Review of Economic Development Assistance Tools:

Assessment of Current Practices and Future Potential for Nova Scotia

Prepared for the Province of Nova Scotia
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1 Introduction

This report is organized in four sections. The Introduction outlines the scope and purpose of the Review of Economic Development Assistance Tools, including the current Nova Scotia context and practices in other jurisdictions.

The Reflections section includes four main themes that inform the recommendations of the review. These are followed by 12 recommendations for consideration by the Province of Nova Scotia. The report's appendices include a summary of the recommendations, more detailed information about funding disbursements, and other economic development programs outside the scope of the review. Finally, the report that was commissioned to the economic development consulting firm Millier Dickinson Blais is attached for further reading.

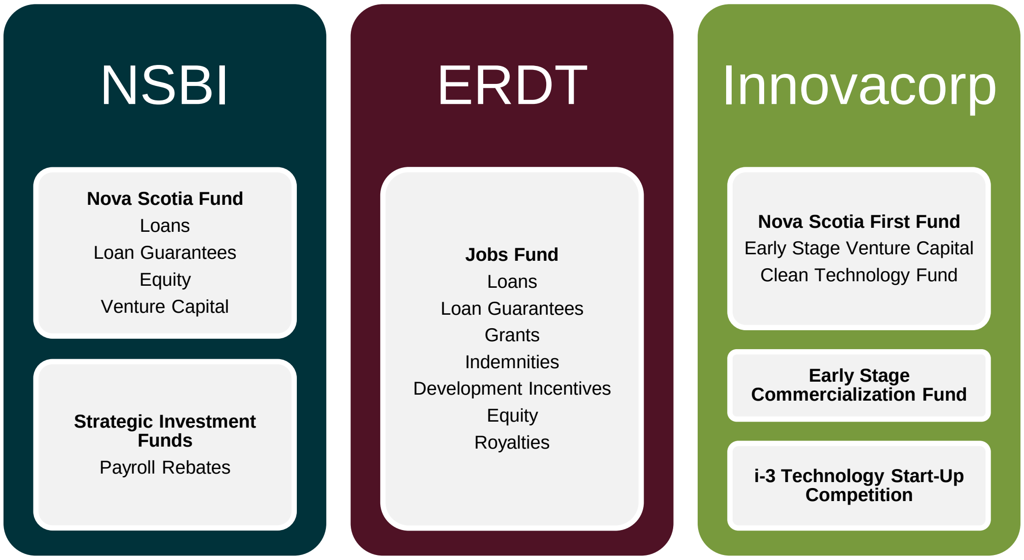
Scope and Purpose

This review focuses on the financial and other forms of support to private businesses to promote economic development through programs provided by the Department of Economic and Rural Development and Tourism (ERDT) and two of its agencies: Innovacorp and Nova Scotia Business Inc. (NSBI).

NSBI offers a series of investment and loan programs through its Nova Scotia Fund as well as a a payroll rebate program under its Strategic Investment Fund. Innovacorp provides early-stage venture capital from its Nova Scotia First Fund and similar support from its specialized Clean Technology Fund. It also provides early-stage commercialization support and incubation and business mentoring support. ERDT funding support is administered through its Jobs Fund.

The Funds within the scope of this review are outlined in Figure 1.

Figure 1: Subjects of this Report: Nova Scotia's Business Assistance Programs



The purpose of the review is to

- analyze the performance of these tools
- provide suggestions to improve their utility
- identify duplication among policy instruments and recommend the elimination of unnecessary programs
- propose new tools that may be useful in Nova Scotia
- suggest means to improve transparency and accountability in these types of government programs

That said, I did not review in detail the activities of government programs that create an enabling climate for general economic development such as education and training initiatives, land development programs, tourism activities, or cultural agencies that provide financial assistance. Nor did I examine tax policy or venture capital performance in detail since other independent reviews of these areas are underway.

Figure 2 summarizes these other programs and services offered by ERDT (excluding the Nova Scotia Jobs Fund), grouped under four program themes:

- Small Business and Regional Development
- Innovation and Learning
- Trade Development and Services
- Tourism Programs

Although outside the scope of the review, they are illustrative of the range of funding options available to Nova Scotia businesses through ERDT. Further detail pertaining to the programs listed is available in *Appendix C: Other Economic Development Funding and Support Programs – ERDT*.

Figure 2: Other Economic Development and Support Programs – ERDT

Small Business & Regional Development

- Small Business Loan Guarantee Programs
- NS Business Development Program
- Community Economic Development Investment Funds (CEDIFs)
- Aboriginal Community Development Fund
- Community Economic Development Fund
- Social Enterprise Fund

Innovation & Learning

- Workplace Innovation and Productivity Skills Incentive (WIPSI) (Productivity Investment Program)
- Capital Investment Incentive (Productivity Investment Program)
- Productivity and Innovation Voucher Program
- Strategic Cooperative Education Incentive
- Graduate Placement Program
- Student Career Skills Development Program

Trade Development & Services

- ExportAbility
- Go-Ahead Program
- Trade Missions
- Export Prospector Program
- Service Export Program
- Global Business Accelerator

Tourism

- Tourism Industry Development Program
- Tourism Experiences Marketing Program
- Nova Scotia Approved (NSA) Quality First Accommodations Program
- Destination Development Funding
- Tour Operator Partnership Program
- Tourism Human Resource Sector Council

Supporting Research

To support this review, the Province commissioned Millier Dickinson Blais (MDB) to prepare a *Review of Business Development Assistance Tools: Assessment of Current Practices and Future Potential for Nova Scotia*. I worked closely with these consultants to define the scope of their review and the questions they pursued. In particular, they provided very useful information on programs offered elsewhere in Canada and the United States and identified best practices related to incentive programs most commonly used across many jurisdictions.

They also sponsored a telephone survey of a substantial number of ERDT clients—specifically those receiving financial assistance from the Jobs Fund (and the former Industrial Expansion Fund) and beneficiaries of support from Innovacorp and NSBI—to gain perspective on the impact and perceived value of their programs. The MDB report is available as Appendix D of this review.

The Economic Context

Some people argue that governments should not engage in business assistance programs since such activities interfere with the operation of free markets, waste taxpayers’ money, or sometimes fail with spectacularly bad results. These points have merit but, given the province’s weak economic performance, some interventions seem essential.

Over the past two decades Nova Scotia achieved the lowest economic growth rate in Canada. We suffer from low productivity rates, comparatively limited business investments in capital equipment, declining export performance, and extreme regional variations in economic development across the province that produce high unemployment rates in some areas and skilled-worker shortages in others. We also face a major demographic challenge with the oldest population in the country and the prospect of a sharp decline in our workforce over the next 25 years. We must address these shortcomings if we hope to succeed in a global economy dominated by continuous technological innovation and capital investment, increased foreign trade, and strong competition for skilled, creative workers.

The *Report of the Nova Scotia Commission on Building Our New Economy (Ivany Report)* released in February 2014 provides a broad strategic framework within which to situate this review. Essentially the Commission provides the strategy for provincial economic growth, and this review addresses some of the tools available to pursue these goals. We do not lack resources. The Province spends more than $170 million annually through ERDT to promote growth and manages an investment and loan portfolio of almost $800 million. If government spending on economic development, workforce development, and resource fields from all provincial ministries is included, the total exceeds $1.7 billion in 2012–13.

The *Ivany Report* identifies 13 specific economic development goals.[1] This review touches directly on tools devoted to at least five of these goals and indirectly impacts most of the others to a greater or lesser degree. We cannot control the major forces shaping the global economy, but we can heighten our responsiveness to opportunities that emerge from these changes, especially if we focus our resources wisely and establish appropriate governance models to help us make effective decisions.

The role of government in economic development

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The Policy Context

These economic forces operate within a highly competitive public policy environment. Every province in Canada offers incentive programs to attract and retain businesses. In the United States (U.S.) state governments, counties, and cities spend an estimated $70 billion annually on economic development incentives and subsidies and another $46 billion on location incentives.

Businesses understand these competing opportunities and sometimes shop new development opportunities around to the highest bidder or raise the prospect of moving existing activities if government cannot provide support to maintain struggling operations. As a relatively small, open regional economy, we cannot avoid these pressures. To compete, it appears, sometimes we must pay to play. But how can we do so efficiently and effectively within our limited means? That is the focus of this review.

The *Ivany Report* described the competing pulls operating within government economic development policies: “to support new start-ups, to help existing enterprises to expand, and to assist firms that need to restructure or rebuild after business failures. Significant government investment also goes to relatively strong

[1] One Nova Scotia (2014). *Now or Never: An Urgent Call to Action for Nova Scotians: The Report of the Nova Scotia Commission on Building Our New Economy,* p.48-49.

and financially healthy companies simply as incentives for them to locate or expand in Nova Scotia rather than somewhere else." It also stressed the importance of transparency and accountability in the use of development funds and whether such decisions should be further "depoliticized" by "taking the cabinet out of the process and deferring to arms-length bodies that will adjudicate purely on the basis of business case evidence."[2] This review addresses these matters directly.

The report prepared by Dr. Donald Savoie in 2010, *The Way Ahead for Nova Scotia (Savoie Report)*, summarized the broad consensus within the economic development community on the critical factors for success going forward:

- innovation
- improved productivity
- upgraded human resources
- value-added resource development
- increased export activity
- enhanced research and development efforts that link invention to innovation in our economy

Like most jurisdictions around the world, Nova Scotia uses a variety of financial assistance tools to encourage and help businesses pursue these goals. Tools include loans, loan guarantees, grants, equity investments, payroll rebates, venture capital investments, and various tax credits.

The Province also invests in a wide range of development programs to enable more successful business outcomes. Examples are infrastructure investments, widely distributed regional development offices, training programs for workers, job programs for students to gain work experience, export advice, and trade missions, as well as sector development programs to facilitate business cooperation in addressing common problems.

[2] One Nova Scotia (2014). *Now or Never: An Urgent Call to Action for Nova Scotians: The Report of the Nova Scotia Commission on Building Our New Economy,* p.62.

Canadian Jurisdictional Review

The MDB report provides useful comparisons about program structure and incentives among Nova Scotia, New Brunswick, Newfoundland and Labrador, Manitoba, and Saskatchewan (pp.15–41, Appendix D). Nova Scotia has the broadest range of incentive tools, while Saskatchewan recently streamlined its offerings and does not offer community grants, loan guarantees, venture capital investments, or payroll rebates.

- Three of the four comparator provinces operate, like Nova Scotia, through centralized provincial funding structures in departments like ERDT.
- All provinces manage their financial programs directly or in partnership with other levels of government, or with financial institutions.
- All provinces focus on supporting small and medium enterprises (SMEs), but the definition of SME varies quite significantly among jurisdictions.
- Targeted sectors sometimes are identified within formal provincial economic strategies. Sectors include business areas of specialization or geographic definitions such as rural areas.
- Some provinces have larger, strategic funds focused on business or investment attraction.
- Community funding also receives attention, either in the form of grants to municipalities and community organizations, or through tax credits to individuals who invest in their community.
- Program performance is assessed at the department or program level and the results are made public to ensure accountability.
- There are no common themes regarding the application process for business incentives, but there is some evidence of attempts to streamline the experience for potential clients.

Best Practices in North America

The MDB Report also provides very useful observations about best practices across North America for the development, provision, management, and evaluation or refinement of incentives to meet ongoing objectives of fiscal sustainability, program effectiveness, and transparency and accountability. Best practice examples were selected for each of the economic development incentive tools used in Nova Scotia, and were assessed against the following:

- Decision-making processes
- Program ending
- Sector versus individual business support
- Support for SMEs
- Performance evaluation
- Transparency and accountability

These practices provide a useful benchmark against which to assess Nova Scotia's activities. The following text is taken from pages 68 to 70 of the MDB report (Appendix D) for further consideration by the Province as it develops a response to my findings, the *Ivany Report,* and other reviews underway or under consideration.

Decision Making

- Decision-making processes should be outlined to ensure that potential applicants have a clear understanding of the steps required to receive the incentive; the information should be publicly posted on the organization's website. This includes identification of the individual/group with authority to approve the application, and direction on the interactions required with the decision-making group/organization (e.g., presentations). Advanced systems offer an online tool so the applicants can track, in real time, where their application is in the process.

Business Competition

- Concerns about grant programs include government interference with competitive forces in the private sector, and the sustainability of grant funding when no long-term funding may be available. The case studies analyzed here (see MDB report, Appendix D) deal with these issues in a straightforward way. Both cases relate to economically challenged northern regions of Ontario and British Columbia. British Columbia's

Northern Development Initiative Trust (NDI) addresses sustainability using a trust fund model that is independent from the provincial government, with strong internal management processes. The Northern Ontario Heritage Fund Corporation (NOHFC) is technically an independent organization, which offers entrepreneurship grants (forgivable loans) to businesses that are not competing directly within the local area or that operate where enough market exists.

- Economic development incentives should minimize competition in their application. There are two primary considerations:
  - Ensure public assistance does not interfere with assistance from the private sector (and instead enhances it or covers an underserviced area).
  - Ensure incentive recipients do not directly compete with others in the local area.
- Indirect incentives can be disbursed through partner organizations and other levels of government to achieve broader economic or sector-based growth based on business and community agreement. Indirect incentives support things like infrastructure investment to generate business growth (with the support of business and local governments), and workforce development and training.

Evaluation

- Comprehensive evaluation steps at the early stages of the program can improve potential for fiscal sustainability by matching funding to established need, strongest market potential, or stable business performance. Even where grants, loans, or investments are relatively small (such as at the pre-seed stage), most leading programs have a comprehensive evaluation and due diligence process in place to ensure each disbursement supports the fiscal sustainability of the recipient and the program (e.g., through the potential return on investment of an equity investment). In most cases, the final decision is made by a committee comprising skilled investment managers and stakeholders from both public and private sectors; often this is the board of directors of an administering organization.

Investment Priorities

- Incentive programs should employ a targeted (e.g., by sector or size of company) approach to the disbursement of funds, with the flexibility to respond to opportunities slightly outside of those targeted areas when appropriate. Where more general and discretionary funding programs and incentives exist, they are often administered by arms' length or private sector managers to remove political interests from the decision-making process.

Program Termination

- Incentive programs should have an established "sunset" timeline or a clear outline of how relationships will be managed and terminated. Though the length of that timeline varies among the assessed programs, most incentives are focused on a short- to medium-term (1–5 years) in order to balance financial commitments with the length of time that may be needed to generate economic benefits from the disbursement of the incentive. The exception is loan programs, of which a number have the potential for longer repayment terms with capped interest rates or deferral options. A number of the incentive programs have also outlined the duration of the entire program based on existing funding commitments. Not only does this offer certainty to applicants about the sustainability of the program; it also lets the administering organization plan for program funding and disbursement on an annual basis, and defines a term over which the program can be evaluated (without committing to longer term investments beyond that date).

Accountability

- Incentives should require performance evaluation on a regular basis through the duration of the program, or at the conclusion of the program, to assist with overall economic impact assessment and program accountability. Annual reports, including detailed financial and audit statements, are commonly requested for all types of incentives in the leading programs. In addition to financial information, many organizations require the recipient to report on jobs created, jobs maintained, wages disbursed, or economic activity generated (e.g., patents, investment). Most leading organizations use this information to highlight the economic impact of their programs in their own annual reporting activities. Monitoring and evaluating performance on an ongoing basis also creates the framework for clawback policies in incentive programs when program milestones and objectives are not being met.

- Public accountability and transparency can be established through regular reporting to government agencies and departments that administer the program. Common report elements include the financial performance of the incentive/fund (including disbursements and returns) and impacts of the incentive (e.g., jobs, investment) on the broader economy.

Early-Stage Companies or SMEs

- Incentives targeted at either very-early-stage companies or SMEs up to 500 employees offer strong potential to support economic development growth, given the established potential of SMEs as drivers of employment and economic growth.

- In most leading incentive programs the focus on SMEs is established as an eligibility criterion. Incentives focus on a number of objectives that range from pre-seed challenges (prototype design, intellectual property development, market assessment) to challenges associated with the movement from small to medium-sized business (strategic acquisitions, machinery and equipment acquisition, facility expansion/improvement).

Business Advice

- Strong programs aimed at SMEs require a minimum number of consultations with business development advisors. In Manitoba, it is required that all applicants attend a three-day business workshop prior to being awarded the financial support.

2 Reflections

I benefited greatly from the opportunity to meet with a wide range of capable and dedicated public servants who administer various business development programs. Their detailed knowledge of program activities, the tools used to implement them, and of the history of problems and issues that led to the creation of existing programs significantly deepened my understanding of the issues under review. They spoke in confidence with great frankness about program limitations and offered a number of useful suggestions for new approaches.

I also met with and learned much from Crown corporation presidents and chief executive officers (CEOs) and board chairs, a small number of members of the business community, and Ray Ivany, and gained insight from the results of a survey of recipients of provincial incentives. There is substantial literature on economic development in general and specifically about Nova Scotia, particularly the Savoie and Ivany reports, that were highly instructive.

The MDB Report (Appendix D), commissioned by the Province to support my work, focused on similar business assistance programs in other jurisdictions in Canada and the United States as well as best practices in the use of different assistance tools and lessons to be learned about effective enabling factors in successful incentive programs. The report provided numerous insights and valuable guidance about many issues under review and should be read in tandem with my own.

Four general observations emerged from this reflection and inform many of the specific recommendations that follow.

Development Principles

The first observation relates to ***what development principles*** express themselves in program objectives and agency or department operations. Historically, Nova Scotia’s development efforts focused primarily on job creation. To be sure, even relatively poor jobs are usually better than no jobs, but an undue focus on short-term job creation or retention can sometimes obscure the need to concentrate on investments that advance more essential economic objectives such as value-added resource development, technical innovation, increased productivity, and improved export performance, all of which are essential to building a sustainable and prosperous future.

The program mix of ERDT now reflects that mindset. Where new job creation is explicitly the formal goal of government, the payroll rebate system operated by NSBI, which provides funding for demonstrated performance meeting agreed targets, is a successful model to follow.

Job creation

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Decision Making

The second observation relates to ***who makes decisions***. The development agencies with the best track records for decision making and accountability, NSBI and Innovacorp, are both Crown corporations with externally dominated boards of directors who make arm's length investment decisions to approve or reject staff proposals in light of the clear mandates they have been given by government.

The Province determines the resources it has available to pursue its mandate and can set criteria to guide these decisions, but both boards retain the "power of no". Some decisions that go beyond the boards' delegated financial limits must be approved by Executive Council (Cabinet), but both organizations bring to bear a business attitude to their evaluation of business cases put to them by their staff on behalf of potential clients.

While both organizations operate within a higher risk environment than commercial lenders or venture capital firms prefer—which is why they exist—both contribute effectively to the broad goals of provincial economic development. Similarly, ERDT's Small Business Loan Guarantee Program, which helps establish new businesses, is run by the Nova Scotia Co-operative Council through participating credit unions across the province. Once again, this ensures arm's length and independent decision making around investment decisions.

By contrast, investment decisions utilizing the Jobs Fund (or the Industrial Expansion Fund before it), made at the Cabinet level without benefit of an arm's length decision-making process, too often have led to controversial outcomes. This is not to say that we can do away with an instrument like the Jobs Fund that offers a flexible way for government to respond to a variety of issues, but its governance and transparency does require reform.

Arm's length decisions

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Organizational Decisions

The third observation relates to ***how solutions to problems are organized*** and how these organizational decisions can subsequently limit future approaches to new kinds of challenges.

Downside of incremental program adjustments

Complex business or economic problems sometimes require more than the uncoordinated program silos that governments typically offer. Piecemeal solutions are insufficient.

Most government programs represent an incremental addition or adjustment to other activities already underway in existing branches, so programs multiply as new needs emerge. But complex business or economic problems sometimes require more than the uncoordinated program silos that governments typically offer. Piecemeal solutions are insufficient.

This is particularly evident when broad socioeconomic problems arise, like the challenges facing Queens and Lunenburg counties after the Bowater mill closed. The Transition Team appointed to work with the community to develop a local agenda for change stands as an excellent example of this integrative approach.

Program Evaluation

The final observation touches on ***how we know if government programs are successful***. Governments and public servants well understand the principles of program and performance evaluation. Yet the Auditor General has issued two significant reports dealing with economic assistance programs that underscore the need for better record-keeping, better ongoing management of existing financial support activities, and better evaluation of program performance.

The lack of adequate information management systems needed to support modern account management techniques and provide sufficient data to manage ongoing decision making remains problematic. The *Ivany Report* made the same observation. Given the large sums of money involved in these programs, such deficiencies raise potential issues of public trust as the new *Accountability in Economic Development Assistance Act* makes clear. But at least as important, it raises concerns about value-for-money issues in a vital area of importance to the Province.

Without a proper account management system that facilitates operational controls, enhances program reviews, and tracks the engagement of individual companies with multiple agencies, effective economic development is severely compromised.

To be fair, economic development is a very inexact science and the impact of isolated business incentives are difficult to assess amid the many factors bearing on business success. However, we owe it to ourselves and to those who administer such programs to provide the essential tools necessary to measure the impact of taxpayers' money in this sphere. Modern information systems are essential to effective transparency and accountability.

Information systems

Economic development is a very inexact science and the impact of isolated business incentives are difficult to assess amid the many factors bearing on business success. However, we owe it to ourselves and to those who administer such programs to provide the essential tools necessary to measure the impact of taxpayers' money in this sphere.

3 Recommendations

I make 12 recommendations related to seven theme areas: Jobs Fund; Program information, effectiveness and accountability; Investment tools; Equity investments and venture capital; Sector strategy; Trade support; and Community economic development. These recommendations are consistent with the best practices observed in the MDB report.

Jobs Fund reform

The major issue facing government as it moves forward with its suite of business incentive programs is the future of the Jobs Fund. There is ongoing need for a similar vehicle that provides government with flexibility, but the continuing challenge will be to introduce more effective decision making and accountability.

Jobs Fund

Given the relatively effective performance of NSBI, Innovacorp, and the smaller programs offered by ERDT, the major issue facing government as it moves forward with its suite of business incentive programs is the future of the Jobs Fund. As of the end of the last fiscal year, the Jobs Fund portfolio stood at $776 million spread between loans, loan guarantees, equity investments, royalty rebates, and grant contributions.

There is an ongoing need for a similar vehicle that provides government with the flexibility of purpose and tools it needs to deal with special circumstances, but the continuing challenge will be to introduce more effective decision making and accountability into this process.

Without any information to the contrary, I have assumed that the Jobs Fund or its successor will continue to deal with major financial projects, large-scale community development requirements in emergency situations, and certain infrastructure needs that do not conform to other program mandates.

