, but further support warranted.</p> <p>Start-ups supported by incubators and accelerators in Toronto, by sector (%): digital / mobile media (46.4%); health/biotech (13.9%); social (12.3%); food (7.4%); retail / enterprise (6.3%); education (4.8%); advanced manufacturing (3.7%); legal (2.6%); cleantech (1.8%); construction/green building (0.8%)</p>
<p>3) The City should support development of entrepreneurship in Toronto neighbourhoods by focusing on community development.</p>	<p>Needs work as most start-ups supported by the hubs are located in the core of the city.</p> <p>(See pages 16 - 18 of the "A City of Entrepreneurs" report for maps depicting the location of start-ups supported by Toronto innovation hubs.)</p>

Listening to the Needs of the Incubator Ecosystem: Stakeholder Engagement

Building on findings from the IEC report, the Economic Development and Culture division engaged the non-profit organization Code for Canada (C4C) to conduct further research on how the City of Toronto as a municipal government might wish to update its support for accelerators, incubators, and the innovation eco-system.

C4C facilitated two virtual stakeholder focus group sessions in October 2021, one with seven academic institutions and the other with 15 non-profit groups. Additionally, a jurisdictional review of eleven cities across North America (including Toronto) was undertaken to better understand how Canadian and US cities support the incubator ecosystems in their regions, and an online survey was distributed to over 100 incubators, with thirty respondents (16 academic, and 14 non-profit).

The five main findings from this multi-pronged research effort are that:

1. Incubators want more engagement with the City of Toronto;
2. Funding is the most pressing challenge for incubators;
3. The City's BIC Grant Program can be improved;
4. Incubators want the City to tell their stories; and
5. Compared to other North American cities, Toronto measures near the head of the pack.

Attachment 2 summarizes the key findings from C4C's research and identifies opportunities for the City to address stakeholder recommendations in the short, medium, and long-term, including through updates to the BIC grant program itself. The full engagement report can be found in Attachment 3.

A Revised BIC Grant Program Framework: Ensuring Transparency, Openness and Accountability with a Focus on Inclusion and Equity

As outlined above, the City of Toronto has a long history of supporting Toronto's entrepreneurship ecosystem as a catalyst, collaborator and – via the BIC program – funder. In view of the significant growth of the region's start-up and innovation ecosystem in recent years as well as evolving market conditions and municipal priorities brought into focus by the COVID-19 pandemic, there is an identified need for the City to update its approach and tools for supporting local entrepreneurship and innovation.

With regard to City funding to support non-profit accelerators and incubators, up until now there has been no open, regular process for prospective organizations to apply for financial assistance from the BIC grant program. Additionally, because BIC program goals and funding criteria have not been clearly and consistently communicated, the program has faced pressure to increase its scope, resulting in a dilution of focus and impact in certain instances.

The recommended updates to the BIC program grant streams and application process, as detailed in the Program Guidelines in Attachment 4, will address these concerns and ensure alignment with the City's Community Grants Policy³ (updated in 2019). Similarly, including inclusive economic growth as a goal of the program and equity (population based and geographic) considerations among the criteria used to evaluate funding proposals will address concerns identified by stakeholders and advance various City and Economic Development and Culture division goals, including⁴:

- EDC Equity Plan Strategic Goal 4: Use partnerships, grants and competitive programs to advance equity
- EDC Equity Plan Strategic Goal 6: Reach and engage Indigenous and equity-seeking communities and underserved neighbourhoods⁵

Specifically, the following BIC grant program funding streams and selection criteria are recommended to improve the program, respond to stakeholder feedback and bring it into full alignment with the City's policies and strategic goals.

BIC Grant Stream 1: Multi-Year Operating Grant

This funding stream provides up to three years of operating grants to non-profit organizations that have been incorporated for three or more years; with paid staff; and with demonstrated revenues of between \$100,000 to \$1,000,000.

³ City of Toronto Community Grants Policy, May 29, 2019, <https://www.toronto.ca/legdocs/mmis/2019/ec/bgrd/backgroundfile-134597.pdf>.