Jobs Fund Governance

As indicated above, my major concern about the Jobs Fund relates to its governance. At present, Cabinet makes all decisions for its use without specified program guidelines. While flexibility is certainly a valuable consideration in government, so are transparency and accountability. To that end, I suggest that arms' length decision making will improve the rigour applied to investment decisions and ensure greater public trust in decisions made by people who have no political interests at stake. The precise organizational form this process should take deserves further consideration in light of other organizational decisions the Government may wish to pursue.

Creation of an Independent Board

One option could be to create a separate agency or Crown corporation with an independent board that has both decision-making authority and the “power to say no” to investment proposals. This agency could house a small number of staff that would assess proposals referred to it by other government departments and agencies, or by Cabinet itself.

In contrast to the Jobs Fund, NSBI and Innovacorp benefit from a clear mandate from government and this new organization should enjoy a similar clarity of purpose that informs its operations and decisions. Cabinet can set the policy terms or criteria employed in making decisions, such as whether this should be a for-profit organization or should make investment decisions that take into consideration broader social and economic considerations. Among the latter could be a focus on value-added resource processing; product innovation and improved productivity; trade opportunities, either in foreign markets, interprovincial exports or as part of a global supply chain strategy; and regional impact.

This organization’s board would review proposals and be able to say yes or no, and these decisions would be transparent. Cabinet would always have the authority to overrule a “no” decision, but the board’s decision would be transparent.

The current Jobs Fund does not have an approved annual budget allocation, apart from a loan valuation allowance that allows for provisions for grant incentives, such as forgiveness of loans and write-offs. Instead, it largely operates on funds borrowed from the Province (statutory capital) following Cabinet decisions to make investments. To ensure that this new organization operates within the financial capacities of the Province, positive decisions by the board could be referred to the Department of Finance and Treasury Board to ensure that necessary budgeted funds are available, prior to finalization by Treasury Board or Cabinet. Finance should not be empowered to review the merits of the proposal—simply to decide if sufficient funds are available within the Province’s budgetary framework to proceed.

That would allow Cabinet input on the financial scale or scope of the project under consideration, but not its investment merits or the terms set by the board for the approved business incentive.

Since the Jobs Fund currently resides in ERDT and its purpose is to support similar activities managed by the department, the independent decision-making board could report to the Minister of ERDT for accountability purposes.

Referrals to this new organization could also be made by Innovacorp or NSBI. The intention of this recommendation is not to displace the decision-making powers of the boards of NSBI or Innovacorp, which appear to be soundly executed. Rather, the new creation, whatever its form, would oversee investments from the Jobs Fund. To the extent, however, that Cabinet now approves certain recommendations from NSBI above a certain investment threshold, about which I will comment on later in this review, this responsibility henceforth could be delegated to the new organization.

This should speed up decision making on NSBI proposals and it would ensure an operating relationship between the two organizations. This is important because in certain instances in the past, the Jobs Fund has been used to add to investment allocations made by NSBI to ensure the viability or address other aspects of major projects that exceed NSBI's mandate. For example, where NSBI has provided payroll rebates after new jobs were actually created, the Jobs Fund also provided an up-front grant to facilitate the start of this process.

I do not envision a large staff requirement to assist this board. First, the volume of deal flow may well be very modest depending upon the financial resources the government is prepared to make available for this purpose, its philosophy about aid to business, and the future state of the economy.

Recommendation 1: The government should create an arms' length capacity with an independent board to manage business investment decisions from the Jobs Fund.

Monitoring Investments

All investment proposals should be referred through a sister agency of government that has vetted the quality and purpose of the proposal. To ensure continued review and sound management of approved funding allocations, the board should require continued client oversight by the sister agency until the terms of the investment have been completely fulfilled. Regular ongoing reports on the status of the investment and the progress of the firm in meeting its obligations should be provided by the sister agency to the board. Accordingly, the staff needed to support the board primarily involves its own credit assessment capacity.

Other Government Lending Bodies

At present a number of agencies of the provincial government provide financial assistance to individual companies. There are loan boards in Agriculture, Fisheries, and Forestry (which appears dormant except to manage old loans). The Liquor Control Board provides financial support to the local wine industry, and there may be other operations that did not surface in my review.

If these multiple arrangements work well, and no one I spoke with suggested they did not, then there is a case to leave them undisturbed. However, no one has really examined the costs or consequences of such duplication, a task that was beyond the time frame allowed for this review. If problems do emerge, or if a new approach is required, one could consider consolidating all of these investment functions in the new organization in the future.

Program Information, Effectiveness and Accountability

Regular reviews

Periodic program reviews ensure the opportunity to look at program purpose, effectiveness, costs and benefits, and broad impact within the framework of provincial strategic economic goals.

Program Reviews

It is in the nature of large organizations that day-to-day administrative concerns normally take precedence over long-term strategic thinking. However, decisions to offer business incentives, how much to spend on them, how these incentives are structured, and which businesses should receive them all involve policy choices with significant implications.

Periodic program reviews ensure the opportunity to look at program purpose, effectiveness, costs and benefits, and broad impact within the framework of provincial strategic economic goals. The MDB Report looked at best practices in incentive program reviews across North America. The best outcomes have four elements:

1. Regularly scheduled reviews
2. Detailed analysis of program costs and benefits linked to original program goals, including how incentives affected business decisions
3. Evidence-based recommendations to continue, reform, or end programs which focus attention on evidence from program evaluations
4. Legislative review of recommendations to ensure transparency and accountability

Speaking to clients should be an important part of these reviews. Agreements with clients should ensure that third-party contact is possible for evaluation and review purposes.

Recommendation 2: All business incentive programs and major agencies should be reviewed every five years to assess the benefits they deliver in support of the achievement of provincial economic goals by a third-party independent organization. Explicit recommendations should be made to continue, reform, or close the program or agency.

Client Relationship Management System

Currently data collection across the complete range of business incentive programs is very difficult, making informed decisions on a routine basis more challenging. It also hinders efficient periodic program reviews. At this point, ERDT and its agencies cannot easily track all the incentives a company is accessing through different programs. In the recent past they were unable even to control companies serially turning from one agency to another if an application for funding failed.

This problem is now addressed by regular meetings of a joint management committee made up of agency heads whose purpose it is to share information about which companies have engaged them. Follow-up on the status of earlier incentive awards to ensure accountability is also difficult, an issue upon which the provincial Auditor General commented on different occasions.

A proper client relationship management system will address many of these issues and the Province should make it a priority to implement such a linked data management system across all business incentive programs. Indeed, such a system could be linked to a variety of activities in other ministries that interact regularly with the business community to provide even greater efficiency and informed decision making.

Such a system will also make it possible to streamline application processes so that businesses can use a single online application in many cases to access a variety of program options delivered or required by government.

Recommendation 3: The Province should implement a modern client relationship management system to facilitate efficient, informed decisions and more effective program reviews.

Delegation of Authority

Delegation of authority to the board of directors of agencies like NSBI or Innovacorp to make funding decisions without recourse to further Cabinet review streamlines decision making and ensures a greater sense of responsibility and accountability among board members.

On the other hand, one can understand why Cabinet approval of very large deals is important to ensure democratic accountability. The question then is the extent to which decisions below a certain funding level should be delegated to operating agencies. At present, all payroll rebate awards by the board of NSBI are subject to approval by the Minister and Cabinet. There is no evidence to suggest that this practice adds significantly to the effectiveness of this program.

NSBI has proposed that rebates valued at less than $5 million should be subject to board approval only; that rebates from $5 million to $10 million should be subject to board and ERDT Minister approval; and that rebates over $10 million should require board, Minister, and Cabinet approval.

Given that payroll rebates are paid only after contracted minimum new job creation targets are attained, it seems reasonable to streamline the process to allow a greater degree of delegated authority. NSBI argues that such an arrangement would put it in a more effective position to attract new investments in the province in a highly competitive environment, based on the fact that this would allow for more effective negotiations and would speed up the offer process.

Should this suggestion secure approval, however, the compensation arrangements for NSBI staff connected to this process should be reviewed to ensure that compensation only follows the actual closing of such a deal and in relation to the jobs actually created, rather than jobs just promised.

Similarly, NSBI has suggested that its delegated authority for loans to be used for equity and working capital should be raised beyond its current cap of $3 million. They urge that loans under $5 million should only require board approval; loans between $5 million and $10 million should require board and Minister approval; and only loans above $10 million should go forward to Cabinet for further approval after sign-off from the board and the Minister.

It should be noted that investment decisions by Innovacorp are delegated to its board of directors subject to financial limits on such decisions established by Cabinet of up to $3 million. No change is suggested in this financial cap.

Time did not allow a sufficiently thorough review of data to determine the appropriate limits on delegated authority for NSBI, so additional study by the Minister should occur to establish the appropriate ranges for reform of this process.

Recommendation 4: Cabinet should delegate authority to the NSBI board of directors and the ERDT Minister for increased levels of payroll rebate and loan decisions to streamline this incentive program. Increased delegation must be accompanied, however, by appropriate levels of transparency and accountability.

Investment Tools

Capital Investment

Capital investment is crucial to remain competitive in the global economy and expand our opportunities for export growth. Interprovincial and international trade accounts for more than 40 per cent of provincial gross domestic product (GDP) but very few companies operate beyond our borders. This activity must be expanded. Accordingly, investments in capital stock to secure a competitive advantage merit support in the form of grants or forgivable loans, if a business case analysis upholds a project's claims.

The Productivity Investment Program (PIP) offered by ERDT comprises the Capital Investment Incentive (CII) and Workplace Innovation and Productivity Skills Incentive (WIPSI). WIPSI encourages firms to invest in workforce training and certification, and CII promotes investment in equipment, software, and hardware to increase productivity.

In 2012–13, 134 firms and 11 association-type organizations participated in PIP. A total of $13.6 million was spent by ERDT, and for each dollar of investment an additional $4.69 was invested by others in productivity improvements. Since Nova Scotia ranks second from the bottom in Canada on the rate of business investments in new capital stock, such support appears crucial to encourage innovation.

Some important projects, however, far exceed these program limits. In the past, the Jobs Fund was used to support major new investments by global companies like Michelin with a grant of 10 percent of total capital costs. Clearly Michelin is a successful global company. However, investment decisions on new technologies or plant expansions regularly pit different branches of the company around the globe against each other to see who can put forward the best proposal to the parent company for support. Plants which are the least productive or competitive are the ones that are most likely to be closed or downsized within a company.

While some might wonder why Nova Scotia should provide grants in such situations, the Province's investment leverages huge sums far in excess of the grant and maintains the competitive strength of our plants. I do not believe it is realistic to step away from this competition. That said, such decisions should be carefully considered in the light of provincial economic strategy to ensure alignment of purpose and action to advance clearly understood

Capital investment

Capital investment is crucial to remain competitive in the global economy and expand our opportunities for export growth.

goals. Indeed, with limited financial resources, it is à propos to suggest that all provincial investment decisions should target outcomes in terms of strategic objectives.

At least two options to manage such investments recommend themselves: the board of directors of the Jobs Fund agency recommended above could be tasked with evaluating the merits of provincial participation, taking into account the amount of investment leverage involved, the impact on innovation and productivity gains by the company, trade potential, regional impact, and linkages to other provincial companies.

Alternatively, the existing CII program could be revised to support much larger investment incentives, but if so, very strict conditions should be applied so that investments must be large, have very high leverage, and serve strategic provincial goals such as those outlined above. I am not recommending an increase in the current maximum investment incentives on the types of projects already supported through the CII.

On balance, I lean towards the arms' length independent decision-making model, but this recommendation should be considered in light of what happens to **Recommendation 1**.

In the event that the Province does proceed with such high leverage project incentives, it should consider a formal program within which such decisions could be assessed and approved. Such an Investment Incentives Program should focus on relatively large investment opportunities in contrast to the relatively smaller CII program. The Program should have clear criteria and effective protections for provincial investments. To begin, the proportion of private investment to provincial incentive should be substantial. The CII requires at least eighty per cent private funding; historically, major incentives like those supporting previous Michelin plant expansions, have been on the order of about ninety per cent private to ten per cent public funding. These suggest appropriate ranges for leveraging public incentives. There should be no upper limit on the amount of incentives available since some projects offer huge opportunities and other jurisdictions compete by offering very large investments.

The decisions under which such investment opportunities are assessed should consider the sort of factors noted above: productivity gains from the project; the degree to which the investment significantly enhances the long-term sustainability of the enterprise and ensures its international or regional competitiveness; regional impact and supply chain implications for other firms; and whether the investment under review involves a competitive situation where other jurisdictions are reviewing substantial bids to attract the project.

I would not over-emphasize the element of new job creation in such decisions. Large capital intensive projects that are highly competitive in regional or global markets inevitably create jobs as a consequence of their economic weight and long-term sustainability. By contrast, we have seen what happens when the short-term focus on job creation exists: relatively rootless firms come for the money but often leave when the early benefits are exhausted. We are better off focusing on long-term developments.

Finally, to ensure that the Province secures value-for-money, the investments could be made conditional, which is to say that clear contractual criteria are established and in the event that program violations or outright economic collapse occur, the Province can claw-back its conditional incentive. Such claw-back provisions are familiar elements in some of the American incentive programs that the MDB report summarizes.

Global corporations featuring strong supply chain networks, sophisticated technology, relatively good wages, and long-term competitiveness make good investment partners for Nova Scotia.

Recommendation 5: The Province should continue to provide high leverage capital investment support and utilize an arms' length independent authority to assess the merits of investment proposals against strictly defined provincial objectives.

Payroll Rebates

Payroll rebates are used successfully to attract new companies and increase the number of jobs available in Nova Scotia. Given that these investments only proceed when the company has met its job creation targets, this is a low-risk program. However, it has been suggested that payroll rebates be granted to support existing firms facing the prospect of job losses, which is to say as a support for job retention rather than job creation.

Needless to say, almost every company in the province could try to make such a claim. Pay for performance would be very difficult if not impossible to assess. Also, the distorting effect on the competitive environment within existing sectors would be extremely contentious with all firms demanding support similar to successful applicants with whom they compete. I imagine some exceptions to this conclusion could be put forward, but the risk of wasting large sums on dubious claims does not inspire confidence.

Recommendation 6: The existing payroll rebate program should continue to operate only as a job creation incentive.

Payroll Rebates

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Equity Investments and Venture Capital

Equity Investments

The Province makes equity investments in companies through NSBI, Innovacorp, and the Jobs Fund. Innovacorp exists to promote the creation and expansion of early-stage high-tech firms. It is a “seed fund” venture capital organization and its investment limits are regulated by provincial edict. The firms it supports typically have no assets to secure a loan, so funding from Innovacorp typically takes the form of an equity investment, often in partnership with other venture capital organizations.

If the Province wishes to support such innovation—which I recommend it should to support its strategic goal to create an innovative and technologically sophisticated business community—then equity investments are a necessary incentive tool. Ideally these early-stage equity investments will produce a flow of returns over time that should be reinvested in new start-ups. Of necessity, however, Innovacorp must offer very patient capital given the long-term development curve its client companies travel.

That is not the case with companies supported by NSBI or the Jobs Fund. Their investments support more mature companies. Since neither is a for-profit vehicle, the rationale for high-risk equity investments is not clear. Loans can be lost, of course, if a company goes bankrupt, but at least there is some security that may be recouped and comparatively stringent risk criteria can be employed to assess the merits of support. Equity investments offer no such relief in the face of failure.

Recommendation 7: Equity investments should not be used as a business incentive except in the case of seed or early-stage venture capital programs, like Innovacorp offers.

Equity

If the Province wishes to support such innovation—which I recommend it should to support its strategic goal to create an innovative and technologically sophisticated business community—then equity investments are a necessary incentive tool. The rationale for high-risk equity investments is not clear for more mature companies.

Venture Capital Consolidation

In 2010 the *Savoie Report* recommended that support for venture capital initiatives for start-up companies be consolidated in Innovacorp. In the years following, NSBI continued to promote itself as a source for venture capital. I understand that it has sharply curtailed this activity more recently and that its board is inclined to leave this field to Innovacorp. This is commendable since clarification of mandates always helps the development process where overlapping activities and “mandate creep” are common.

Venture capital investments in start-up companies require specialized skills to assess risk and opportunities, to work with the company to find other sources of capital in multiple rounds of financing, and to mentor “inventors” to become effective business people. The recent creation of Build Ventures, a private-public partnership in later-stage venture capital investments, creates the opportunity now for Innovacorp to work effectively with its partner to help companies make the transition from early-stage to later-stage development.

Under the circumstances, the emerging division of labour and focus between NSBI and Innovacorp should be formally established. This will also eliminate the opportunity for companies that have already been turned down after a thorough review to go from one government agency to another looking for a more sympathetic ear.

Recommendation 8: Responsibility for all government seed or venture capital investments and programs in knowledge-based start-up companies should be streamlined for efficient delivery, such as residing solely with Innovacorp.

Venture Capital Consolidation

The Savoie report recommended that support for venture capital initiatives for start-up companies be consolidated in Innovacorp. The emerging division of labour between NSBI and Innovacorp should be formally established. This will eliminate the opportunity for companies that have already been turned down after a thorough review to go from one government agency to another looking for a more sympathetic ear.

Accelerator Programs

Over the past three years, Innovacorp made 30 investments in early-stage knowledge-based companies. Its most recent I-3 Technology Start-Up competition attracted 228 applications. Some of the companies Innovacorp supports currently occupy space in one of its business incubator facilities around the province where they can share services and ideas with other companies at a similar stage of development. At present Innovacorp provides mentoring support for its clients, but it does not offer systematic exposure to essential business skills for success that can help early-stage companies accelerate towards market penetration and customer acceptance.

Such “accelerator programs” have become common in other jurisdictions across North America. Recently Volta Labs, a privately funded information and communication technology (ICT) incubator based in Halifax, announced that it intends to offer an acceleration program to firms in its sector with additional funding support from ACOA and ERDT. Innovacorp has proposed that a similar business development opportunity should be offered to its clients in the life sciences, clean technology, and ocean technology sectors. It will avoid duplication by leaving the ICT sector to Volta Labs leadership. This proposal is consistent with the *Ivany Report* recommendation in this area.

Recommendation 9: The Province should support Innovacorp’s plans to offer an acceleration program for businesses and encourage cooperation with similar efforts elsewhere in the province to create learning and training synergies.

Accelerator programs

At present Innovacorp provides mentoring support, but it does not offer systematic exposure to essential business skills that can help early-stage companies accelerate towards market penetration and customer acceptance. Such accelerator programs have become common in North American jurisdictions.

Sector Strategy

Collaboration between companies in the same business sector provides opportunities to pursue projects of common concern that are beyond the means or organizational capacity of any of its individual members. In an economy like Nova Scotia's—an open economy dominated by small firms—this possibility is especially important. Collaboration can reduce risk and uncertainty for the collective and identify opportunities for innovation and productivity improvements.

In most areas, Nova Scotia companies are price-takers because they operate in global markets they cannot hope to influence. Controlling costs, therefore, is a crucial driver of business success. Finding new technologies valuable to all, opening new markets through joint trade missions, understanding how to access global supply chains, sponsoring collective research and development programs in cooperation with government and post-secondary education labs, or developing joint training programs for their workforce are just some of the strategies companies could pursue.

Some sectors enjoy the right economic characteristics and organizational leadership to find their own way toward common enterprise. Indeed, some sectors historically attracted the formation of full government departments like Agriculture and Fisheries under which to pursue common concerns. Others appear to lack the wherewithal to move forward. The report of the Maritime Lobster Panel referenced in the *Ivany Report*[3] is a telling illustration of the difficulties some important sectors face finding collaborative strategies.

Government can play a useful role to facilitate sector or sub-sector development by using its convening power to bring firms together, help them develop a deeper understanding of their common interests, and support them to find the resources required to advance useful projects. At the same time, well-organized sectors can provide useful advice to government on economic development strategy, research and development priorities, and education needs. The Halifax Harbour buoy

Supporting business clusters

Government can play a useful role to facilitate sector or sub-sector development by using its convening power to bring firms together, help them develop a deeper understanding of their common interests, and support them to find the resources required to advance useful projects.

[3] One Nova Scotia (2014). *Now or Never: An Urgent Call to Action for Nova Scotians: The Report of the Nova Scotia Commission on Building Our New Economy,* p.55.

project, organized with ERDT support by the ocean sensing instruments sector, is an exemplar of sectoral cooperation and its long-term benefits.

As the *Ivany Report* also recommends, the Province should articulate sector strategies in areas that offer development potential, perhaps focusing on a few pilot projects that can demonstrate the merits of this approach.[4] These efforts should not guarantee firms in such sectors automatic support from existing business incentive programs; the focus of these efforts should be on collective benefits. But if individual competitive opportunities do arise, interested firms can pursue support on their own to secure whatever advantage existing government programs offer any provincial company.

Recommendation 10: ERDT, in collaboration with other departments that support specific business sector needs, should develop the capacity to support sector-building strategies and identify some pilot projects that would illustrate the opportunities that sustained collaboration can sometimes produce.

[4] One Nova Scotia (2014). *Now or Never: An Urgent Call to Action for Nova Scotians: The Report of the Nova Scotia Commission on Building Our New Economy,* p.55.

Trade Support

Consolidation of Trade Programs

The *Ivany Report* makes clear that it is essential for Nova Scotia companies to develop the orientation and skills needed to export their goods and services abroad. As it notes, “increased trade enables firms to optimize economies of scale, become more productive, and stimulate innovation and investment. Firms that operate in international markets are more likely to grow, to create employment and to engage in R&D”.[5] But at present, only one in 25 Nova Scotia companies exports their products or services. Trade support is an essential component of any provincial development strategy.

Although my mandate did not explicitly include the review of trade programs, the topic of their governance and scope emerged multiple times throughout my consultations. The Province provides trade development services and programs to help businesses gain the skills they need to be export-savvy, work with a business accelerator to build their capacity to compete and grow in the global marketplace, look for new business opportunities abroad, follow up on international sales leads, finalize the later stages of the sales cycle, and participate in trade missions abroad.

Each of these activities represents part of a continuum on the road to trade success. They are all worthy objectives and it is clear that there is help with the developmental curve for interested businesses wanting international sales. However, each of these activities is embedded in a separate program.

It would be more effective to collapse all of these linked activities into fewer programs—perhaps even a single program, if that was practical. This will eliminate overlap and duplication, create flexibility within a common program possessed of a suite of assistance tools that can be customized to meet individual company needs, and streamline access for companies seeking help—all with a minimum of red tape.

Exports

Only one in 25 Nova Scotia companies exports their products or services. Trade support is an essential component of any provincial development strategy. At the same time, there appears to be overlap in responsibility for international trade leadership between NSBI and ERDT branches and other ministries that also sponsor sector trade activities.

[5] One Nova Scotia (2014). *Now or Never: An Urgent Call to Action for Nova Scotians: The Report of the Nova Scotia Commission on Building Our New Economy,* p.57.

At the same time, there appears to be overlap in responsibility for international trade leadership between NSBI and ERDT branches and other ministries that also sponsor sector trade activities. It was not possible to sort out these jurisdictional differences in the time available for this review, but the Province should decide who has primary responsibility for the trade file within government to increase the effectiveness of its efforts.

Recommendation 11: The Province should consolidate its trade development programs to eliminate overlap and duplication and streamline access for companies to the help they need.

Interprovincial Trade

Support for trade development is largely focused exclusively on international opportunities. Yet over half of Nova Scotia's "exports" are to other Canadian provinces. Currently, merchandise exports overwhelming go abroad and service exports account for a large share of interprovincial trade. ERDT's focus on international trade should also be complemented by strengthening growth in interprovincial opportunities.

New Brunswick offers an Export Development Program though its Ministry of Economic Development that enables firms to pursue domestic export opportunities. The New Brunswick program maintains clear limits on such support—$5,000 per export project, a maximum of $20,000 per year per company, and only three approved applications for similar projects in the same geographic area within a three-year period. While current programs could be used to support activities across Canada, with the exception of PEI and New Brunswick, ERDT should carefully examine the New Brunswick program and consider introducing a similar initiative in Nova Scotia.

Recommendation 12: ERDT should consider introducing specific trade support programs for Nova Scotia firms to pursue interprovincial exports.

Trading between provinces

Support for trade development is largely focused on international opportunities. Yet over half of Nova Scotia's exports are to other Canadian provinces .

Community Economic Development

While not the primary focus of this review, I was asked to comment on community and regional economic development activities across the province. This is a large and complex process with a long history of unfulfilled aspirations in Nova Scotia and many other places where powerful economic and social forces have undermined the sustainability of particular geographic areas. Given my mandate, I will not make formal recommendations on this topic, but I can offer some observations.

Local leadership is crucial. As the old adage has it, *you can lead a horse to water…* Community buy-in and support for change is essential. Otherwise, no matter how clever the strategy, endless wrangling will sink the best intentions.

Secondly, given the complexity of the intertwined social and economic challenges, reliance on individual government programs will usually fail since problematic business ecosystems cannot be addressed by individual policy silos.

I mentioned above the multi-departmental task force approach pursued by the Transition Team appointed to assist the community in Queens and Lunenburg counties to deal with the fallout of the Bowater mill closure. This case should be examined for larger lessons about community development.

Finally, Nova Scotia has an unfortunate history of good money following bad in successive bailouts of failed companies.

In **Recommendation 1,** I proposed a governance model for large-scale projects to try to help avoid such pitfalls. At the same time, sometimes fresh thinking and new leadership can bring renewed success to troubled companies and regions, so where appropriate the mechanism is there to move forward with exciting ventures that emerge.

Governments can enable business and regional development, but they cannot force it to happen. Crucial contributions like education programs to enhance the quality of the workforce or infrastructure investments to ensure essential conditions like effective transportation linkages can make a big difference. No matter how effective, however, enabling activities are not sufficient to ensure development.

Community economic development

Given the complexity of the intertwined social and economic challenges, reliance on individual government programs will usually fail since problematic business ecosystems cannot be addressed by individual policy silos.

Local entrepreneurship is essential. Governments can coach entrepreneurs who need skill development and offer supportive incentive programs that we've noted throughout this review, but they cannot create entrepreneurship itself, which is a mix of creativity, drive, and persistence that some have and others do not.

Entrepreneurship, however, does not flower in a vacuum. It is a social process as well as a character trait; normally entrepreneurial individuals need access to others struggling with the same ambitions and challenges. The emergence of business hubs—which provide minimal space, sometimes with basic common office services, opportunities to meet like-minded people, and access to specialized skills and training programs—is an important social development that should be supported in regions that appear to have an emerging business community.

As the *Ivany Report* also suggests, the government should consider supporting similar initiatives within post-secondary education institutions where an even more informal network of opportunities for entrepreneurship can be created through the establishment of so-called "sandboxes". This is not a formal recommendation, but my comments on business hubs and sandboxes should be examined further by ERDT. Ultimately one can imagine a scenario where successful graduates from such programs end up in either public or private incubator facilities operated by organizations like Volta Labs and Innovacorp.

4 A Final Comment

Business incentives are just one part, but an important part, of the toolkit that the Province requires to promote successful economic development. These tools ideally fit neatly into the continuum that links provincial strategies, policies, and programs across many ministries. ERDT's most recent Statement of Mandate, entitled "Learn, Innovate, Compete, Succeed", echoes the lessons of the *Savoie Report* and anticipates the themes of the more recent *Ivany Report*. This review covers similar ground and reaches similar conclusions. Within the scope of this review, the Province does many things well.

There appears to be a consensus among the people I discussed these issues with that we could do better by improving the structure and the delegation of authority for decision making, fine-tuning the way we gather information and evaluate programs, streamline programs that support investment and trade support, and focus effectively on strategies that help individual firms and sectors respond to the challenges and opportunities of the dynamic global economy.

The machinery of government in this area is not broken and it is not starved for funds to do essential tasks. In such a dynamic environment, however, we must take great pains to ensure that we constantly assess current achievements against our goals, and that we build an evaluative and innovative culture inside government that looks for constant program improvements. Certainly there are lessons to be learned from similar efforts in other jurisdictions. As ERDT comes to grips with the *Ivany Report* and the expectations of a new government, this review suggests a series of changes that I believe will make its programs more effective.

Finally, I want to thank all the people who helped me understand the challenges we face and for the efforts they have made to build a stronger economy.

Appendix A: Recommendations

Recommendation 1: The government should create an arms' length capacity with independent personnel to manage business investment decisions from the Jobs Fund.

Recommendation 2: All business incentive programs and major agencies should be reviewed every five years to assess the benefits they deliver in support of the achievement of provincial economic goals by a third-party independent organization. Explicit recommendations should be made to continue, reform, or close the program or agency.

Recommendation 3: The Province should implement a modern client relationship management system to facilitate efficient, informed decisions and more effective program reviews.

Recommendation 4: Cabinet should delegate authority to the NSBI board of directors and the ERDT Minister for increased levels of payroll rebate and loan decisions to streamline this incentive program. Increased delegation must be accompanied, however, by appropriate levels of transparency and accountability.

Recommendation 5: The Province should continue to provide high leverage capital investment support and utilize an arms' length independent authority to assess the merits of investment proposals against strictly defined provincial objectives.

Recommendation 6: The existing payroll rebate program should continue to operate only as a job creation incentive.

Recommendation 7: Equity investments should not be used as a business incentive except in the case of early-stage venture capital programs, like Innovacorp offers.

Recommendation 8: Responsibility for all government seed or venture capital investments and programs in knowledge-based start-up companies should be streamlined for efficient delivery, such as residing solely with Innovacorp.

Recommendation 9: The Province should support Innovacorp's plans to offer an acceleration program for businesses and encourage cooperation with similar efforts elsewhere in the province to create learning and training synergies.

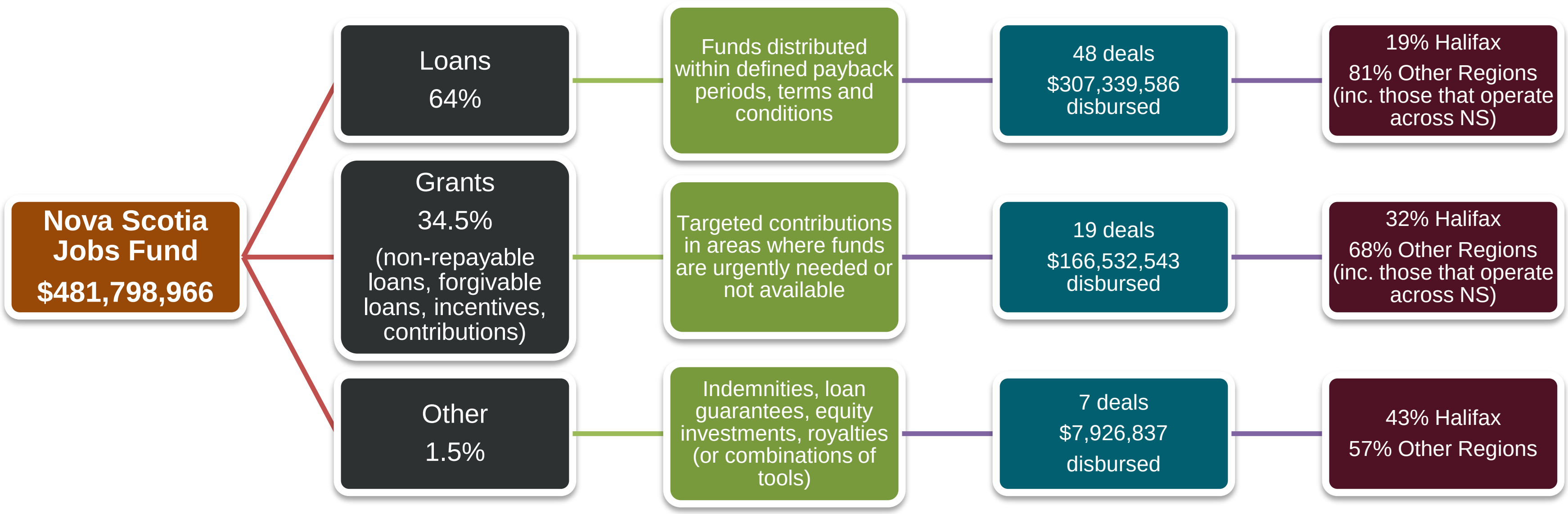
Recommendation 10: ERDT, in collaboration with other departments that support specific business sector needs, should develop the capacity to support sector-building strategies and identify some pilot projects that would illustrate the opportunities that sustained collaboration can sometimes produce.

Recommendation 11: The Province should consolidate its trade development programs to eliminate overlap and duplication and streamline access for companies to the help they need.

Recommendation 12: ERDT should consider introducing trade support programs for Nova Scotia firms to pursue interprovincial exports.

Appendix B: Disbursements by Organization[6]

Figure 3: Overview of Nova Scotia Jobs Fund Disbursements – Jan. 1, 2009 to Dec. 31, 2013



[6] **Note**: the information included in these diagrams is based on data provided by the respective organizations upon request from Millier Dickinson Blais.

Figure 4: Overview of NSBI Disbursements – Jan. 1, 2009 to Dec. 31, 2013

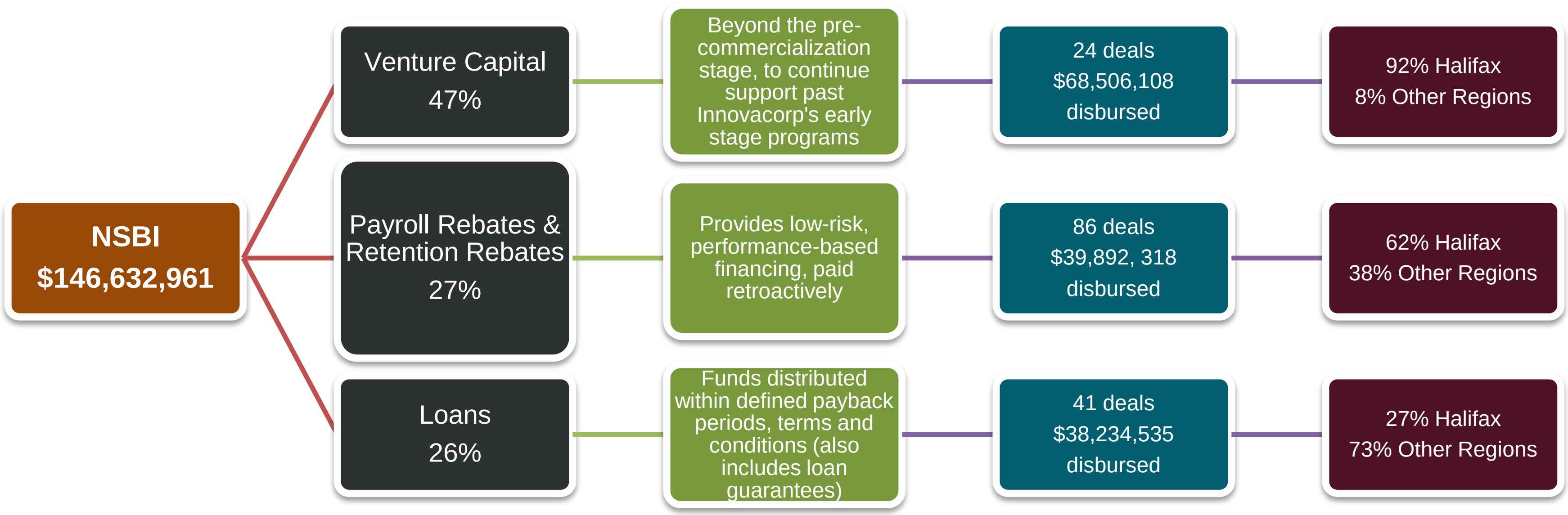
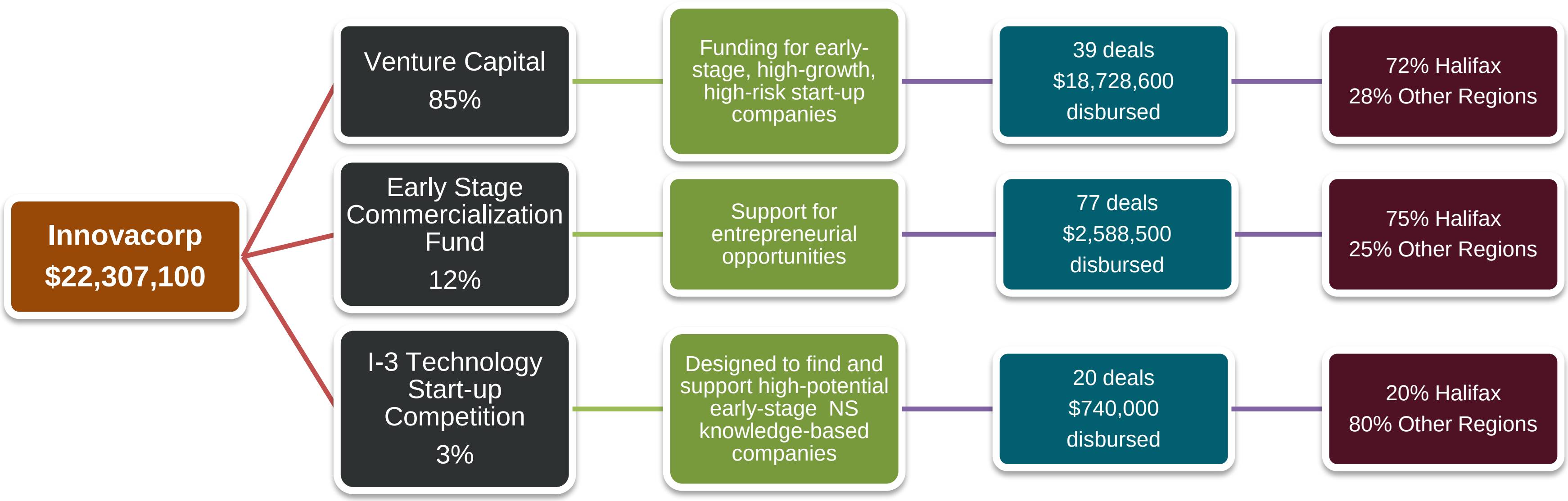


Figure 5: Overview of Innovacorp Disbursements – Jan. 1, 2009 to Dec. 31, 2013



Appendix C: Other Economic Development Funding and Support Programs – ERDT

Funding Initiative		Description		ERDT Role	Lead Branch
Small Business and Regional Development					
Small Business Loan Guarantee Programs	Small Business Loan Program	75% guarantees for loans up to $500,000	90% guarantees for businesses in high-risk sectors	These programs are ERDT initiatives under the Nova Scotia Jobs Fund. They are administered by the Nova Scotia Co-operative Council and Credit Unions.	Investment and Trade
	Immigrant Small Business Loan Program	90% guarantees			
	Social Enterprise Small Business Loan Program				
Nova Scotia Business Development Program	To help small business get started and existing businesses expand	Funding and support through qualified consultants – up to 50%, maximum $15,000	Provide rebates for eligible business activities	Lead	Regional Planning and Development

Funding Initiative		Description		ERDT Role	Lead Branch
Community Economic Development Investment Fund (CEDIF)	Pools of capital developed through investment by local individuals	Individual investors receive a 35% Personal Income Tax credit	Created to operate or invest in local business – cannot be charitable, non-taxable or not-for-profit and must have at least six elected directors from the community	Administered through ERDT and the Securities Commission	Regional Planning and Development
Aboriginal Community Development Fund	Supports aboriginal community projects and builds economic development leadership capacity	Multiple streams of funding. Provincial commitment depends on size of project	Leverages fund (with community and federal dollars) to help bridge aboriginal community projects	Lead	Policy and Planning
Community Economic Development Program	Supports community-based projects with strategic planning and strategic project implementation that help develop and further the economic priorities of the community	Multiple streams of funding. Not-for-profit development organizations and municipal units are eligible.	Leverage funds (with community and federal dollars)	Lead	Regional Planning and Development

Funding Initiative		Description		ERDT Role	Lead Branch
Social Enterprise Fund	Leverages other resources within and outside government to support creative and social entrepreneurial initiatives in Nova Scotia. All profits are reinvested in the enterprise.	Supports organizations that address social, economic or environmental challenges. Multiple streams of funding.	Leverage funds (with community and other partners)	Lead	Regional Planning and Development
Innovation and Learning					
Productivity Investment Program (PIP)	Capital Investment Incentive (CII)	20% up to a maximum of $1 million per year toward cost of equipment and/or technology	Reimburse part of cost of capital investment (>$25,000)	Lead	Investment and Trade
	Workplace Innovation and Productivity Skills Incentive (WIPSI)	< 50 employees – $5,000 to $10,000 of full cost with in-kind contribution from employer >50 employees – up to 50% of eligible costs	Cost-sharing of investment in skills development and certification	ERDT with LAE and NSBI	Investment and Trade

Funding Initiative		Description		ERDT Role	Lead Branch
Strategic Cooperation Education Incentive (SCEI)	Supports employment of co-op students in approved positions	Per hour wage incentive (up to $10/hour)	Employers apply for incentives to provide co-op terms to students in recognized co-operative education programs	Lead Under WIPSI	Productivity and Innovation
Productivity and Innovation Voucher (Tier 1)	Supports SMEs in becoming more productive and innovative	Successful applicants receive a voucher with a maximum value of $15,000	Vouchers are credit notes that SMEs use for assistance from Nova Scotia universities and colleges	Lead	Productivity and Innovation
Productivity and Innovation Voucher Program (Tier 2)	The second level voucher allows previous recipients an opportunity to build on the work done through their initial award	Only previous voucher recipients are eligible to apply for a Tier 2 award	Successful applicants receive a voucher with a maximum value of $25,000	Lead	Productivity and Innovation
Graduate Placement Program	Provides permanent, full-time employment for graduates of NS post-secondary cooperative programs	After a three-month period, reimbursement of 50% up to a maximum of $7,500	Private sector, government-funded, not-for-profit organizations who agree to pay a minimum annual salary of $35,000 to the co-op graduate/employee	Lead	Productivity and Innovation

Funding Initiative		Description		ERDT Role	Lead Branch
Student Career Skills Development Program		Per hour wage incentive for non-profit employers ($8.50/hour)	Supports summer employment for career-oriented post-secondary students	Lead	Productivity and Innovation
Trade Development Services and Programs					
ExportAbility Program	Trade readiness	Eligible costs include course or workshop registration fees, course materials and exam fees	Helps businesses gain the skills they need to be export-savvy. Funding is available to support continuing professional development in international trade.	A provincial program funded by ERDT and administered by NSBI. ERDT is responsible for the design, development and evaluation of the program.	Investment and Trade
Go Ahead Program	Market development assistance	Covers up to 50% of follow-up visits to identified markets	Helps businesses follow up leads and pursue export opportunities outside the Maritime provinces. Companies must have participated in a provincial government or export agency trade initiative over the past year and identified potential in a new market.	A provincial program funded by ERDT and administered by NSBI. ERDT is responsible for the design, development and evaluation of the program.	Investment and Trade

Funding Initiative		Description		ERDT Role	Lead Branch
Trade Missions and Trade Show Support	Market development and promotion	Participant costs vary according to activity. Services offered can include subsidized trade show space, matchmaking services, in-market transportation, networking receptions, market overviews, and sector marketing material.	Helps businesses connect with qualified buyers, suppliers and potential partners in national and global markets	ERDT supports this through formal programming such as the Canada/Atlantic Provinces Agreement on International Business Development (NS share is $1.1 million over five years). Other divisions at ERDT (e.g., MIPO, International Business Development, and Gateway) also support trade missions directly or partner with other stakeholders to operationalize them using their operational funding. Amount varies based on operational funding and leveraging opportunities.	
Export Prospector Program	Market development assistance	Funds support two streams: customized trade missions and trade show assistance	Helps companies discover new business opportunities and find qualified leads in markets outside NS	NSBI-funded and operated program. NSBI is responsible for the design, development and evaluation of the program.	

Funding Initiative		Description		ERDT Role	Lead Branch
Service Export Program	Market development assistance	Funds available to support in-market meetings, and development of proposals and collateral materials	Provides funding support to NS service firms that are in the final stages of closing an export sale. Program participants may be eligible for up to 50% of incurred costs associated with travel to meet client.	A provincial program funded by ERDT and administered by NSBI. ERDT is responsible for the design, development and evaluation of the program.	Investment and Trade
Global Business Accelerator	International business development	The program will contribute 80% towards the cost associated with hiring a business accelerator, to a maximum of $35,000	The Global Business Accelerator Program (GBAP) will provide financial assistance to Nova Scotia companies who want to work with a business accelerator to help them compete and grow in the global marketplace	A provincial program funded by ERDT and administered by NSBI. ERDT is responsible for the design, development and evaluation of the program.	