⁴ City of Toronto Economic Development and Culture Divisional Strategy 2018-2022, <https://www.toronto.ca/wp-content/uploads/2020/01/8e45-2019-EDC-Divisional-Strategy.pdf>

⁵ Equity Plan Report for Economic Development and Culture Division, City of Toronto, prepared by Nordicity and Karen Tisch, April 30, 2019, p. 1.

- Applicants must demonstrate a history of successful entrepreneurship and robust incubation or accelerator programming for three years or more.
- The maximum grant available under this stream is up to 20 percent of eligible expenses, to a maximum of \$100,000.
- Programming must be tailored specifically to company formation and job creation.
- The multi-year funding component was one of the top needs identified through the stakeholder consultations. It will help organizations plan and deliver more effective programs and services, and enhance program administrative efficiency.

BIC Grant Stream 2: Program and Events Grant

This funding stream is aimed at smaller non-profit organizations which have been incorporated for two or more years and have a history of successful entrepreneurship, campus entrepreneurship, or social enterprise programming.

- Applicants must have revenue of less than \$100,000 for Programs or \$50,000 for Events.
- Eligible programming can cover a range of entrepreneurship and innovation development including pre-incubation, incubation and accelerator activities, as well as one-time or a series of networking events with targeted sectoral or demographic reach and impact.
- Under this stream, the maximum grant is up to 50 percent of eligible expenses, with the Programs component offering a maximum grant of \$20,000, and the Events component offering a maximum grant of \$10,000.

BIC Grant Selection Criteria

Under the proposed program guidelines, applications for BIC funding will undergo a competitive review process and be assessed in four domains with the following weighting:

- Program alignment (30 percent)
- Program impact and engagement (30 percent)
- Organizational capacity (20 percent)
- Financial sustainability (20 percent)

Other Updates to Support BIC Program Administration, Access and Accountability

The proposed BIC Program Guidelines include a number of additional enhancements:

- Access to BIC program funding will be improved and made more equitable through the development of an on-line application portal.
- Workshops will be provided to prospective applicants to ensure the application process, program criteria and expectations, and timelines are clearly understood.
- All recipients of funding will be required to report out on a standardized set of metrics.

New Incubator Development

Funding for the development of new incubators may be provided outside the two streams identified above. Requests for City funding or other support to assist the development of new not-for-profit-incubators will be considered separately and reported to Council for approval as required. Any such requests will require a strong business case, a comprehensive budget, and demonstration of financial sustainability. In addition to funding, potential supports could include below market rent leases, access to municipal space, and property tax exemptions (if eligible).

The proposed BIC Grant Program Guidelines with further details are outlined in Attachment 4.

Transitioning to the Updated BIC Program and Funding Model

To support the implementation of the proposed updated BIC grant program and funding model, pending Council approval, an online portal will open for applications for a five week period in late April through May 2022, with applications being reviewed and grants awarded by June 2022. City staff will conduct information sessions with prospective applicants to share further details about the BIC program and application process, including eligibility and selection criteria. The online application process for 2023 will open in November 2022 for a four week period with applicants being notified in February 2023 and funding (less any hold back) issued in March 2023. In subsequent years, the same November through March timeline will be followed. BIC program funding allocations to non-profit organizations will be reported publicly annually.

The changes to Toronto's Business Incubator and Commercialization Grant Program proposed in this report will help to sustain Toronto's position as a leading global centre for innovation and entrepreneurship, while strengthening program administration and ensuring that the City's investment in non-profit incubators and accelerators advances inclusive economic growth and recovery and reaches a more diverse set of entrepreneurs, (sub)sectors, communities and organizations.