Funding Initiative		Description		ERDT Role	Lead Branch
Tourism					
Tourism Industry Development Fund	Industry development	Provides cost-sharing assistance to eligible applicants, who are expected to secure at least 25% of total eligible costs. The program will consider a maximum of up to 75% of total costs.	Tourism development and planning support		ERDT Regional Planning and Development
Tourism Experiences Marketing Program	Festivals and events	Up to $3,000 funding for marketing assistance for event organizers	To support promotion of festivals and events that celebrate the culture, heritage, spirit, and maritime identity of NS		Nova Scotia Tourism Agency
	Tourism experiences	Up to $20,000 may be accessed for marketing assistance to attract first-time visitors to NS and encourage them to stay longer	To help strengthen tourism branding and showcase core experiences		Nova Scotia Tourism Agency

Funding Initiative		Description		ERDT Role	Lead Branch
Nova Scotia Approved (NSA) Quality First Program	Tourist accommodation quality management program	Industry-led quality assurance program	Quality assurance program to ensure standards for tourist accommodation are met and maintained throughout the province.		ERDT Regional Planning and Development
Destination Development Funding	Destination development and visitor experience		Invests in projects to grow high-quality, competitive destinations, products and experiences		Nova Scotia Tourism Agency
Tour Operator Partnership Program		Provide cost-sharing assistance	Supports projects with tour operators to support incremental development of NS tourism market		Nova Scotia Tourism Agency
Tourism Human Resource Sector Council	Human resource development	Fee-for-service support	Supports human resource development for tourism in NS, the Tourism Strategy, and Nova Scotia's economic growth strategy		ERDT Regional Planning and Development

Appendix D: Millier Dickinson Blais Review of Business Development Assistance Tools – Final Report

millierdickinsonblais

Review of Business Development Assistance Tools

Assessment of Current Practices and Future Potential for Nova Scotia

Prepared for the Province of Nova Scotia Department of Economic and Rural Development and Tourism

February 27, 2014

Contents

Executive Summary

Nova Scotia's economy faces some considerable challenges—a declining population, relatively high unemployment, poor literacy rates, and one of the weakest productivity numbers in Canada. A complicating factor is the growing dichotomy in success between urban and rural areas. The Province of Nova Scotia is actively engaged in meeting these challenges and has conducted a number of studies to recommend the best way forward. Donald Savoie's *Invest More, Innovate More, Trade More, Learn More: The Way Ahead for Nova Scotia* (2010) suggests Nova Scotia should create Canada's most business-friendly province.

The Department of Economic and Rural Development and Tourism (EDRT) establishes policies and programs that will have a positive effect on the province's business climate. ERDT recognizes the importance of support programs for a relatively small and open economy that is highly affected by the actions of other jurisdictions. Investment attraction is highly competitive. States, counties, and cities across the United States spend an estimated $70 billion per year on company-specific economic development subsidies or incentives.[7] This figure includes nearly 1,800 economic development incentive programs in use by state governments alone.[8] While not as aggressive or widespread as in the U.S., incentive programs have been developed by Canadian provinces to assist with the attraction, retention, and expansion of businesses.

It is in this challenging and competitive economic environment that Nova Scotia has decided to conduct a review of its economic development assistance tools. Focusing on ERDT's Jobs Fund, Nova Scotia Business Inc. (NSBI), and Innovacorp, this report will

- review the results and analyze the performance of each tool
- identify economic development tools that are no longer serving their intended purpose and could be redesigned, streamlined or eliminated
- propose new tools that may be successful options in Nova Scotia
- identify areas of overlap or duplication in service delivery between different organizations
- recommend more effective ways of coordinating service delivery
- identify opportunities to improve transparency and accountability in the use of economic development tools

[7] Thomas, K. (2010). *Investment Incentives and the Global Competition for Capital*.

[8] Council for Community and Economic Research. (2012). *State Economic Development Incentives Report*.

Nova Scotia's Economic Development Tools

The Government of Nova Scotia delivers economic development directly through programs administered within ERDT as well as through programs delivered by partner agencies. The suite of economic development tools in Nova Scotia is comprehensive. It includes loan and loan guarantees, grant programs, capital development incentives, venture capital and early commercialization incentives, payroll rebates, tax credits, and equity incentives.

- **Loans and Loan Guarantees:** Nova Scotia offers loans and loan guarantees to business. In a similar model, the U.S. state governments encourage business growth through loans and loan guarantees in partnership with financial institutions.
- **Grants and Grant Programs:** Nova Scotia offers a number of grant programs targeting specific economic development needs. Grants can be delivered through the Nova Scotia Jobs Fund or through smaller grant programs aimed at businesses. Grants are often referred to as non-repayable loans, forgivable loans, non-repayable contributions, or other similar terms, and vary according to the conditions they impose.
- **Capital Development Incentives:** The purpose of capital incentives is to support business in acquiring machinery and equipment that improves productivity and competitiveness. In Nova Scotia these are provided through the Capital Investment Incentive (CII) as part of the Productivity Investment Program (PIP). In order to ensure the funds are targeted to businesses that are well positioned to contribute to exports, preference is given to export companies in strategic sectors.
- **Venture Capital and Equity Investments:** Nova Scotia provides capital directly to businesses in early stage, commercialization, and growth phases through Innovacorp and NSBI. Rather than invest directly in companies, U.S. states and other Canadian provinces are more likely to support private sector funds, co-investment structures, or tax credits to businesses and individuals.
- **Early-Stage Commercialization Investment:** Innovacorp's Early Stage Commercialization Fund is a program that targets academic research projects with market potential.
- **Payroll Rebates:** Payroll rebates provide low-risk, performance-based financing, paid retroactively for new full-time employees, to eligible businesses expanding in or locating to Nova Scotia. The rebate is focused on three sectors: financial services and insurance; information technology; and defence, security, and aerospace.
- **Tax Credits:** Tax credits are synonymous with economic development incentives in attracting international investment, and consist of a reduction in either corporate, property, or income taxation in exchange for an investment that benefits a community through job creation or other incentives. There is significant controversy around the implementation of tax credits and research on their effectiveness in generating economic benefits is mixed.[9] One general criticism leveled against tax credits is that economic benefits would likely have been realized without the incentive.

[9] Slack, E. (2010). *The Property Tax … in Theory and Practice*, Toronto: Institute on Municipal Finance and Governance, Munk School of Global Affairs, University of Toronto.

Decision-Making Process

While all tools are overseen by staff of ERDT or one of several agencies reporting to the Minister of ERDT, there is a range of decision-making processes. The majority of decisions are made by staff. However, there are exceptions:

- The Nova Scotia Jobs Fund secures investment opportunities in the province by providing assistance for communities in transition, supporting industry sectors, regional support, small business programs, and infrastructure and large industrial ventures; the fund is managed by Cabinet.
- The Small Business Loan Guarantee Program, which is funded through the Nova Scotia Jobs Fund, is administered by the Nova Scotia Co-operative Council and operated through participating credit unions across Nova Scotia who make funding decisions.
- Decisions for all funding that flows through NSBI and Innovacorp are made by an arms' length board of directors as both are Crown corporations. Above certain financial limits, NSBI board decisions are then subject to Cabinet approval.

The mix of decision-making processes in Nova Scotia, including internal and arm's length decision making, is comparable to other jurisdictions.

Comparator Analysis

In order to understand the use of economic development tools across Canada, a review of tools, decision-making processes, and performance measures was conducted. The review investigated the practices in four provinces of similar size and growth to Nova Scotia: Newfoundland and Labrador, New Brunswick, Manitoba, and Saskatchewan. While it appears that other provinces employ a similar suite of tools, only New Brunswick and Nova Scotia use payroll rebates. Common themes and trends can be identified in the funding programs of the comparator provinces.

- Centralized funding is the structure used by three of the four provinces. The exception is New Brunswick, which has recently moved in the opposite direction and decentralized its programming to a network of community economic development agencies. Saskatchewan has operated with a decentralized model in the past and, in general, the approach is reported to work well when it is in place. Three of the four provinces operate their programs through an external corporation but administer them through an internal department. However, Saskatchewan operates directly through two ministries: Economy and Agriculture.
- Financial programs are managed either by the provincial government through partnerships with other levels of government (e.g., the Canada Manitoba Economic Partnership Agreement), or directly with financial institutions.
- All provinces have funding to assist small and medium enterprises (SMEs) through a variety of programs including grants, loans, loan guarantees, and equity programs. There is no single definition of an SME. In Newfoundland and Labrador, it is a company with fewer than 100 employees and less than $10 million in sales; in Manitoba, it is a company with fewer than 50 employees and less than $15 million in gross revenue.
- In all four provinces individual funding programs are targeted at specific sectors and areas of economic development. Each province determines which sectors are priorities and target

their funding accordingly. These sectors have been identified by formal economic development strategies in two cases (Saskatchewan and New Brunswick) and cover a wide range (e.g., manufacturing, agriculture, information technology, digital media, creative industries, tourism, and fisheries and aquaculture). Economic development assistance includes support for commercialization, innovation, exporting, and rural areas.

- Larger, strategic funds have been developed by New Brunswick and Newfoundland and Labrador to attract business or investment. However, the New Brunswick funding is aimed at individual companies whereas the Newfoundland and Labrador funding is for strategic investment, including infrastructure, to support the attraction of new business.
- Community funding is also a program focus, directed at either community organizations or individuals. In Newfoundland and Labrador, assistance for municipalities and organizations is offered through the Regional Development Fund; in Manitoba, a tax credit is offered to individuals who invest in their community. New Brunswick's community program, on the other hand, focuses on two geographic regions.
- Generally performance is assessed in the department or organization's annual report and principally focuses on the number of businesses supported and the impact on employment in terms of jobs created and retained. The results are available to the public to ensure accountability.
- There are no common themes in the application process. However, in New Brunswick three programs use the same streamlined application process. In Newfoundland and Labrador the majority of programs are accessed through the Department of Innovation, Business, and Rural Development.

Best Practice Review

The best practices outline effective measures that are within the range of Nova Scotia's incentive programs. The following is a summary of important themes and trends associated with development, provision, management, and evaluation/refinement of incentives for the Province to consider as it strives to meet ongoing objectives of fiscal sustainability, effectiveness, and transparency/accountability.

- Decision-making processes should be outlined to ensure that potential applicants have a clear understanding of the steps required to receive the incentive; the information should be publicly posted on the organization's website. This includes identification of the individual/group with authority to approve the application, and direction on the interactions required with the decision-making group/organization (e.g., presentations). Advanced systems offer an online tool so the applicants can track, in real time, where their application is in the process.
- Economic development incentives should minimize competition in their application. There are two primary considerations:
    - Ensure public assistance does not interfere with assistance from the private sector (and instead enhances it or covers an underserviced area).
    - Ensure incentive recipients do not directly compete with others in the local area.
- Comprehensive evaluation steps at the early stages of the program can improve potential for fiscal sustainability by matching funding to established need, strongest market potential, or

stable business performance. Even where grants, loans, or investments are relatively small (such as at the pre-seed stage), most leading programs have a comprehensive evaluation and due diligence process in place to ensure each disbursement supports the fiscal sustainability of the recipient and the program (e.g., through the potential return on investment of an equity investment). In most cases, the final decision is made by a committee comprising skilled investment managers and stakeholders from both public and private sectors; often this is the Board of Directors of an administering organization.

- Incentive programs should employ a targeted (e.g., by sector or size of company) approach to the disbursement of funds, with the flexibility to respond to opportunities slightly outside of those targeted areas when appropriate. Where more general and discretionary funding programs and incentives exist, they are often administered by arms' length or private sector managers to remove political interests from the decision-making process.
- At the time of disbursement, incentives should have an established program "sunset" timeline or a clear outline of how relationships will be managed and terminated. Though the length of that timeline varies among the assessed programs, most incentives are focused on a short- to medium-term (1–5 years) in order to balance financial commitments with the length of time that may be needed to generate economic benefits. The exception is loan programs, of which a number have the potential for longer repayment terms with capped interest rates or deferral options. A number of the incentive programs have also outlined the duration of the entire program based on existing funding commitments. Not only does this offer certainty to applicants about the sustainability of the program; it also lets the administering organization plan for program funding and disbursement on an annual basis and defines a term over which the program can be evaluated (without committing to longer term investments beyond that date).
- Incentives should require evaluation on a regular basis through the duration of the program, or at the conclusion of the program, to assist with overall economic impact assessment and program accountability. Annual reports, including detailed financial and audit statements, are commonly requested for all types of incentives in the leading programs. In addition to financial information, many organizations require the recipient to report on jobs created, jobs maintained, wages disbursed, or economic activity generated (e.g., patents, investment). Most leading organizations use this information to highlight the economic impacts of their programs in their own annual reporting activities. Monitoring and evaluating performance on an ongoing basis also creates the framework for clawback policies in incentive programs when program milestones and objectives are not being met.
- Indirect incentives can be disbursed through partner organizations and other levels of government to achieve broader economic or sector-based growth based on business and community agreement. Indirect incentives support things like infrastructure investment to generate business growth (with the support of business and local governments), and workforce development and training.
- Public accountability and transparency can be established through regular reporting to government agencies and departments that administer the program. Common report elements include the financial performance of the incentive/fund (including disbursements and returns) and impacts of the incentive (e.g., jobs, investment) on the broader economy.
- Concerns about grant programs include government interference with competitive forces in the private sector, and the sustainability of grant funding when no long-term funding may be

available. The case studies analyzed here deal with these issues in a straightforward way. Both cases relate to economically challenged northern regions of Ontario and British Columbia. British Columbia's Northern Development Initiative Trust (NDI) addresses sustainability using a trust fund model that is independent from the provincial government, with strong internal management processes. The Northern Ontario Heritage Fund Corporation (NOHFC) is technically an independent organization, which offers entrepreneurship grants (forgivable loans) to businesses that are not competing directly within the local area, or that operate where enough market exists.

- Incentives targeted at either very-early-stage companies or SMEs up to 500 employees offer strong potential to support economic development growth, given the established potential of SMEs as drivers of employment and economic growth.
- In most leading incentive programs, the focus on SMEs is established as an eligibility criterion. Incentives focus on a number of objectives that range from pre-seed challenges (prototype design, intellectual property development, market assessment) to challenges associated with the movement from small to medium-sized business (strategic acquisitions, machinery and equipment acquisition, facility expansion/improvement).
- Strong programs aimed at SMEs require a minimum number of consultations with business development advisors. In Manitoba, it is required that all applicants attend a three-day business workshop prior to being awarded the financial support.

Nova Scotia's Use of Economic Development Tools

In order to provide insight into the demand and use of the incentive tools in Nova Scotia, programming partners were requested to report on clients served in the five-year period from Jan. 1, 2009 to Dec. 31, 2013. A summary of the data from these programs follows.

In many cases program partners were able to provide information on the total funds authorized for disbursement as well as the funds actually disbursed during the period. However, in most cases the study period does not match the disbursement period identified in the contractual agreement with the client.

Anecdotal evidence suggested that many companies were accessing multiple programs or returning for additional assistance after initial funding had expired. The data does not support this suggestion, perhaps because of the narrow time frame of the study period. The following is a summary of lessons learned from the data about the use of economic development tools in Nova Scotia.

- It takes some time to expend authorized funds. Jobs are not created quickly. Assistance tools need sufficient time to establish credibility with their target audience and be disbursed appropriately. Then recipient businesses need time to achieve employment growth.
- Payroll rebate is the only incentive tool that has job creation as a requirement for funding in Nova Scotia.
- There may be many reasons other than job creation to provide incentives, but there should always be performance measures and appropriate tracking.
- There is a disproportionate focus on Halifax for most of the economic development tools assessed. In some cases, such as the Early Stage Commercialization Fund that focuses on research in universities, this is entirely appropriate. However, it should be investigated how

economic development support could be disbursed with greater geographic coverage without detracting from the support for Halifax-based businesses.

- Data provided for the Jobs Fund was limited, although the data improved after 2010 when tracking was initiated at the recommendation of the Auditor General. The situation emphasizes the need for performance benchmarks and suitable tracking to ensure accountability.
- Anecdotal evidence suggests some clients have been receiving funding over time from different agencies. The data provided for this study does not raise this as a concern, but that might be due to the limited term (five years) of the assessment period. It is recommended that all agencies disbursing funds use a single client relationship management software system for uniform client assessment, more seamless transition between agencies, and more effective service delivery.

Client Review Telephone Survey

Millier Dickinson Blais contracted Forum Research to conduct telephone interviews with clients of NSBI, Innovacorp, and Jobs Fund. Contact information was provided by the partner agencies. All names provided were contacted by Forum Research and 70 interviews were completed, representing a 33% response rate. This exceeded the anticipated 20% response rate.

The purpose of the survey was to understand

- who accesses the economic development tools (geography and size of clients)
- how the funds received by clients were utilized
- how effective the economic development tools were in assisting Nova Scotia in achieving its economic development objectives

Due to privacy and confidentiality policies, clients needed to be contacted in advance of the survey to provide consent. As a result, not all clients were contacted. The following section summarizes the lessons learned through the telephone survey; results are presented in aggregate form to ensure confidentiality of the individual respondents. While the limited number of responses presents challenges in cross-tabulating by geography, incentive tool, and size of firm, where possible these details are provided.

- While the survey instrument has been implemented successfully in other jurisdictions to measure the influence of services on economic development performance, a few factors limited the effectiveness of these results. These include the limited amount of time to conduct the survey, access to clients, and nature of the data that was provided by clients.
- Regular program reviews should be a priority with clear performance measures attached to each economic development tool.
- Due to privacy and confidentially agreements, it was not possible to contact all incentive tool recipients. This greatly reduced the number of responses to the survey. It is suggested that being contacted for performance measurement purposes should be included in the contract with each client.
- The Jobs Fund does not make use of client relationship management software, which made it challenging to assemble data for this project on short notice. It is recommended that common relationship management software be used by all partner agencies, which would allow data to

be assembled more easily. This might also allow ERDT to determine which companies are accessing multiple programs and agencies.

- Economic development tool recipients are disproportionately in the Halifax economic region. While this region accounts for half of the province's population and employment, the region receives much more than half of economic development assistance.
- Not all economic development tools are designed to increase or maintain employment in Nova Scotia; however, firms responded that the economic development tools do influence job creation. More jobs were maintained than generated. Positive responses from Early Stage Commercialization Fund clients are encouraging.
- Respondents did not provide many suggestions about how to improve service delivery. However, when asked what influences investment and job creation, the availability of a qualified labour force was the most common response (21% of all responses).

Lessons for Nova Scotia

Based on a review of comparator jurisdictions, best practices, and a survey conducted of economic development tool clients in Nova Scotia, the following lessons provide guidance to the future use of economic development tools in Nova Scotia.

Focusing Business Assistance Tools

- There is disproportionate focus on Halifax for most of the economic development tools assessed. How all funding could be disbursed with greater geographic coverage should be investigated.
- Most jurisdictions focus their economic development tools on specific sectors they feel have the best chance of success. Nova Scotia would benefit from an economic development strategy that will help ERDT focus its business assistance tools.
- Nova Scotia should ensure that incentive recipients are not competing with others in the same industry or market. Within the province, the tools should be competition-neutral.
- The consultations and research identified a need for different types of programs. One is a program to assist with business succession planning, especially in rural areas; this might be similar to a program offered by the Farm Loan Board. Another program could leverage community-based angels who are interested in investing locally.
- Nova Scotia is soon going to reach a peak population, after which it is estimated that the population will begin a decline that will last for more than a decade. It is therefore relevant to determine the appropriate measure of business assistance. Merely creating jobs may not be the best approach. For example, innovation, trade, and skills enhancement will become more important in the future; programs should be developed with these goals in mind.

Evaluating Effectively

- Few of the jurisdictions investigated make use of payroll rebates. While this is a primary tool for NSBI, its clients were unclear as to whether payroll rebates contributed to their success or their ability to create jobs. The program needs to be more fully evaluated.
- There should be clear performance measures for each economic development tool, and the evaluation process should be clear to each incentive recipient. Third-party evaluations should

be conducted on a regular basis. Participation in a third-party evaluation should be a part of the funding contract.

- All agencies should utilize client relationship management software. This will assist the evaluation process and provide a clearer picture of which applicants are accessing multiple programs and agencies or have been in contact with the province's regulatory departments and agencies.
- The evaluation conducted as part of this review should be repeated annually. Increasingly clients will understand the importance of evaluation and sample sizes will improve significantly over time. The evaluation goal will be to understand how the assistance tool directly affected the business.
- Economic development tools should have clear timelines for implementation, realization of benefits, and evaluation. If economic benefits are not meeting expectations, the evaluation should determine why. It takes time for benefits to be realized, and because changing conditions in the broader economy can influence the ability of a local business to be successful, there should be provision to renegotiate terms and conditions if necessary.

Appreciating Cost Considerations

- Other provinces have been able to streamline their application process so that one application is used by multiple funding programs.
- All applicants should be required to attend a minimum number of meetings with business counsellors prior to funding being approved. Government-employed counsellors should conduct an initial assessment of training needs, but ideally the training will be done by experts in specific areas of business management or sector expertise. While this may increase the upfront cost of the application (the cost could be incorporated into the funding) it should establish a stronger platform for business success.
- Arms' length decision-making has been a success in Nova Scotia (e.g., the Small Business Loan Guarantee Program and Innovacorp). The Province should investigate extension of this decision-making mechanism.

1 Introduction

1.1 Context for Economic Development Incentives

Incentives are a central component of most economic development programs across North America. These programs and tools are generally defined as anything governments and economic development organizations use to make their communities more attractive to investment. Incentives are most commonly identified with attracting new foreign direct investment, but they are also used when the desired outcome is the retention or growth of business that is already in the jurisdiction.

Although incentives have historically been focused on tax breaks and direct grants, the profile of programs and agreements that are considered to be incentives has broadened considerably over recent years. Competition has become more aggressive as jurisdictions aim to outbid one another. Incentives encompass tools and programs ranging from tax abatements and payroll rebates to workforce training and development programs, infrastructure investments, research and innovation support programs, and streamlined public services and regulatory processes. Both Canadian and American jurisdictions employ approaches that include economic development incentives, though their use across the U.S. is much more common than in Canada and in some cases represents a more aggressive approach to attract and retain investment.

Incentive programs represent a notable financial commitment for all levels of government in the U.S. This is a direct response to increasing competitiveness in the country and internationally as well as the reduced number of potential deals available for states and cities because of recent recessions. Conway Data Inc. estimated that from 2003 to 2006, the average number of major new facilities and expansions in the U.S. was barely half the rate of 1998 to 2000, with the number of new deals in 2012 still not reaching half of annual averages from 1998 to 2000.[10]

Competitive Environment

States, counties, and cities across the U.S. spend an estimated $70 billion per year on company-specific economic development subsidies or incentives, and $46.8 billion in location incentives.[11] This figure includes nearly 1,800 economic development incentive programs in use by state governments alone[12] as well as a diverse range of county or community-level programs that target specific community and economic development objectives (e.g., investment attraction, workforce development, sector-specific support). However, increased pressure on state, county, and local budgets has recently intensified the debate about the return on investment that is being sought through government investments and economic development subsidies. This has necessitated a more careful examination of programs for deployment.