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1: History of Accelerators and Incubators in Toronto, 1974-2020

Attachment 2: Summary of Stakeholder Feedback with Staff Recommendations on Program Improvement

Attachment 3: Business Incubation and Commercialization Program 2.0: Research Summary Report, Code for Canada (December 2021)

Attachment 4: City of Toronto Business Incubation and Commercialization (BIC) Grant Program Guidelines

Attachment 1: History of Accelerators and Incubators in Toronto, 1974-2020

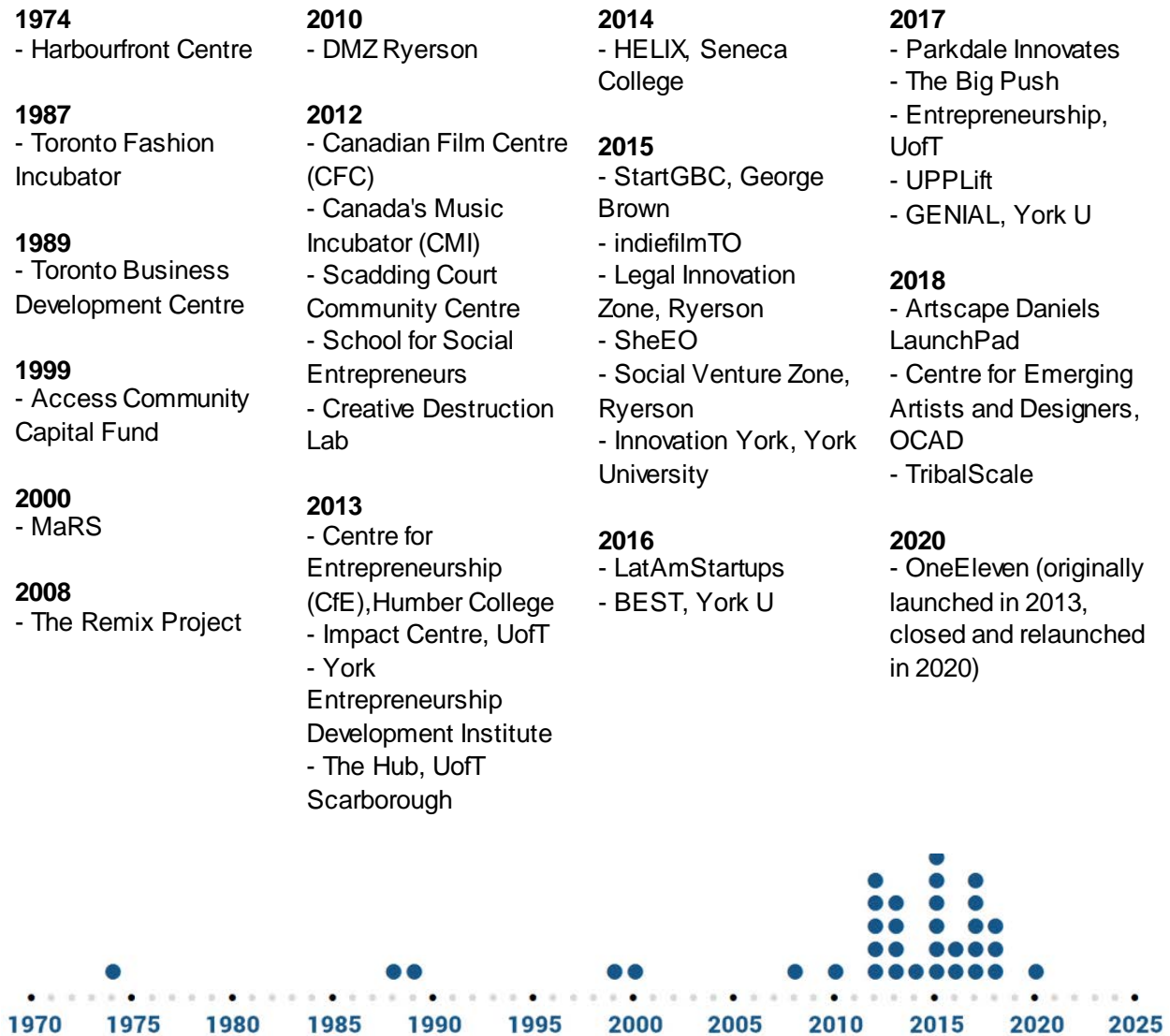


Figure 1: Graphical Timeline of Toronto's Accelerators and Incubators, 1974 through 2021

Source: "A City of Entrepreneurs: Building a Supply Chain of Innovation," Innovation Economy Council, June 2021, p. 3, <https://www.toronto.ca/wp-content/uploads/2021/06/90c1-CityofEntrepreneurs.pdf>.