Comparative data across Canada is limited and difficult to access.[13] Despite a highly competitive regulatory framework that promotes business formation and operation, unique challenges at the provincial level (e.g., skill shortages, industry restructuring, or innovation support) have resulted in most Canadian provinces offering incentives as well. Despite the fact that Canadian jurisdictions do compete against U.S. jurisdictions for the same investment, incentive programs in Canada are not usually as aggressive or as widespread. Nevertheless, Canadian provinces have developed

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[10] LeRoy, G. (2013). The Future of Economic Development Subsidies. *Economic Development Journal, 12*(4), 35-39.

[11] Thomas, K. (2010). Investment Incentives and the Global Competition for Capital.

[12] Council for Community and Economic Research. (2012). State Economic Development Incentives Report.

[13] Research completed in 2013 by the Province of Nova Scotia showed that only four provinces (Nova Scotia, Ontario, British Columbia, and Manitoba) require government to publicly report any business investments annually, including rationale. Manitoba and Nova Scotia are the most proactive. Their annual Public Accounts reports published online include all payments over $5,000 to corporations, firms, individuals, other governments, and government agencies.

incentives to assist with the attraction, retention, and expansion of businesses. In some cases, this includes federal funds distributed through provinces to accomplish regional economic development objectives. In other cases, incentives take the form of provincial funds developed and administered to support strategies specific to the province's economic development objectives (e.g., talent attraction, research and development, sector development).

Nova Scotia's Position

Never far from the surface of any discussion about the Nova Scotia economy are the challenges facing the province. It has a declining population, relatively high unemployment, poor literacy rates, and one of the weakest productivity numbers in Canada. A complicating factor is the growing dichotomy in success between urban and rural areas.

Since 2010 there have been a number of important 'conversations' related to economic development and the performance of economic development incentives in Nova Scotia, including

- Donald Savoie's *Invest More, Innovate More, Trade More, Learn More: The Way Ahead for Nova Scotia* (2010)
- One Nova Scotia (The Nova Scotia Commission on Building Our New Economy): *Now or Never: An Urgent Call to Action for Nova Scotians* (2014)
- *Accountability in Economic Development Assistance Act* (2013)
- Reports from the Nova Scotia Auditor General (2010–2013).

These have all been examined. At the outset of this work, Savoie's strategic review of the province's economic development programs had stimulated the most discussion. The One Nova Scotia report released near the conclusion of the review has instigated significant conversation about the future of Nova Scotia. The basic premise of the Savoie report is a challenge to the provincial government to create Canada's most business-friendly province, while the One Nova Scotia report (led by Ray Ivany) speaks to the urgency for action in the face of declining demographics and economic trends.

The Province appears to have taken this message to heart. The Department of Economic and Rural Development and Tourism's (ERDT) 2013–14 Statement of Mandate is entitled *Learn, Innovate, Compete, Succeed*. In it ERDT is very keen on recent economic successes and the positive effects that government policies and programs have had on the province's business climate, but highlights the importance of support programs.

Nova Scotia has a relatively small and open economy that is greatly affected by the actions of other jurisdictions. Provinces, some more slowly than others, have come to accept that competing for incentives against U.S. states and other provinces is an important consideration. Today ERDT and its agencies—such as Innovacorp and Nova Scotia Business Inc. (NSBI)—have a suite of programs meant to make Nova Scotia more attractive to business.

1.2 Purpose of the Study and Report Outline

Focusing on ERDT's Jobs Fund, NSBI, and Innovacorp, this report will

- review the results and analyze the performance of each tool
- identify economic development tools that are no longer serving their intended purpose, and could be redesigned, streamlined or eliminated
- propose new tools that may be successful options
- identify areas of overlap or duplication in service delivery between different organizations
- recommend more effective ways of coordinating service delivery across multiple organizations
- identify opportunities to improve transparency and accountability in the use of economic development tools

Economic development is a large area of study and includes many activities that lead to growth. This report will not cover all of them. For instance, there will be no discussion about the effectiveness of programs designed for community development, tourism, education, trade/export readiness, and skills training.

Sections 2 and 3 examine the efforts of other jurisdictions to implement effective incentive programs and tools. Sections 4 and 5 examine the activities of Nova Scotia's incentive tools and outline the results of a performance evaluation created for the purposes of this study. Section 6 offers considerations on how ERDT and the two economic development agencies can improve existing and future incentive programs and tools.

2 Jurisdictional Analysis – Provincial Comparators

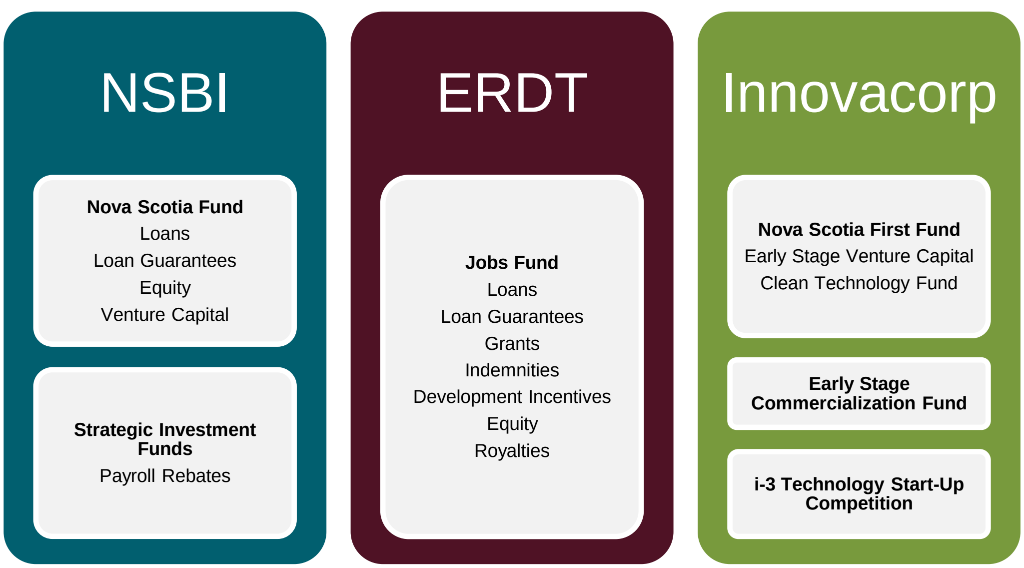
This section provides an overview of incentive tools in Nova Scotia and describes practices in four Canadian provinces that have populations of similar size, are competitors for investment, and are on the leading edge of aligning incentive tools with overall strategic direction: Newfoundland and Labrador, New Brunswick, Manitoba, and Saskatchewan. While this review describes current programming, the policy landscape is continually shifting. Each province's economic conditions and history of governance have shaped their current incentive programs and will influence what they will be tomorrow.

Topics include goals and objectives of the program, the range of incentive tools that are offered, rationale for the different tools, and the decision-making process. New Brunswick and Saskatchewan are also interesting because they both recently went through a significant transition in how they work with the business community.

2.1 Nova Scotia

The Government of Nova Scotia delivers economic development services directly through programs administered within ERDT as well as other ministries and partner agencies. The Nova Scotia government invests $172 million in ERDT funding, and maintains a loan and investment portfolio of $797 million.[14] This review considers part of the loans and investment portfolio specific to Innovacorp, the Jobs Fund, and NSBI with a value of $445 million. Figure 1 describes the delivery of the selected economic development tools and programs in the province.

FIGURE 1: SUBJECTS OF THIS REPORT: NOVA SCOTIA'S BUSINESS ASSISTANCE PROGRAMS



[14] One Nova Scotia (2014). *Now or Never: An Urgent Call to Action for Nova Scotians: The Report of the Nova Scotia Commission on Building Our New Economy,*

Economic Development Infrastructure

Nova Scotia has recently had to rethink how economic development services are provided. In May 2012 the federal government provided notice that as of May 2013 the Atlantic Canada Opportunities Agency (ACOA) would discontinue core funding to regional economic development organizations in Atlantic Canada. In July 2012 the Province initiated a review of regional development authorities.

The results are seen on a couple of levels. There has been an increase in the number of municipally-led economic development initiatives to fill the void left by the loss of the Regional Development Agencies (RDAs), and the Province has moved to establish Regional Enterprise Networks (RENs) to connect economic development partners who would benefit from collaboration. Although the REN initiative is not technically an ERDT program, there are similar models in other jurisdictions that are considered critical to effective program delivery and are covered in the review.

This withdrawal of funds from RDAs also affected the three other Atlantic Provinces. New Brunswick was the only other province to use this opportunity to take a more comprehensive look at its incentive programs.

The remainder of this section examines the programs and tools delivered by ERDT, NSBI, and Innovacorp.

Decision-Making Process

While all tools are overseen by staff of ERDT or one of several agencies reporting to the Minister of ERDT, there is a range of decision-making processes. The majority of the decisions are made by staff. However, there are exceptions:

- The Nova Scotia Jobs Fund secures investment opportunities in the province by providing assistance for communities in transition, supporting industry sectors, regional support, small business programs, and infrastructure and large industrial ventures; the fund is managed by Cabinet.

- The Small Business Loan Guarantee Program, which is funded through the Nova Scotia Jobs Fund, is administered by the Nova Scotia Co-operative Council and operated through participating Credit Unions across Nova Scotia who make funding decisions

- Decisions for all funding that flows through NSBI and Innovacorp are made by an arms' length board of directors as they are Crown corporations. Above certain financial limits, NSBI board decisions are then subject to Cabinet approval.

The mix of decision-making processes in Nova Scotia, including internal as well as arm's length decision making, is comparable to other jurisdictions.

Types of Programming

The suite of economic development programs in Nova Scotia is comprehensive. It includes loan and loan guarantees, grant programs, capital development incentives, venture capital and early commercialization incentives, payroll rebates, tax credits, and equity incentives. Select business support programs in the province are summarized in Figure 2.

FIGURE 2: SUMMARY OF PROGRAMS OFFERED BY PROVINCE OF NOVA SCOTIA THROUGH ERDT

Incentive Tool	Objective	Project Criteria	Characteristics
SMALL BUSINESS and REGIONAL DEVELOPMENT			
Small Business Loan Guarantee Programs	▪ establishes new business and supports entrepreneurs	▪ real estate, beverage rooms and taverns ineligible ▪ each application evaluated on a case-by-case basis ▪ new immigrants, social enterprises and, in some cases, high-risk sectors qualify for higher guarantees	▪ guarantees of 75% on term loans and lines of credit up to $500,000 ▪ joint initiative with Nova Scotia Co-op Council, Atlantic Central, participating credit unions
Nova Scotia Business Development Program	▪ supports productivity, innovation and competitive businesses	▪ eligible activities include business and marketing plans, research, product development, new market development, e-commerce, and succession planning	▪ rebates for approved project expenses up to 50% of total costs, up to $15,000
Community Economic Development Investment Funds (CEDIFs)	▪ creates local pools of capital for businesses by sale of shares	▪ CEDIFs develop within community, any individual or group can establish ▪ CEDIFs cannot be charitable, non-taxable, or not-for-profit, and must have at least six local directors	▪ individual investors receive a 35% Personal Income Tax credit
Social Enterprise Fund	▪ supports innovation and community capacity building in social enterprises	▪ emphasis on community leadership development and outreach to communities to engage in local economy	
Aboriginal Community Development Fund	▪ supports innovation and leadership development	▪ targeting aboriginal communities ▪ aims to leverage community and federal dollars for aboriginal community projects	

Incentive Tool	Objective	Project Criteria	Characteristics
Community Economic Development Program	▪ assists strategic community economic development initiatives	▪ not-for-profit societies, associations, co-operatives communities, and municipal units are eligible ▪ project support is provided for eligible, approved costs	▪ a percentage of funding is provided, up to a maximum, depending on the project stream
		INNOVATION and LEARNING	
Productivity Investment Program (PIP) comprises CII and WIPSI	▪ increases productivity and innovation	▪ funding is for cost of technologically-advanced machinery, clean technology, equipment, software and hardware ▪ preference to exporters in qualified industries	▪ contributes 20%, up to $1 million
Workplace Innovation and Productivity Skills Incentive (WIPSI)	▪ encourages training, skills development/ certification	▪ eligible companies include those with fewer than 50 employees ▪ in-kind contribution from employer required	▪ full cost covered up to $5,000 to $10,000
Capital Investment Incentive (CII)	▪ encourages capital investment	▪ reimbursement of investment for acquisitions greater than $25,000 ▪ eligible expenses are technologically-advanced machinery, clean technology, equipment, software and hardware in qualifying sectors	▪ contributes 20%, up to $1 million
Productivity and Innovation Voucher Program	▪ stimulates productivity and innovation projects	▪ small and medium-sized enterprises are the target of the program ▪ linkages with Nova Scotia universities and colleges	▪ vouchers awarded from $15,000 to $25,000 to acquire research support
Strategic Cooperative Education Incentive	▪ increase career employment opportunities	▪ recipients are students enrolled in recognized post-secondary co-op education programs	▪ incentives provided on a per hour wage basis (up to $10/hr)

Incentive Tool	Objective	Project Criteria	Characteristics
Graduate Placement Program	▪ helps recent graduates secure permanent full-time positions	▪ recipients must graduate from recognized co-op education programs ▪ Nova Scotia private sector and not-for-profit employers are eligible ▪ minimum annual salary of $35,000	▪ after three months employers are reimbursed for 50% of costs up to $7,500
Student Career Skills Development Program	▪ supports career-related summer employment	▪ not-for-profit organizations are eligible to hire career-oriented post-secondary summer students ▪ funding distributed across the province based on unemployment rates	▪ reimbursement of $8.50 per hour up to 35 hours worked per week for $10.50-$12.00 wage

TRADE DEVELOPMENT SERVICES and PROGRAMS			
ExportAbility (administered by NSBI)	▪ increases export savvy in small and medium-sized enterprises (SMEs)	▪ applicants are employed in Nova Scotia's private sector by international exporters or those becoming export-ready ▪ employer possesses, manufactures or produces an internationally tradeable product or service, technology, or intellectual property	▪ eligible costs include course or workshop registration fees, course materials and exam fees
Go-Ahead Program (GAP) (administered by NSBI)	▪ helps exporters follow up on sales leads	▪ companies have participated in a provincial government or export agency trade initiative (outside the Maritimes) ▪ smaller companies are eligible	▪ covers up to 50% of follow-up visits to the identified market
Trade Missions (NSBI and ERDT)	▪ connects SMEs with buyers, suppliers, and business partners	▪ fee for service ▪ applicants are international exporters or export-ready	
Export Prospector Program (NSBI program)	▪ helps companies discover export opportunities and leads	▪ open to Nova Scotia companies and organizations ▪ requires marketing plan targeting markets outside Nova Scotia, and capacity to implement	▪ maximum annual contribution is $15,000 or up to four projects ▪ non-repayable portion is up to $3,500 per project
Service Export Program (administered by NSBI)	▪ assists SME service-sector exporters	▪ business deals must be in the later stages of the sales cycle ▪ funds support in-market meetings, development of proposals and collateral materials	▪ up to 50% of eligible costs up $5,000 per project and $20,000 per fiscal year
Global Business Accelerator (administered by NSBI)	▪ helps SMEs increase global competitiveness	▪ provides funding to companies who want to work with a business accelerator (person) to grow in global marketplace	▪ contributes up to 80% of business accelerator costs, up to $35,000.

TOURISM			
Festivals and Events Marketing Program	▪ attracts visitors to Nova Scotia	▪ Nova Scotia festivals and events eligible ▪ marketing activities and materials are eligible expenses	▪ provides up to $3,000
Tourism Development Investment Fund	▪ enhances tourism services, businesses, and products through industry development	▪ applicants secure at least 25% of costs ▪ non-commercial/ not-for-profit organizations, private sector operators and front-line staff of private sector operations are eligible ▪ educational and professional development opportunities improving the quality of tourism products	▪ funding of up to 75% of total costs
Tourism Experiences Marketing Program	▪ attracts first-time visitors to Nova Scotia ▪ encourages longer stays/ more spending	▪ projects attract visitors from outside Atlantic Canada and increase tourism visitation and spending ▪ marketing activities and materials are eligible expenses	▪ provides co-operative financial assistance up to $20,000
Nova Scotia Approved (NSA) Quality First Accommodations Program	▪ increases accommodation quality	▪ qualification by at least one of three quality programs required to be included in any provincial tourism marketing or partnership opportunities	▪ led by Tourism Industry Association of Nova Scotia (TIANS)
Destination Development Funding – First Impressions Program	▪ attracts first-time visitors and high-yield segments	▪ tourism infrastructure, planning and associated costs are eligible ▪ applicants must be a municipality or registered non-governmental or not-for-profit organization	▪ funding for up to 50% of eligible costs ▪ applicants secure at least 30% of total project costs, of which up to 50% can be in kind
Destination Development Funding – Competitive Edge Program	▪ attracts first-time visitors and high-yield segments	▪ projects advance high-quality, competitive destinations, products and experiences ▪ registered not-for-profit organizations, municipalities, private sector, and other registered tourism entities are eligible ▪ eligible activities include planning and design, materials, contracted labour and interpretation	▪ applicants secure at least 30% of total project costs, of which up to 50% can be in kind

Tour Operator Partnership Program	▪ improving delivery of Nova Scotia packaged product to consumers	▪ trade shows, in-market promotional events, marketing, and familiarization tours are eligible ▪ applicants must be tour operators in business for one year	▪ 50% of costs can be funded
Tourism Human Resource Sector Council	▪ human resource development	▪ funding assists the goals of the Tourism Human Resource Council, the Tourism Strategy, and provincial economic growth strategy	

Loans and Loan Guarantees

In Canada, provincially-developed funding mechanisms for loans and loan guarantees are rare. Nova Scotia appears to be a leader in directly interacting with small business, as many other provincial programs work through the Canada Small Business Financing Plan offered by Industry Canada.[15] In a model similar to Nova Scotia's, U.S. state governments offer offer business growth incentives in the form of loans and loan guarantees through partnerships with financial institutions.

The Nova Scotia Jobs Fund provides both loans and loan guarantees. Two important Jobs Fund initiatives lead the loan programs that are available in Nova Scotia: the Small Business Loan Program and Aerospace and Defence Loan Program. The latter is designed to spur research and development and penetrate technological markets. The Credit Union Small Business Loan Guarantee Program, supported by the Jobs Fund, is a joint partnership between the province, local credit unions, the Nova Scotia Co-operative Council, and Atlantic Central (the central union that supports credit unions across the Atlantic region). Loans provided through credit unions can be guaranteed between 75%–90% in order to increase access to capital. The maximum loan size is $500,000. The Loan Guarantee Program is the most general loan program offered for small and medium-sized businesses, with others targeting either specific sectors (e.g., aerospace) or segments of the population (e.g., immigrants). The program also contains loan guarantees; the primary difference is that with a loan guarantee businesses can usually expect the maximum amount available to be greater than would be through a directly issued loan.

NSBI provides business loans and loan guarantees that are applicable to the purchase of land or improvements to land, construction of buildings and other structures, equipment (including furnishings and other fixed assets), and for working capital under certain limited and well-defined circumstances. Other sector-specific loans are more targeted; an example is Jobs Fund's Aerospace and Defence Loan Program, which mirrors other high-technology loan programs, especially those in the US.

Grants and Grant Programs

Nova Scotia offers a number of grant programs targeting specific economic development needs within the province. Grants can be delivered through the Nova Scotia Jobs Fund or through smaller grant programs:

- Exporting (ExportAbility, Export Prospector, Go-Ahead, Service Export, NSBI trade missions)
- Small business development (Small Business Development Program)
- Workforce development and training (student employment programs and student co-op programs)

[15] Industry Canada, Canada Small Business Financing Plan (2014). www.ic.gc.ca/eic/site/csbfp-pfpec.nsf/eng/Home

Grant programs generally have application-based processes with pre-set eligibility criteria. The Jobs Fund also provides grants to businesses; these are often used to support organizations and causes for which funds are urgently needed (e.g., an economically depressed area) or not generally available (e.g., the arts and culture sector). The words used to describe grants are important; economic development grants are often referred to as non-repayable loans, forgivable loans, non-repayable contributions, or other similar terms, and vary according to the conditions they impose.

Capital Development Incentives

The productivity of the business community can be hampered when business owners delay acquiring technology and equipment that they desire but which is cost-prohibitive. The purpose of capital incentives is to help businesses acquire machinery and equipment that improves productivity and competitiveness.

Capital development incentives in Nova Scotia are provided through the Capital Investment Incentive (CII) as part of the Productivity Investment Program. In order to ensure that the funds go to businesses that are well positioned to contribute to exports, preference is given to exporting companies in strategic sectors. CII contributes 20%, up to a maximum of $1 million, toward the cost of technologically-advanced machinery, clean technology, equipment, software and hardware with preference given to exporters in qualified industries. For larger requirements, the Jobs Fund has been used to provide capital incentives.

Venture Capital

Nova Scotia provides capital directly to businesses beyond the pre-commercialization stage, primarily through NSBI, Innovacorp, and the Jobs Fund. Many venture capital programs take more indirect action through separate agencies or private sector groups, while Nova Scotia has chosen to directly invest in companies, either in partnership with venture capital funds or independently. There is a range of funding available from NSBI, subject to Cabinet approval, and Innovacorp can invest up to $3 million for any single company.

Innovacorp's early-stage venture fund, Nova Scotia First Fund, targets emerging venture-grade technology companies that have high growth potential. The organization has also experimented with early-stage venture capital funds in specific cases such as the Cycle Capital Fund and Build Ventures.

In other jurisdictions there are a limited number of government-led programs at the state and provincial levels that exhibit the same characteristics. A number of venture capital funds target earlier stage companies than the NSBI program (similar to the majority of Innovacorp funding). And both U.S. states and other Canadian provinces employ venture capital strategies different from NSBI's direct investment initiatives (e.g., funding of private sector funds, co-investment structures, or tax credits to businesses and individuals).

Early-Stage Commercialization Investment

Funding for early-stage commercialization in Nova Scotia is primarily delivered through Innovacorp's Early Stage Commercialization Fund, which supports entrepreneurial opportunities emerging from the academic environment.

Many programs in North America focus on emerging technologies that are similar to the Clean Technology Fund. Best practice organizations tend to engage with academic institutions, researchers, and students to provide pre-seed or proof-of-concept funding to support new ventures.

Equity Investments
In addition to equity investments from venture capital and early-stage funding, Nova Scotia makes equity financing investments through NSBI's Nova Scotia Business Fund and the Jobs Fund. The intent is to make 45% of the fund available for equity investments on an ongoing basis.

Payroll Rebates
NSBI uses its payroll rebate program to create or maintain employment and increase payroll generation. The payroll rebate provides low-risk, performance-based financing, paid retroactively for new full-time employees, to eligible businesses expanding in or locating to Nova Scotia. The payroll rebate is focused on three sectors—financial services and insurance, information technology, and defence, security, and aerospace—although any company outside these sectors seen to have potential to add value to the province will be considered.

Best practices include using payroll rebates to increase business presence in a particular geographic area or in a particular sector to increase long-term cluster development.

Tax Credits
Tax credits are synonymous with economic development incentives in international investment attraction. They reduce corporate, property, or income tax in exchange for an investment that benefits a community through job creation or other incentives. Nova Scotia has a number of tax credit programs that support business development, including the Equity Tax Credit, Labour-Sponsored Venture Capital Tax Credit, Digital Media Tax Credit, Research and Development Tax Credit, and the Tax Deduction for New Small Business. Tax credits are often used to support economic development objectives that cross into other types of incentives.

There is significant controversy around the implementation of tax credits and the research on their effectiveness in generating economic benefits is mixed.[16] One criticism leveled against tax credits in general is that economic benefits would likely have been realized without the incentive. Refundable tax credits are criticized for being too generous, while non-refundable tax credits are criticized for being too restrictive, particularly if the benefit does not carry forward into future tax years. Best practices highlight the challenges of exiting from tax credit programs, and provide examples where a cautious approach has seen success. Many tax credits have goals associated with specific purposes (e.g., workforce attraction and research and development).

The Jobs Fund—viewed as a large sum of discretionary funds available to ERDT to meet economic development objectives—is a type of tool that exists in other jurisdictions. In Ontario, a notable case similar to the types of deals administered by the Jobs Fund was the 2010 deal negotiated with the South Korean conglomerate Samsung. The deal required Cabinet approval, although negotiations started with the Minister of Energy. It was controversial and resulted in the Minister resigning in the face of opposition from both the Ministers of Finance and Economic Development. In the final deal announced by the Premier, Ontario agreed to buy 2500MW of electricity generated by wind and solar power from Samsung at above-market prices in return for an investment of $7 billion and the creation of 16,000 jobs. Public opposition to rising electricity prices and community opposition to wind farms in rural areas forced the government to renegotiate the deal in 2013, reducing the contract by more than one-third.

[16] Slack, E. (2010). ***The Property Tax … in Theory and Practice***, Toronto: Institute on Municipal Finance and Governance, Munk School of Global Affairs, University of Toronto.

2.2 New Brunswick

Overview of Programs in New Brunswick

The New Brunswick government has undertaken a significant shift in economic development policy in the last three years. Many functions of Business New Brunswick, formerly a department of the New Brunswick government, have been merged with the Regional Development Corporation (RDC), a Crown corporation founded in the 1960s. Invest New Brunswick, a Crown corporation, has also been established with a mandate for foreign direct investment.

In addition, an Enterprise Network of community economic development agencies was re-established in 2013 with the opening of five regional economic development offices and seven satellite offices.[17] Regional economic development has been in place in New Brunswick for most of the past 20 years with 15 Community Economic Development Agencies (CEDAs), and 13 Regional Development Commissions providing economic development services in different periods of time. The network has a mandate to provide more decentralized economic development services. RDC received $1.35 million for operational funding for the Enterprise Network in 2012 although there are a number of other provincial and federal sources for program and project funds. The benefits of a decentralized program are described as better, faster access to funding support for local businesses and more local business involvement in community economic development. The roles of the regional economic development offices[18] include:

- provide leadership and partnership coordination
- lead the development of strategic plans
- create, implement and monitor regional integrated work plans
- integrate local, provincial and federal priorities
- offer business development assistance and counselling
- support the development of strategic clusters
- coordinate labour force development initiatives
- facilitate management training for SMEs
- support investment and export development activities

A move back to regional development and a decentralized investment program are the current trends in New Brunswick's economic development programming. Other economic development tools and programs have also shifted during this period of change. Another signal of the importance of regional programs is the Northern New Brunswick and Miramichi Economic Development and Innovation Funds, which target less-economically-advantaged areas with incremental assistance of more than $250 million. These funds have a four-year term and are scheduled to expire in 2015.

New Brunswick utilizes a mix of government-managed programming and partnerships to deliver economic development services. Each program or tool is geared to a particular aspect of economic development or geographic area. The majority of the programs are delivered through an external organization with some link to the government. For example, Invest New Brunswick and the Regional Development Corporation are Crown corporations with a board of directors, each reporting to the Minister of Economic Development. Invest New Brunswick states the advantages of its independence as greater influence for its private sector board and the ability to

[17] As mentioned in Section 2.1, Nova Scotia was also forced to re-evaluate its RDAs after ACOA withdrew funding. Nova Scotia has also established an Enterprise Network.

[18] Enterprise Network: Community Economic Development Agencies, www.enterprise-entreprise.ca

respond quickly to the needs of its clients. Invest New Brunswick is responsible for promoting opportunities for business investment, identifying and pursuing foreign direct investment opportunities, negotiating financial assistance packages, and managing a portfolio of investments.

In contrast, the Research Innovation Foundation was established with strong government financial support, but is now an independent organization. Some connection still exists, however, as the Deputy Minister of Economic Development is a member of its board of directors.

FIGURE 3: SUMMARY OF INCENTIVE TOOLS OFFERED BY PROVINCE OF NEW BRUNSWICK

Incentive Tool	Objective	Project Criteria	Characteristics
GRANT PROGRAM INNOV8 Program	▪ new intellectual property, innovative technologies, skills and processes	▪ existing business only ▪ priority growth sectors ▪ aligned with provincial strategy (e.g., Priority Growth Sector Strategy) ▪ maximum $50,000 contribution toward $100,000 of expenses ▪ a unique project ▪ cannot access the fund more than twice per year ▪ project must be completed before another application	▪ application is relatively simple and short ▪ application is evaluated by the Department of Economic Development against the program criteria to determine eligibility and project priority ▪ administered by the Department of Economic Development
GRANT PROGRAM Export Development Program	▪ increase exports outside the Maritimes by supporting first-time exporting, or the facilitation of export sales	▪ 50% of eligible costs, up to a maximum of $5,000 per domestic export project and $10,000 per international export project ▪ maximum of $20,000 per year per company ▪ only three approved applications for similar projects in the same geographic area within a three-year period ▪ some flexibility in eligibility for traditional sectors and for additional international projects	▪ targeted to the Ministry of Economic Development's priority growth sectors ▪ well-defined list of eligible costs ▪ Nova Scotia's equivalent program is more restrictive – not allowing domestic travel to spur exports ▪ administered by the Department of Economic Development
PAYROLL REBATE Digital Media Development Program	▪ growth in intellectual property related to game engines and games with entertainment or serious gaming applications	▪ established firms with revenues less than $20 million or total assets less than $10 million are not eligible ▪ head office must be in New Brunswick ▪ employee whose payroll is being rebated must be a New Brunswick resident	▪ non-repayable ▪ each company will not receive a rebate of more than $500,000 per year ▪ administered by the Department of Economic Development

Incentive Tool	Objective	Project Criteria	Characteristics
LOAN/LOAN GUARANTEE Financial Assistance to Industry Program	▪ funding for capital expenditures	▪ targeted industry sectors (manufacturing, processing, commercial services engaged in export or import replacement, full-time tourism, IT) ▪ guarantee sufficient equity and security ▪ demonstrate that funds could not be secured from a bank or other institution ▪ provide financial statements and projections	▪ applicants are qualified based on economic, social and environmental impact ▪ administered by the Department of Economic Development
GRANT PROGRAM NB Growth Program	▪ small business development for new and existing companies	▪ targeted industry sectors (same as FAIP in row above plus and cultural enterprises) ▪ capped: contributions may not exceed $100,000 at a rate of 50% of eligible costs (could include salaries) ▪ annual sales less than $5 million	▪ administered by the Department of Economic Development
TAX CREDIT Small Business Investor Tax Credit	▪ provide capital by increasing access to equity financing ▪ encourage investment by residents in small businesses	▪ corporation must apply for a licence and be registered in New Brunswick with net tangible assets of less than $40 million and at least 75% of wages and salaries must be paid to residents ▪ proposed investment plan complies with the intent of the Small Business Investor Tax Credit Act and Regulations	▪ non-refundable corporate income tax credit (15%) on eligible investments up to $500,000 for New Brunswick corporate and trust investors ▪ can be carried forward for seven years
LOAN Northern NB EcDev and Innovation Fund & Miramichi Regional EcDev and Innovation Fund	▪ set of programs in place that are designed for these regions	▪ targeted at specific counties ▪ non-repayable loans, loans and loan guarantees ▪ priorities are growth and development capital; adoption of information and communication technology; research, development and innovation; improving strategic infrastructure; advanced workforce development	▪ time-bound and expire after four years (2015) ▪ results measured by number of projects funded and amount of financial assistance ▪ results published in a public annual report ▪ controlled by Regional Development Corporations

Incentive Tool	Objective	Project Criteria	Characteristics
LOAN Invest New Brunswick	▪ foreign direct investment	▪ new company ▪ goal is to deliver on the following criteria: GDP created from investments; return on taxpayer investment; capital expenditures from investments; number of new investments; direct employment from investments; average salary for new jobs created	▪ can hold property and charge interest, according to Invest New Brunswick Act ▪ $15 million budget in 2013–14 ▪ results published in public report includes auditor's statement with comparison to previous years ▪ Crown corporation
VENTURE CAPITAL EQUITY New Brunswick Innovation Foundation	▪ commercializ-ation of research through venture capital investment	▪ not sole investor – aims to align its investments with other investors and programs ▪ sector targets: ICT, energy/environment, biosciences, aerospace/defence, industrial fabrication, value-added food, value-added wood, education/training for research assistantships	▪ not directly accountable to government, which raised concerns from the Auditor General

Decision-Making Process

Decision making in programs managed through the provincial government appears to be a standard bureaucratic process wherein the ministry evaluates applications and awards are based on relevance to the funding criteria and provincial strategies. In some cases the processes are streamlined. For example, the Export Development Program, INNOV8 Program, and NB Growth Program are all delivered through the same application.

All of New Brunswick's incentive tools are linked to specific sectors of the economy and types of business. The programs are segmented to support objectives such as technology commercialization, rural development, and small business development. Funding criteria are specific to the aims of each program. The ministry's annual report focuses on funds distributed, the number of businesses supported, and associated employment impacts.

New Brunswick also employs arm's length or independent organizations to deliver economic development incentives. These include the Regional Development Corporation, Invest New Brunswick, and New Brunswick Innovation Foundation (NBIF). Each organization communicates its results in an annual report and through a formal or informal linkage to the provincial government. Informal control has been criticized by the Auditor General.

The government has other tools that are more flexible and in the realm of political decision making, which has caused controversy. In the provincial budget, "strategic assistance" is an annual budget item under economic development. This resource is managed by an appointed group of deputy ministers called the New Brunswick Industrial Development Board, and their recommendation goes to Cabinet for approval or modification. The provincial government therefore directly controls these funds. It was a political decision to provide three loan guarantees, with a value of $50 million, to Atcon Holdings Inc. under strategic assistance in 2009. It was later discovered, through a Freedom of Information request, that the Industrial Development Board had advised against the investment but had been overruled by Cabinet.[19] Atcon went bankrupt eight months after the financial assistance package was delivered. The provincial government was left responsible for the $50 million investment.

2.3 Manitoba

Overview of Programs in Manitoba

The Manitoba Development Corporation (MDC) provides financial services and financial instruments on behalf of the Province of Manitoba to assist with economic development initiatives. The Province determines which programs will be housed in MDC, what resources are available to administer the programs, and the desired outcomes for those programs. MDC requires approval from the Province to provide financial assistance, loans, guarantees, or equity investments, and must comply with all Provincial directives. No information is available on Cabinet involvement in the approval process. The MDC annual report is submitted by the chair to the Minister of Entrepreneurship, Training and Trade, who in turn submits it to the Lieutenant Governor.

These financial programs are managed through Manitoba Jobs and the Economy and are designed to help Manitoba enterprises start and prosper. The programs range from start-up assistance for small businesses (Small Business Venture Capital Tax Credit) to substantial financial leveraging to attract jobs and investment (Manitoba Industrial Opportunities Program and Private Placement Capital Funds). The objective is to encourage entrepreneurial and employment opportunities through the establishment of new businesses or the expansion/retention of existing Manitoba businesses.

Financial programs provide funding in the form of grants, loans, and loan guarantees through the government, capital investment, and tax credits. Product and process commercialization is supported through a cost-sharing program. Many of the programs provide support to small and medium-sized enterprises. Two programs target the film industry. At the community level, a tax credit program for residents is designed to raise equity capital for enterprises within a community.

These initiatives of the Manitoba government, the Department of Entrepreneurship, Training and Trade, and industry partners support the growth and prosperity of the Manitoba economy and the province’s influence within Canada and a changing world. The Commercialization Support for Business Program is jointly delivered with the Department of Innovation, Energy and Mines, and Manitoba Agriculture, Food and Rural Initiatives.

Rural businesses are encouraged through the Small Business Venture Capital tax credit as well as the Community Enterprise Tax Credit programs. In addition, programs are available to assist aboriginal and agricultural businesses.

[19] “Civil servants advised against ATCO loan guarantees: provincial government ignored advice and provided $50 million in guarantees for ATCO.” *CBC News*. Oct. 31, 2012.

FIGURE 4: SUMMARY OF INCENTIVE TOOLS OFFERED BY PROVINCE OF MANITOBA

Incentive Tool	Objective	Project Criteria	Characteristics
LOAN GUARANTEE Business Start Program	▪ small business development	▪ owner-managed businesses (fewer than 20 employees and less than $2 million per year in gross sales) ▪ five-year term loan with $30,000 maximum ▪ interest rate of prime +1% and a one-year deferral of principal repayment ▪ for fixed and working capital	▪ provided through participating financial institutions and guaranteed by the Manitoba government ▪ three-day business planning workshop must be completed before disbursement
GRANT PROGRAM Commercialization Support for Business Program	▪ develop and commercialize innovative products, processes, and expansion into new markets	▪ products must replace imports (supported products are not currently manufactured in Manitoba ▪ any stage of the business lifecycle ▪ grant to cover 50% of eligible arms' length third-party expenses	▪ jointly delivered with the departments of Innovation, Energy and Mines; and Agriculture, Food and Rural Initiatives
LOAN Manitoba Industrial Opportunities Program	▪ expansion capital for existing businesses	▪ reserved for opportunities that create significant strategic economic benefit, (e.g., job creation, sector development) ▪ typically in excess of $500,000 on commercial terms, but flexible	▪ for companies whose investment would not be in Manitoba without government assistance ▪ managed by the Manitoba Development Corporation on behalf of the Province
TAX CREDIT Manitoba Manufacturing Investment Tax Credit	▪ 10% tax credit against Manitoba corporate income tax payable	▪ investment in the manufacturing sector resulting in efficiencies ▪ targets new and used manufacturing buildings and machinery and equipment	▪ administered by Canada Revenue Agency on behalf of the Government of Manitoba
TAX CREDIT Small Business Venture Capital Tax Credit	▪ assists small business corporations to issue new equity to primarily new investors	▪ non-refundable, 30% income tax credit for resident investors ▪ maximum annual investor credit is $135,000 ▪ maximum annual deductible against Manitoba income tax is $45,000 ▪ credits can be carried forward	▪ for enterprises that require larger amounts of capital than community ownership can provide

Incentive Tool	Objective	Project Criteria	Characteristics
TAX CREDIT Golden Opportunities Fund Inc.	▪ Fund invests in public/private companies, with capital raised from Manitoba residents	▪ residents who purchase shares 30% in tax credits (15% federal and 15% provincial) ▪ annual maximums in place ▪ 100% RRSP-eligible ▪ company with fewer than 500 employees and pays at least 25% of wages/salaries to employees	▪ evaluation based on stage of development; quality of management; market potential; profit potential of business and Fund
EQUITY & DEBT FINANCING Private Placement Capital Fund	▪ for-profit, privately managed partnerships of institutional investors	▪ small and medium-sized business ▪ $250,000 to $3 million ▪ financing commensurate with risk	▪ mature funds that are in divestiture mode and are no longer making investments
LOAN GUARANTEE Manitoba Film Loan Guarantee Program	▪ encourage continued growth of the film industry	▪ loan guarantee to a maximum of 20% for financing film projects	▪ coordinated by the Small Business Development Branch of Manitoba Jobs and Economy
TAX CREDIT Manitoba Film and Production Tax Credit	▪ encourage continued growth of the film industry	▪ refundable corporate income tax credit for qualifying producers of eligible Manitoba productions and co-productions ▪ 45%–65% tax credit based on eligible Manitoba labour expenses	▪ funded through the Manitoba Department of Culture, Heritage and Tourism
TAX CREDIT Community Enterprise Development Tax Credit Program	▪ provide community-based enterprises with access to equity capital	▪ encourages Manitobans to invest in enterprises in their communities by providing a tax incentive ▪ investors receive a 30% personal income tax credit (maximum $9,000)	▪ eligible enterprises receive a maximum of $1 million in repayable capital

Incentive Tool	Objective	Project Criteria	Characteristics
GRANT PROGRAM Original Equipment Manufacturer – Supplier Development Program	▪ catalyst to develop new technologies for transportation and agribusiness manufacturers	▪ collaborative projects – expects a team approach between manufacturers and suppliers, including universities and research organizations, where possible.	▪ indirect benefit is the expansion of supply chains ▪ offered by the Vehicle Technology Centre, a non-profit organization funded through the Canada-Manitoba Economic Partnership Agreement

Decision-Making Process

Applications for the Business Start Program are made directly to the lender, who evaluates the submission. To access the Commercialization Support for Business program, entrepreneurs must work through a Manitoba Government industry consultant. Applications for the Manitoba Industrial Opportunities Program are evaluated by the Department of Finance. The Manitoba Manufacturing Investment Tax Credit is administered through the Canada Revenue Agency on behalf of the province. The Manitoba Department of Jobs and Economy administers the Small Business Venture Capital Tax Credit program and the Manitoba Film Loan Guarantee Program. For the Golden Opportunities Fund, potential investments are evaluated on stage of development, size, quality of management, market potential, profit potential, and the opportunity for realization by the Fund of its investments. To access the Private Placement Capital Fund, applications are made to two funds: Canterbury Park Capital LP and the Centrestone Fund LP.

Outcomes and Performance Required

All government departments include performance measures in their annual reports to complement the financial results and provide Manitobans with meaningful and useful information about government activities and their impact. Where available, information on individual programs is given with the program descriptions.

2.4 Newfoundland and Labrador

Overview of Programs in Newfoundland and Labrador

The Newfoundland and Labrador Business Investment Corporation directs the management of the investment portfolio of the Department of Innovation, Business, and Rural Development (IBRD) and administers new investments being made through the Small and Medium Enterprise Fund and the Business and Market Development program. The corporation also administers the Fisheries Loan Guarantee Program in partnership with the Department of Finance, the Department of Fisheries and Aquaculture, and the Shellfish Aquaculture Working Capital Fund. It operates as a Crown agency reporting to the Minister of IBRD.

The mandate of IBRD is to lead:

- The creation and maintenance of a competitive economic environment that encourages and supports private sector business growth and long-term sustainable employment opportunities for the people of the province
- The diversification of the economy on a provincial and regional basis, with particular attention to rural areas
- The promotion and encouragement of increased trade and export of goods and services by provincial industries and businesses in the national and international marketplace
- The creation of a climate conducive to innovation in business through the facilitation of research and development, technology transfer, and technology commercialization within provincial industries and individual business enterprises
- The provision of business information, counselling and financial support programs and services to small and medium-sized enterprises—including private businesses, co-operatives, credit unions and community development corporations—to stimulate economic and employment development within the province
- The promotion of the value of an enterprise culture, encouraging economic self-reliance throughout the province
- The negotiation and administration of comprehensive federal/provincial economic development co-operation agreements and other forms of collaboration

Funding is available at the community level through the Regional Development Fund and the Community Capacity Building program. It is also available for specific industries—fishing and aquaculture in particular. SMEs are the focus of many of the programs that make funding available in the form of term loans and equity investments or as tax holidays.

FIGURE 5: SUMMARY OF INCENTIVE TOOLS OFFERED BY PROVINCE OF NEWFOUNDLAND AND LABRADOR

Incentive Tool	Objective	Project Criteria	Characteristics
LOAN & EQUITY Business Investment Fund, Business Investment Program	▪ support growth of small and medium-sized business	▪ fewer than 100 employees and less than $10 million in sales ▪ must operate in one of the province's strategic sectors ▪ repayable term loans to a maximum of $500,000 per year at base rate plus 3% ▪ equity in the form of redeemable preferred shares to a maximum of $500,000 per project; maximum aggregate of $1 million is available	▪ administered through IBRD
GRANT PROGRAM Business Investment Fund, Business Development Support Program	▪ increase productivity and improve competitiveness by improving operations, investing in people, focusing on trade	▪ fewer than 100 employees and less than $10 million in sales ▪ must operate in one of the province's strategic sectors ▪ funding for productivity improvements, knowledge development, market development, and/or professional technical advice ▪ 50% of eligible costs to a maximum $100,000 per year	▪ administered through IBRD
LOAN & EQUITY Small and Medium Enterprise Fund	▪ improve export potential	▪ must operate in one of the province's strategic sectors (e.g., manufacturing, IT, aquaculture, biotechnology, marine services, agrifood, tourism) ▪ term loan up to $500,000 per project at base rate plus 3%; applicant investment of up to 20%	▪ in 2012–13 this funding attracted $800,000 in additional funding from private and public business
GRANT PROGRAM Regional Development Fund and Community Capacity Building, Regional Development Program	▪ for development and implementation of initiatives for regional and sector development, diversification, innovation, and key emerging sectors	▪ applicants include industry associations, municipalities, public educational institutions, and other non-profit groups including co-operatives and economic development organizations ▪ for the development and implementation of economic initiatives with respect to regional and sector development, diversification, innovation, and key emerging sectors ▪ non-repayable contributions normally to a maximum of 50% of total eligible costs; client contributes minimum 10%	▪ four themes: infrastructure, capacity building, marketing, research

Incentive Tool	Objective	Project Criteria	Characteristics
GRANT PROGRAM Regional Development Fund and Community Capacity Building, Regional Development Program	▪ training support to non-profit organizations with a clear link to economic and business development	▪ applicants include industry associations, municipalities, public educational institutions, and other non-profit groups including co-operatives and economic development organizations ▪ non-repayable contribution normally to a maximum of $5,000 for regional organizations and $10,000 for provincial organizations per year	▪ four themes: strategy and planning, relationship building, organizational skills and management, co-operative development
TAX CREDIT Economic Diversification and Growth Enterprises	▪ job creation – create and maintain 10 new permanent jobs in the province	▪ 10-year tax holiday from provincial corporate income tax and payroll tax, followed by a five-year phase-in of those taxes ▪ offers the lease of unserviced Crown land for a nominal fee and a dedicated government facilitator to aid new or expanding businesses ▪ incentive will not give a direct competitive advantage over other existing businesses in the province	▪ can be offered by municipalities declaring themselves as EDGE participants
LOAN GUARANTEE Fisheries Loan Guarantee Program	▪ support the development of the independent fish harvesting industry	▪ government guarantee on loans offered by financial institutions ▪ guarantee can provide up to 100% of an outstanding loan	
LOAN Shellfish Aquaculture Working Capital Fund	▪ working capital loans to commercial mussel and other shellfish growers and processors	▪ established private business growing blue mussels/scallops and/or processing blue mussels in commercial volumes ▪ usually required to make a personal cash investment of at least 10% of total eligible project costs ▪ must maintain a minimum of 20% equity in the business	▪ fund is fully extended and discussions are ongoing with federal partners about its future

Incentive Tool	Objective	Project Criteria	Characteristics
LOAN & EQUITY Business Attraction Fund	▪ large-scale, strategic investments	▪ for business ventures and infrastructure meant to attract new business to the province	▪ in 2012–2013, four deals approved for $7,575,000 ▪ administered through IBRD

Decision-Making Process

IBRD is responsible for administering the various funds according to their individual criteria. The investment portfolio is overseen by the Business Investment Corporation, which is a Crown agency. In most cases applications are made to IBRD for approval at their discretion, assuming the applicant meets the fund criteria. To be applicable for the EDGE fund, EDGE status has to be obtained first.

Outcomes and Performance Required

IBRD produces three reports in each fiscal year detailing the outcomes and performance of the funds. These are Business Investment Corporation Annual Report; Economic Diversification and Growth Enterprises Annual Report; and the department's own annual report. In 2012–2103 each fund's results for the last fiscal year were given at the end of the appropriate project summary. This includes, where possible, the amount of the funding and the economic impact in terms of jobs created and retained.

2.5 Saskatchewan

Overview of Programs in Saskatchewan

Saskatchewan has recently eliminated financial support for the province's Regional Economic Development Authorities (REDA).

The Saskatchewan REDA program was founded in 1993 with the establishment of 28 regional economic development agencies. The primary objectives of the program were to create community economic development, defined as the "process which focuses on wealth creation, job creation, value-added activities, business development, and enhanced community viability." The stated benefits of a regional structure included greater emphasis on collective interests and partnerships instead of isolated community economic development activities.

In 2012 the province produced the Saskatchewan Plan for Growth, which has a number of objectives. Those that most closely align with economic development are:

- 1.2 million people living in Saskatchewan by 2020
- 60,000 more people working in Saskatchewan by 2020
- $2.5 billion invested in infrastructure over the next three years
- increase the cap on provincial immigrant nominees from 4,000 to 6,000
- lower the incorporated business tax rate from 12% to 10% by 2015
- double the value of Saskatchewan's exports by 2020
- increase crop production by 10 million tonnes by 2020

- increase exports of agricultural and food products from $10 billion in 2011 to $15 billion in 2020.

In response to the report, a number of adjustments were made to the organization of economic development in the province. Enterprise Saskatchewan, established in 2008 as the central economic development agency of the government, was moved into the portfolio of the newly created Ministry of Economy and ultimately dissolved. The benefits of the change were identified as creating more central management of economic services. The core lines of business of the Ministry of Economy include

- advancing and regulating responsible resource development
- developing, attracting, and retaining skilled workers
- enhancing economic growth and competitiveness in the province

As a result of these changes, the programs available in Saskatchewan have undergone significant adjustment in management within the last year. However, a number of the incentive programs that are managed through the Ministry of Finance and Agriculture have not changed as dramatically. The leading programs supporting economic development are described in Figure 6.

FIGURE 6: SUMMARY OF INCENTIVE TOOLS OFFERED BY PROVINCE OF SASKATCHEWAN

Incentive Tool	Objective	Project Criteria	Characteristics
LOAN **Small Business Loans Association Program**	▪ job creation by funding to entrepreneurs through local, community-run associations ▪ when loans are repaid, principal returns to government and the remainder retained by SBLA	▪ SBLAs access an interest-free revolving line of credit of up to $200,000 from the Government of Saskatchewan ▪ loans up to $20,000 to existing entrepreneurs and new businesses ▪ SBLA sets the terms of repayment, but no higher than 10% and five years ▪ ineligible businesses are in direct farming, mining and oil exploration, residential real estate, and multi-level marketing	▪ organizations eligible to become an SBLA include for-profit or not-for-profit organizations (e.g., community-based interest group, co-operative, corporation, or Rural Development Corporation) ▪ program review in 2012 led to a loan limit increase, commitment to increased marketing, and internal organizational improvements ▪ administered by Ministry of the Economy
TAX CREDIT - EQUITY Invest in Saskatchewan Program	▪ growth of small and medium-sized businesses with new focus on innovation	▪ Saskatchewan residents who invest in Labour-sponsored Venture Capital Corporations (LVCCs) receive a personal income tax credit of 20% (maximum $1,000 per year) ▪ funds reinvest in small and medium-sized businesses, providing a source of private sector capital for Saskatchewan businesses	▪ 2012 tax credits totalled over $18 million dollars ▪ reviewed in 2013 – being adjusted to focus on the innovation sector as defined in the Saskatchewan Plan for Growth (25% of all investments ▪ perhaps too successful in raising capital, as a new cap on aggregate capital raised by LVCCs was introduced ▪ administered by Ministry of the Economy
TAX CREDIT Manufacturing & Processing Investment Tax Credit	▪ encourage plant and equipment investments	▪ 5%–7% of capital cost of eligible new and used manufacturing and processing building, machinery and equipment purchased in the fiscal year; installation costs are eligible	▪ initially introduced as a non-refundable tax credit but was changed to a refundable tax credit in 2006 ▪ administered by Ministry of Finance

Incentive Tool	Objective	Project Criteria	Characteristics
TAX CREDIT Farm Fuel Program	■ support primary industry	■ farmers, commercial fishers, trappers and loggers can forgo 80% of taxes on gasoline	■ administered by Ministry of Finance
GRANT PROGRAM Agriculture Development Fund	■ support agriculture industry	■ up to 100% of expenses including professional/technical salaries and fees, equipment rentals, materials and supplies, travel, and workshop costs aimed at new crop development, new product development, optimizing animal production and processing, innovative and sustainable farming practices	■ administered by Ministry of Agriculture
LOAN & GRANT PROGRAM Creative Industry Growth and Sustainability Program	■ establish Creative Saskatchewan to serve the creative industries	■ Flexible Loan Program is a new program that aimed to increase entrepreneurship and commercial activity in craft, music and sound recording, publishing and visual arts. ■ microloans of less than $5,000 and larger small business loans of up to $25,000, at a fixed rate of 1% above prime ■ applicant must have 10% equity	■ in 2013 more than $190,000 was granted to screen-based media projects, and an additional $120,000 was granted to the Saskatchewan Media Production Industry Association ■ funding decisions are made by the members of the Arts Board ■ administered by Ministry of Parks, Culture and Sport
TAX CREDIT Film/TV and Digital Tax Credit	■ payroll rebate to create growth in the media sector	■ Film/TV and Digital Tax Credit provides tax credits of up to 25% of qualifying Saskatchewan labour and other non-labour expenditures. Eligible businesses must be registered in Saskatchewan.	■ in 2012 the payroll rebate was replaced by a new non-refundable tax credit program ■ administered by the Ministry of Finance

2.6 Summary of Themes and Trends

While emphasis may differ, Figure 7 shows that the four jurisdictions employ a similar suite of incentive tools. It is notable that Nova Scotia employs all types and that payroll rebates are the least common. Saskatchewan, which has recently had a formal review of its programs, has the simplest suite of tools.

FIGURE 7: USE OF INCENTIVE TOOLS IN NOVA SCOTIA, NEW BRUNSWICK, MANITOBA, NEWFOUNDLAND AND LABRADOR, AND SASKATCHEWAN

Incentive Type	Nova Scotia	New Brunswick	Manitoba	Newfoundland and Labrador	Saskatchewan
Grant Program (Business)	✓	✓	✓	✓	✓
Grant Program (Community)	✓	✓		✓	
Tax Credit	✓	✓	✓	✓	✓
Loan	✓	✓	✓	✓	✓
Loan Guarantee	✓	✓	✓	✓	
Venture Capital	✓	✓	✓	✓	
Equity	✓	✓	✓	✓	✓
Payroll Rebate	✓	✓			

Common themes and trends can be identified in the funding programs of the comparator provinces. As these provinces have population sizes similar to Nova Scotia, it is important to consider them as the Province evaluates its economic development funding initiatives.

- Centralized funding is the structure used by three of the four provinces. The exception is New Brunswick, which has recently moved in the opposite direction and decentralized its programming to a network of community economic development agencies. Saskatchewan has operated with a decentralized model in the past and, in general, the approach is reported to work well when it is in place. Three of the four provinces operate their programs through an external corporation but administer them through an internal department. However, Saskatchewan operates directly through two ministries: Economy and Agriculture.

- Financial programs are managed either by the provincial government through partnerships with other levels of government (e.g., the Canada Manitoba Economic Partnership Agreement) or directly with financial institutions.

- All provinces have funding to assist SMEs through a variety of programs, including grants, loans, loan guarantees, and equity programs. There is no single definition of an SME. In Newfoundland and Labrador, it is a company with fewer than 100 employees and less than

$10 million in sales; in Manitoba, it is a company with fewer than 50 employees and less than $15 million in gross revenue.

- In all four provinces individual funding programs are targeted towards specific sectors and areas of economic development. Each province determines which sectors are priorities and target their funding accordingly. These sectors have been identified by formal economic development strategies in two cases (Saskatchewan and New Brunswick) and cover a wide range (e.g., manufacturing, agriculture, information technology, digital media, creative industries, tourism, and fisheries and aquaculture). Economic development assistance includes support for commercialization, innovation, exporting, and rural areas.

- Larger, strategic funds have been developed by New Brunswick and Newfoundland and Labrador to attract business or investment. The New Brunswick funding is aimed at individual companies whereas the Newfoundland and Labrador funding is for strategic investment, including infrastructure to support the attraction of new business.

- Community funding is also a program focus, directed at either community organizations or individuals. In Newfoundland and Labrador, assistance for municipalities and organizations is offered through the Regional Development Fund; in Manitoba, a tax credit is offered to individuals who invest in their community. New Brunswick’s community program, on the other hand, focuses on two geographic regions.

- Generally performance is assessed in the department or organization’s annual report and principally focuses on the number of businesses supported and the impact on employment in terms of jobs created and retained. The results are available to the public to ensure accountability.

- There are no common themes in the application process. However, in New Brunswick three programs use the same streamlined application process. In Newfoundland and Labrador, the majority of programs are accessed through the Department of Innovation, Business, and Rural Development.

3 Comparator Review – Best Practices

Leading practices in the delivery of incentives in other jurisdictions are described in this section. These best practices outline effective measures that are within the range of incentive programs that Nova Scotia offers. Leading practices were assessed under the following headings:

- Decision-making processes
- Program ending
- Sector versus individual business support
- Support for SMEs
- Performance evaluation
- Transparency and accountability

Summarized at the end of this section are important themes and trends associated with development, provision, management, and evaluation/refinement of incentives for Nova Scotia to consider as it strives to meet the objectives of fiscal sustainability, program effectiveness, and transparency/accountability.

3.1 Grant Programs (Business and Community Oriented)

3.1.1 Various Grant Programs, Northern Development Initiative Trust, British Columbia

The Northern Development Initiative Trust (NDI) offers a suite of grant programs in addition to its loans and loan guarantees. NDI programming can be long-term or short-term, depending on regional needs and economic conditions. The funding objectives of the organization include community development and business development, with funding programs for both. The following programs are selected for their innovation and flexibility in meeting the challenges of emerging needs in specific regions within a province, and their ability to create sustainable economic development initiatives.

- The **Capital Investment and Training Rebate** was a short-term program, developed in response to recession conditions in 2008, that was designed to support small and medium-sized manufacturers in British Columbia. The program operated from 2008 to 2011 and leveraged $30 million in federal spending for the region in 2008. The program successfully responded to a specific private sector need for adjustment funding during a difficult economic period, and took advantage of an opportunity to access federal funds. The program had a workforce component as well as a capital component.
- **Community Foundation Matching Grants** are an innovative initiative wherein NDI provides up to $100,000 to an endowment within a registered community foundation. The funds must be matched and dedicated to providing grants to non-profit organizations for ongoing community and social enhancement. The program is designed to empower local decision-

making and encourage the development of local funding sources that can support community economic development in the long term.

- The **Business Façade Improvement** program is only available to municipalities and regional districts. Applicants must submit a set of business improvement/development guidelines along with their application that outlines the requirements for participating businesses to access the funds. Successful applicants receive a $20,000 grant, which must be matched by the municipality and associated private sector investment. Grants are delivered in maximum increments of $5,000 per participating business for façade improvement projects.

Why it is a Best Practice

- It offers bold public sector investment in an independent organization and in a "trust" structure.
- These are well-managed funds and the model has proved sustainable.
- NDI provides long-term local control of grant funds for specific regions.
- The program prioritizes community development as well as local business retention.

Decision-Making Process

The grant programs described were delivered through the Northern Development Initiative Trust, which is an independent, non-profit corporation created in 2004 by the Government of British Columbia through the Northern Development Initiative Trust Act. The intent of establishing NDI and its regional advisory committees is to ensure that decisions about northern B.C. are made by residents. A total of $185 million was provided by the province to found the trust; to date, NDI is responsible for $115 million in economic development projects in central and northern B.C. through its grant programs, loans, and loan guarantees. Even its operating expenses are covered from the interest of an operating endowment within the trust. NDI is committed to the long-term sustainability of the trust, and at the end of fiscal year 2012 its total capital equalled $197.5 million.

Grant program applications are reviewed and evaluated by NDI staff. NDI has also developed a proprietary grant program evaluation system called "Catalyst" to ease the administrative burden of processing grant and loan files.

Performance Evaluation

The performance of NDI and its programs are summarized in an annual report[20] that includes detailed financial statements, an evaluation of progress against the organization's goals, and an overview of actions taken in response to a recent audit by the Auditor General, as well as internal project audits.

NDI was audited by the Auditor General of British Columbia in 2011. This occurred with NDI's cooperation, as the organization is independent of government and under no requirement to allow the audit or follow its recommendations. The annual report evaluates the performance of the organization against reporting principles established by the Office of the Auditor General for the Province of British Columbia.

[20] Building a Stronger North: 2012 Annual Report, Northern Development Initiative Trust www.northerndevelopment.bc.ca/wp-content/uploads/2012/01/Northern_Development_2012_Annual_Report.pdf

NDI evaluates its performance using the following indicators:

- application intake
- funding approvals
- disbursements
- job creation

Job creation is the primary measure of NDI's performance in terms of community impact.

Transparency and Accountability

The importance of accountability and transparency are apparent in the NDI annual report, which highlights the steps taken to employ best practices in accountability. NDI now produces a quarterly stakeholder report that includes regional and community account balances, project approvals, program commitments by region, and other investment statistics.

3.1.2 Small Business Start-up Projects, Northern Ontario Heritage Fund Corporation, Ontario

The Northern Ontario Heritage Fund Corporation (NOHFC) is a Crown corporation and development agency of the Province of Ontario. The organization targets the northern areas of the province and provides region-specific funding for community economic development. NOHFC programs tend to be longstanding, although programs are often adjusted to reflect current priorities as needs arise. The Small Business Start-up Projects program will be in place until 2017.

The Small Business Start-up Projects program offers grants for new businesses operating in target sectors identified in the Growth Plan for Northern Ontario. The outcome of the program is supporting entrepreneurship and business development in the target region. The program's target sectors include

- advanced manufacturing
- agriculture, aquaculture and food processing
- arts, culture and creative industries
- digital economy
- forestry and value-added forestry-related industries
- health sciences
- minerals sector and mining supply and services
- renewable energy and services
- tourism
- transportation, aviation and aerospace
- water technologies and services

The Small Business Start-up Projects program provides up to $200,000 towards 50% of eligible expenses for qualifying businesses. Eligible expenses include leasehold improvements, new or used equipment, training costs incurred with third parties, as well as information and communications technology investments.

Applications are evaluated by NOHFC staff and ultimately approved by the Minister of Northern Development and Mines. An important element of eligibility for the program is that the applicant's business must prove that it will not compete directly with an existing northern Ontario business.

Although the organization does produce an annual report, the last one published and available online is the 2009–2010 annual report.

Why it is a Best Practice

- It provides non-repayable financial support for businesses in the struggling economy of northern Ontario.
- The program requires applications to prove no negative competitive impact on other businesses as part of funding requirements.
- It offers targeted funding to strategic sectors of the economy, yet is flexible to approve grants in exceptional circumstances.

3.1.3 Texas Enterprise Fund

The Texas Enterprise Fund (TEF) was created in 2003 to help attract new jobs and investment to the state. It currently is the largest "deal-closing" fund of its kind in the U.S. The TEF is primarily used to attract new business or assist with the substantial expansion of an existing business. Grants from the TEF are used to pay for land, building, equipment and machinery costs for a new or expanding business. The fund is only utilized as a financial incentive when a single Texas site is competing with another viable out-of-state option. Projects that are considered for the TEF must demonstrate a significant rate of return on the state's investment and have strong local support. In addition, projects considered for the TEF must meet the following criteria:

- Projects must create a significant new number of jobs – more than 75 jobs in urban areas and 25 in rural areas.
- New positions must be above the average wage of the county where the project would be located.
- Capital investment by the company must be significant.
- The project must have community involvement form the city, county, and/or school district in the form of local economic incentive offers.
- The applicant must be financially sound.
- The applicant's business sector must be an advanced industry that could potentially locate in another state or country.

The dollar amount awarded to approved projects is determined by a standardized analytical model that is applied uniformly to each application. The award amount depends on the number of jobs created, the expected time frame for hiring, and the average wages to be paid; however, awards have ranged from $200,000 to $50 million. Some of the companies that have been awarded the TEF include eBay, Dow Chemical, and Visa. In 2012 the TEF played a significant role in Apple's decision to expand its corporate campus in Austin, which was estimated to generate $304 million in capital investment and create more than 3,600 jobs. From its inception to the end of 2013, the TEF has awarded more than $500 million in grants, created about 70,000 jobs, and generated more than $23 billion in capital investment in Texas.

Why it is a Best Practice

- The fund has the potential to generate local community and business consensus and relationships, given the need for projects to have significant local support from a prospective Texas community. This supports public engagement objectives of economic development programs.

- Clawback provisions are utilized to ensure that job and wage targets as well as objectives of the state and local community are met through the project.

Decision-Making Process

The TEF is administered by the Economic Development and Tourism division of the Office of the Governor. Each application to the TEF undergoes an 11-step due diligence process that assesses several factors of the project and applicant. During this review process, corporate activity, financial standing, tax status, legal issues, credit ratings and the estimated economic impact of the project are all assessed in determining project funding. The final stage in the approval process requires that the Governor, Lieutenant Governor, and Speaker of the Texas House of Representatives unanimously support a project in order for an award to be granted.

Performance Evaluation

For the duration of the contract the grant recipient is required to submit an annual report that covers the status of the yearly job targets and other contracted commitments. The reports are maintained by the Office of the Governor's Compliance and Oversight Division (COD) and this division performs desk review or site visits on every annual report.

Program Ending

The TEF has created a number of conditions to claw back economic benefit provided. Once the grant is awarded, a contract is signed by the recipient and the state that guarantees job creation targets and maintains these positions at wage levels at or above the average county wage for the duration of the contract. In the event that these targets are not met, there is a provision for grant repayment through clawbacks.

Sector vs. Individual Business Support

In order to qualify for the TEF program, the applicant's business sector must be an advance industry. According to application guidelines some of the advance industries include the following:

- advanced technologies and manufacturing, including four sub-clusters: nanotechnology and materials; micro-electromechanical systems; semiconductor manufacturing; automotive manufacturing
- aerospace, aviation and defence
- biotechnology and life sciences, not including medical services
- information and computer technology, including three sub-clusters: communications equipment; computing equipment and semiconductors; information technology
- petroleum refining and chemical products
- energy, including three sub-clusters: oil and gas production; power generation and transmission; manufactured energy systems

Transparency and Accountability

The financial model that calculates the amount of money to be awarded ensures that Texas will see a full return on its investment within the period of the project contract due to the resulting increase in estimated sales tax revenue. In addition, once the grant has been awarded, a contract is signed by the recipient and the state that guarantees job-creation targets and wage levels at or above the average county wages for the duration of the contract.

Support for SMEs

The TEF does not have specific policies to target SMEs as the amount of funding awarded depends on the number of jobs created. The lowest amount awarded by the TEF was $200,000, which helped to create about 50 jobs.

3.1.4 Ontario: SMART Prosperity Now Funding

The SMART Prosperity Now program was created in 2009 and has been operating as a joint partnership between the Canadian Manufacturers & Exporters (CME) and the Federal Economic Development Agency for Southern Ontario (FedDev). The objective of the program is to support the implementation of projects that enhance productivity, and integrate new and innovative technologies to products and/or processes that support future growth and export opportunities. The SMART program provides funding for a variety of projects such as trade shows, new product development, and the purchase of new or upgraded equipment and technology; however, hardware and software costs are not eligible under this program. The program provides funding for up to 33% of eligible costs up to a maximum of $75,000, whichever is less. In 2013 the program received $18.9 million from FedDev to support up to 500 SMEs in southern Ontario.

In order to be eligible for SMART funding, businesses

- must be a manufacturer with between 15 and 1,000 full-time employees and located in Southern Ontario
- must be in business for two years
- must be a current exporter or have a detailed plan for export opportunities

Why it is a Best Practice

- The program supports the growth of high-value export-oriented businesses across the manufacturing sector.
- The program utilizes external expertise where required to assist with final review and ranking of applications.

Decision-Making Process

The program is administered by CME and funded by FedDev. Applicant businesses must submit project goals, an implementation strategy, a business plan, and performance metrics as well as a time frame, budget, financial statements, and export plan. Each application is reviewed by SMART staff for eligibility and then forwarded to two independent outside industry experts for final review and ranking. As the program receives many applications, only the highest ranked projects will receive funding. During evaluation projects are judged on several criteria:

- The project will enhance the market penetration of the current market or help penetrate a new export market.
- All project costs are clearly understood and are reasonable.
- The number of jobs the project will create or retain in Ontario.
- The project will increase or develop export sales.
- The project has a high probability of success.
- The project payback period
- The company is financially sound.
- The project has enough resources to complete the project on time.
- The project plan clearly describes the export opportunities and has reasonable metrics.

Performance Evaluation
Within 90 days of the date of completion of the grant, the business must submit a final report on the performance metrics identified in their project plan. Although the metrics chosen will differ by project, a key metric suggested by the SMART program is one that measures the increase in global sales directly related to the project.

Program Ending
The SMART Prosperity Now program runs until Mar. 31, 2014. Continuation of the program will require additional financial commitments from FedDev.

Sector vs. Individual Business Support
The SMART program solely supports manufacturing businesses that are exporters, are planning to export, or are selling into a value chain leading to exports.

Transparency and Accountability
During the application review process, industry experts are screened for conflicts of interest to ensure that proposals receive an impartial review. To avoid bias, final funding decisions are made by industry experts rather than by CME staff. Once funding has been granted SMART staff may undertake a random audit to evaluate the project's progress. Once a project has started, any changes made to the scope, costs, or date of completion must be approved by SMART.

Support for SMEs
The SMART program has been designed to support SMEs. One of the program requirements is that applicants must be a manufacturer located in Southern Ontario with 15–1,000 employees. Some prospective users have complained that the funding available ($75,000) is too little to have meaningful impact.

3.1.5 North Carolina: Community Development Block Grant

The Community Development Block Grant (CDBG) provides funding to local governments, excluding urban counties, throughout North Carolina for projects that can range from housing to economic development strategies. The grant program has an economic development component in which funds can be accessed by local government for infrastructure projects that will help businesses create or retain jobs. The infrastructure project must be publicly owned and maintained, and can include the construction of or improvement to water, sewer, streets, gas lines, rail, or municipal electrical utility systems.

The CDBG requires that the local government must match at least 25% of the project costs, which can come from private or public funds. In addition, 60% of the jobs created or retained by the project must be filled by persons who earn less than 80% of the median income in the county.

Funds available for this program are based on an annual federal allocation to North Carolina from the U.S. Department of Housing and Urban Development; however, it is estimated that as of 2013, $42 million is available annually for the next several years for all projects. In 2011 the CDBG for economic development was distributed to 13 different local governments, totalling $8.1 million and generating 635 jobs. Local government recipients were able to leverage $214.5 million of private investment. Grant and loan amounts are determined by the cost of the project and the availability of funding. The most economically distressed counties may apply for up to $1 million per project during the funding year, while the least distressed counties can receive a maximum of $750,000.

Why it is a Best Practice

- The program offers infrastructure financing to generate economic growth in more economically depressed areas of the state, in order to increase competitiveness with more robust areas of the state.
- Meaningful public engagement remains a critical component of the project development and application process, ensuring proposed projects have local community support.

Decision-Making Process

The program is administered by the Commerce Finance Division within the North Carolina Department of Commerce. The Finance Division is responsible for providing financial information and assistance to local government and business clients. If the local government wants to access CDBG program funding, it must submit an application that Finance Division staff will evaluate against predetermined selection criteria. A pre-application meeting between a representative from the local government and the Finance Division is a requirement.

Performance Evaluation

The local government must submit an annual performance report and audit at the end of each fiscal year. Within 90 days of the date of completion of the grant, the local government must submit all financial, performance, and other reports as required. In addition the Department of Commerce may conduct a site visit to evaluate the program, review program accomplishments and management control systems, and provide technical assistance if required.

Program Ending

Funding concludes when all costs to be paid with grant funds have been incurred (e.g., goods and services are received or contract work is performed).

Sector vs. Individual Business Support

Private businesses cannot apply directly for this funding; however they are encouraged to work collaboratively with the local government to receive a loan or grant. Businesses that meet state tax credit requirements can receive a maximum of $10,000 to $15,000 per job, while those that do not meet tax requirements can receive $4,000 to $10,000 per job.

Transparency and Accountability

The program ensures transparency and accountability of the program through a community engagement requirement. Local government must allow meaningful public involvement during the CDBG application process. If the state becomes aware of any failure to meet the public participation requirement, it may not evaluate the application. In addition, any program records that are public are to be made accessible to interested individuals and groups during normal working hours and maintained at all times at the local government's office. As part of the closeout process, the local municipality must arrange for an audit of its grant accounts and records.

Support for SMEs

The CDBG does not have specific policies to support SMEs; however, there is no minimum on the amount of funding that may be requested. Funding depends on the number of jobs created or retained.

3.2 Venture Capital

3.2.1 Florida Venture Capital Program

Created by the Florida Legislature in 2007, the Florida Opportunity Fund was initially developed as a fund of funds program that focused on investing in venture capital funds. In 2009 the Florida Legislature expanded the fund's mandate to include direct investment programs that invest in business and infrastructure projects, allowing for the development of the Florida Venture Capital Program (FVCP). The Florida Opportunity Fund is sponsored by Enterprise Florida (the state's principal economic development organization) and managed by Florida First Partners (a joint venture between Arsenal Venture Partners and the Credit Suisse Customized Fund Investment Group).

The FVCP targets equity investments and convertible debt instruments primarily ranging from $1 million to $3 million, with requirements for matching funds from private capital investors. The $43 million fund emphasizes investments in Florida's key target sectors, including aerospace and aviation, alternative and clean energy, financial and professional services, homeland security and defence, information technology, life sciences, and manufacturing. In addition to being located in Florida, candidate firms must also have a workforce of 500 employees or less, demonstrate acceptable leverage and co-investment opportunities, and demonstrate strategies for robust job creation.

Why it is a Best Practice

- The fund is sponsored by Enterprise Florida, but the disbursement of funds is primarily managed by a private joint venture of skilled investment managers to ensure political independence.
- The program has an established expiration date, offering certainty to program recipients and direction on annual financial planning for the Florida State Legislature to cover program commitments, as well as an opportunity to evaluate the effectiveness of the program over its five-year time frame.

Decision-Making Process

Funding is solicited through an investment proposal process. At a minimum, proposals must include

- company overview
- business plan
- financial model
- technology white paper(s)
- a list of corporate officers, directors and investors, with biographies
- a list of key members of the technical team, with biographies

The Florida Opportunity Fund is governed by a five-member board of directors, appointed by the board of directors of Enterprise Florida. The board is primarily composed of those with expertise in the selection and supervision of early-stage investment managers, or in the management of investment funds.

Investment proposals are evaluated by Florida First Partners and Enterprise Florida staff. The board is responsible for investment decisions.

Performance Evaluation
Investments are monitored on an ongoing basis by the board of directors. No specific program milestones are outlined.

Program Ending
The agreement between the Florida Department of Economic Opportunity and Enterprise Florida to administer the FVCP expires in March 2017, at which time all direct investment activity in the program is expected to be complete. Further continuation of the fund would require additional commitments from other levels of government, which have provided the majority of funding (e.g., the federal-level State Small Business Credit Initiative).

Sector vs. Individual Business Support
Enterprise Florida, the sponsor of the FVCP, is the lead economic development organization for Florida. Though no sector-based work is completed through the Florida Opportunities Fund or FVCP, the organization completes extensive sector-based work in support of the state economy in seven key existing and emerging sectors. Services include export development, investment attraction, business retention and expansion, and support for innovation.

Transparency and Accountability
Investment activity and financial performance of the FVCP are included in the annual financial statements and audit results prepared for Enterprise Florida. This requires public disclosure of the financial standing of the fund, the amounts of investments, and revenues and losses from those investments.

Support for SMEs
Funding through the FVCP is focused exclusively on businesses with 500 or fewer employees, ensuring that assistance is primarily directed at SMEs.

3.2.2 Maine Venture Capital Fund

The Maine Venture Fund (MVF)[21] was created by an act of the Maine Legislature in 1995. The fund has been actively investing in Maine companies since 1997. It has received $13 million in capital contributions from the state and operates as a revolving “evergreen” fund.

MVF considers small companies in all stages of the company lifecycle, including seed and early-stage companies, for investments typically ranging from $100,000 to $300,000 per company (with additional capital available up to an investment of $500,000). Companies must employ fewer than 50 people or have gross sales less than $5 million over the last 12 months to be eligible. MVF will provide a maximum of 50% of the capital required in any financing round, so the organization works with individual companies to identify and investigate alternative sources of capital from the public and private sector (e.g. small business grants, Maine Technology Institute, Maine Angels, regional angel groups, Coastal Ventures, or bank loans). Further, MVF can purchase a range of investment securities in each business, but investments typically take the form of preferred stock or convertible debt. Companies from all sectors are considered, but must demonstrate potential for high growth and significant public benefit for Maine. The State considers investment terms through MVF, a public fund, to be more patient than terms offered through private sector venture funds.

[21] Previously known as the Small Enterprise Growth Fund (SEGF)

Why it is a Best Practice

- The program provides funding to generate interest from other investors, but also works extensively with recipients to implement and develop the business and organizational structures and expertise needed to leverage that funding into additional investment from other organizations.
- As part of its mandate the MVF has an additional niche target of businesses with the potential to generate public benefit, offering support in cases where private sector investors may not be as patient.

Decision-Making Process

The MVF process is characteristic of many venture capital programs, with a typical time frame of about six months between initial contact and the disbursement of funds. The process generally includes

- initial contact and discussions: months 1 and 2
- presentation to MVF board of directors: month 3
- due diligence examination: months 3 and 4
- negotiation of terms: months 5 and 6
- disbursement of funds: month 6

During the application process both the applicant and MVF are directed to continue looking for alternative investors and sources of financing to match the MVF funds. Qualifying small businesses are required to provide evidence that they have obtained or will obtain matching funds in an amount at least equal to the board's investment prior to the disbursement of funds.

The board of directors administers the program, with the ability to delegate authority to deny applications to one or more subcommittees of the members of MVF. The board may also delegate the authority to recommend approval of applications, but the final decisions on funding approvals may only be given by the board of directors.

Performance Evaluation

All companies that receive funds must report to the board of directors annually (at a minimum), on each of the following factors:

- financial performance
- job creation
- technological processes
- market progress
- any other factors the board may require

Program Ending

No specific program length is identified for MVF. However, at the submission stage, companies must propose a viable plan for providing a return on the investments made by MVF and other public and private partners, as well as a clear and realistic exit strategy.

Sector vs. Individual Business Support

The fund primarily works with individual businesses. However, with a mandate to support industries of public benefit, some investments may have more general positive implications on the business environment. For example, one portfolio company has focused on expanding high-speed communications infrastructure across rural areas of Maine.

Transparency and Accountability
The MVF board of directors reports annually on all disbursements to the joint standing committee of the Maine Legislature with jurisdiction over business and economic development matters.

Support for SMEs
The program eligibility requirements restrict funding to small and medium-sized enterprises employing fewer than 50 people or generating $5 million or less in sales over the preceding year.

In addition to funding, MVF provides assistance to portfolio companies on:

- how the board of directors for a private company can play a central role in placing and keeping a company on the right strategic track
- key performance indicators and how to use performance measurement to understand, monitor, and improve business performance
- reporting to investors, board directors, or advisors, including templates for companies to use

3.3 Early-Stage Commercialization Investment

3.3.1 Ontario Centres of Excellence

The Ontario Centres of Excellence (OCE) were established in 1987 with seven independent centres that evolved and amalgamated into Ontario Centres of Excellence Inc. in 2004. The primary focus of OCE is to drive commercialization of cutting-edge research in Ontario's industry, universities, colleges, and research hospitals, in areas that will have the greatest economic benefit and social impact on communities across the province. OCE is funded by the Government of Ontario and is a key partner in delivering Ontario's Innovation Agenda. Early-stage commercialization investment is primarily delivered through two OCE programs:

- SmartStart, a partnership with Extreme Startups (Canada's premier early-stage technology accelerator) to deliver business advisory services, education, and seed funding to qualified start-ups and entrepreneurs. OCE provides up to $30,000 in seed funding, to match an initial $30,000 in seed funding from Extreme Startups, to approved student or recent graduate-led start-ups in the areas of digital media and information and communication technology (ICT) as well as other Science, Technology, Engineering, or Math (STEM) fields.
- Medical Sciences Proof-of-Principle (MSc PoP), a program that provides debt-free funding to early-stage opportunities to support commercialization in life sciences and medical technology. MSc PoP projects are valued at up to $50,000 for up to one year (requiring 25% matching or in-kind contributions from the applicant), and support activities related to technology/intellectual property assessment, market assessment, prototype design and development, proof of concept demonstration, and business and other plan (e.g., regulatory, reimbursement) development.

Why it is a Best Practice

- OCE maintains a partnership with a leading early-stage business incubation structure that offers sector-specific expertise to enhance the support provided by business advisors.

- OCE programs have a niche target of academic and research institutional spinoffs or new graduate ventures by maintaining close and ongoing connections with the province's academic and research institutions through the provincial OCE network.

Decision-Making Process

Applications to the SmartStart program are evaluated by a committee comprising senior-level OCE staff, staff from Extreme Startups, and representatives from the investment sector (e.g., BDC Venture Capital and other venture partners). The funding process is competitive, and includes a pitch session by potential recipients prior to the review panel convening.

Applications to the MSc PoP program are reviewed initially by an OCE business development manager to ensure eligibility in the program. Qualified applications are then reviewed by the responsible business development manager and an internal review panel of senior OCE staff, with advice from the regional director where required. In order to ensure the greatest potential for commercialization in approved projects, OCE may seek an external partner to assist with reviews if it does not have the necessary expertise. Applications that provide opportunities for customer and end-user engagement/ involvement are given priority.

Performance Evaluation

OCE evaluates performance of all of its programs on an annual basis. Program performance is aggregated into annual metrics:

- jobs (new and sustained)
- introductions between academia and industry
- active projects
- opportunities/challenges identified
- partnerships formed
- start-ups established
- new technology licenses
- follow-on investment
- attendees at events
- leverage ratio
- leveraged investment from industry and other partners

No specific performance evaluations are prescribed for the SmartStart program. However, participants are monitored on an ongoing basis as they access the business support, education, mentoring, and advisory services of the program.

While no specific program evaluations are prescribed for the MSc PoP program, applicants are required to provide project metrics and progress reports during the funding term.

Program Ending

Both SmartStart and MSc PoP target new companies emerging from academic or research institutions. In the case of SmartStart, applicants must be students or recent graduates at the master's or doctoral level. Though each award has an expected graduation, groups/individuals could apply again to the program with a new venture.

MSc PoP program funding is intended to cover activities for one year. Eligible start-ups are required to be in their first year of operation, suggesting that each venture can likely only apply for funding once.

Support for SMEs
Both OCE programs target very-early-stage businesses and entrepreneurs. However, as the entrepreneur/company moves beyond the initial stage, both programs offer connections to additional support—SmartStart to BDC, and MSc PoP to potential support through other OCE programs connected to industry and academia.

3.3.2 Missouri Technology Corporation

The Missouri Technology Corporation (MTC) is a public-private partnership created by the Missouri General Assembly to promote entrepreneurship and foster the growth of new and emerging high-tech companies. It is governed by a board of directors appointed by the State Governor, Speaker of the House, and President Pro Tem of the Senate, with the president of the University of Missouri System and the director of the Department of Economic Development as ex officio members.

Early-stage commercialization funding is provided through the Missouri IDEA (Innovation, Development, and Entrepreneurship Advancement) Fund, specifically through the Missouri TechLaunch program. The program is designed to help high-tech entrepreneurs overcome the principal challenges of launching new start-ups that leverage discoveries and talent at Missouri's public and private universities and research institutions. The pre-seed funding to a matched maximum of $100,000 is intended to support intellectual property development and evaluation, including in-depth analysis of market potential, competitive analysis, proof of concept discovery, and prototype design and development. Funding is in the form of equity or convertible debt.

Why it is a Best Practice

- MTC offers a suite of incentives ranging from early-stage to mature business assistance programs through the Missouri IDEA fund.
- In addition to funding assistance, MTC administers programs that work to increase the research capacity of Missouri's academic and research institutions, building the pipeline of potential early-stage funding recipients and research spinoffs.
- MTC clearly outlines all aspects of its programs on its website. This includes the processes associated with decision-making and performance evaluation as well as policies regarding the termination of relationships or clawback of funding.

Decision-Making Process
MTC's goal is to make strategic investments to promote entrepreneurship and foster innovation. Each program employs a highly competitive, application-based decision-making process comprising nine steps:

1. Applicant review of program guidelines and investment review process
2. Submission of the application
3. Preliminary application assessment, where all applications submitted prior to the program deadline are reviewed by MTC staff for completeness and conformity with program requirements
4. Comparative scoring and due diligence, where all qualifying applications are thoroughly reviewed and assessed using a standard (and publicly available) scorecard by three members of MTC and/or the Missouri Department of Economic Development, with any appropriate due diligence completed as well. A composite score is calculated based on the

scorecards of the individual reviewers, with top-scoring submissions forwarded on (the number of which varies by funding period).

5. MTC Investment Review Committee, where top-scoring submissions are presented to (by the applicant) and reviewed by the MTC Investment Committee (a committee chartered by the MTC board of directors). The committee then makes a recommendation to approve funding as submitted, approve funding subject to modifications of the submission or additional due diligence, or deny funding.
6. MTC Board of Directors Review, where each of the proposals considered by the MTC Investment Committee and the associated recommendations will be considered at a meeting of the MTC board of directors, to determine how to proceed. Options include approval, approval with modifications, or denial. Under urgent and competitive circumstances, the MTC board reserves the right to directly consider any proposal if the board determines that doing so is in the best interest of the State.
7. Legal documentation and other actions, where the MTC Executive Committee (with authority delegated from the board of directors) completes legal documentation and other actions necessary for each approved and conditionally approved project.
8. Compliance and monitoring, where MTC staff closely monitor all of MTC's investments to ensure compliance with legal terms and conditions set forth in agreements.
9. Post-award reporting, where MTC staff assist the MTC Investment Committee in tracking outcomes and aggregating impacts of MTC's investments over a 10-year period.

Performance Evaluation

Applicants are required to provide MTC an annual report in a predetermined format, which sets forth the applicant's intended use of the funding during each year in which it is used. As part of the report, the applicant is required to provide year-end financial statements. The intent of the evaluation is to ensure that funding provided by the MTC used in the manner originally outlined in the application.

For 10 years, beginning on the date the funding is provided, the applicant is required to provide a written report to MTC outlining use of funding under the program to measure its economic impact. Metrics for which information is collected include but are not limited to:

- full-time Missouri jobs created
- total wages of full-time Missouri jobs created
- patents applied for
- patents granted
- market capitalization

Applicants also must provide quarterly unaudited financial statements for the first three quarters of each year that funding is used, as well as additional financial statements, reports, or other information relating to the applicant's financial condition, business, prospects, or corporate affairs and access. There are requirements to notify MTC of board and shareholder meetings and allow MTC staff to attend and participate in those meetings.

Program Ending

MTC has created a number of conditions to claw back economic development incentives provided, especially in cases where applicants relocate their headquarters or a significant portion of the jobs created by the project outside of Missouri. In this event the applicant must provide clear indications of the interest MTC has in the business, with MTC having several options available to dissolve its interest in the company (e.g., requiring the applicant to buy back all subject securities).

MTC continues to hold an interest in the business until either party modifies the agreement. There are no predetermined program lengths.

Sector vs. Individual Business Support

MTC serves as the administrator for several research programs that work to increase the research capacity of Missouri's universities and research institutes. The Research Alliance of Missouri (RAM) in particular has a broad focus on supporting research at the state's institutions to improve quality of life for citizens or improve conditions for businesses. The RAM is composed of the chief research officers of major universities across the state and has a broad interest in facilitating technology transfer from newly created knowledge into commercialized products in a range of sectors, as well as supporting workforce development initiatives.

Transparency and Accountability

There is a clear step-by-step outline of the decision-making process on the MTC website. Statutes, bylaws, board and committee members and charters, minutes of meetings, annual reports, and conflict of interest policies are also publicly available online. Annual reports outline the current financial position of the corporation, as well as the economic impacts produced by its investment activities.

Support for SMEs

Beyond the TechLaunch fund that targets pre-commercialization activities, MTC offers financing at the seed capital stage, venture capital stage, and expansion stage through the IDEA Fund program. The High-Tech Industrial Expansion Program targets more mature SMEs that drive high capital investment and high-paying jobs in Missouri's biotech and high-tech clusters.

3.4 Loans and Loan Guarantees

3.4.1 Wisconsin's Technology Development Loans

Designed to facilitate businesses associated with technology development in various stages, Wisconsin's Economic Development Corporation[22] (WEDC) offers three classes of loans with distinct funding levels: product/process development (as much as $250,000); product launch/commercialization ($500,000); and growth/expansion ($750,000). Funding is offered as a form of leverage to attract investment in subsequent rounds of financing, and consequently is designed to push enterprises toward self-sufficiency rather than depend on government aid.

Why it is a Best Practice

- The program dovetails with Nova Scotia's promotion of high technology through the defence and aeronautics sector.
- It is unique in that few jurisdictions have specific loans and loan guarantee programs for high technology industries, except in "green" technologies, which require different applications.

[22] WEDC, Technology Development Loans, inwisconsin.com/inside-wedc/transparency/programs/technology-development-loans.

Decision-Making Process

The vetting process for loan applicants is rigorous and multi-stage:

- An application is filed with a Technology Investment Manager, who oversees the file.
- The application is reviewed by a technical underwriter and goes through the Underwriter Review Group (URG).
- Pending approval by the URG, application goes to a Management Review Committee, who has final say in the approval.

Decisions are made according to the following set of factors:

- experience of the management team
- financial need of the applicant
- percentage of funds that will be spent in the state
- barriers to entry into the market
- innovation or novel products or processes
- fairness of competition
- market potential
- economic impact to the state

Performance Evaluation

Each approved applicant is responsible for providing an annual report that meets WEDC specifications for content and time frame, including the following minimum requirements:

- Company's investment activities for the previous calendar year must be noted.
- Employment and wage information must be updated.
- Company updates and progress reports must be provided.
- Financial details and current capitalization table must be provided.
- A checklist supporting the company's continued eligibility for the program must be filled in.

Projects are reviewed against a list of deliverables outlined in the initial contract. Those exceeding $100,000 need to provide verified financial statements, which relate to transparency and accountability deliverables.

Program Ending

All terms are 5–7 years with the exception of the growth/expansion option, which allows for a deferral period of 12 months and up to an additional 12 months of interest-only payments. The repayment plan is based on a fixed interest rate regardless of the category of loan.

Sector vs. Individual Support

While Nova Scotia's Aerospace and Defence Loan Program is linked to a specific sector, Wisconsin's program more broadly relates to technological innovation and development. Improvement in employment is a primary indicator of success and factors heavily into performance evaluation.

Transparency and Accountability

Following an audit by Wisconsin's Joint Legislative Audit Committee in 2013,[23] several revisions were made to WEDC's Technology Development Loans program to increase transparency and accountability of both the department and loan recipients. Changes include updating the process

[23] Wisconsin Joint Legislative Audit Committee, "Wisconsin Economic Development Corporation Compliance Plan," October 1, 2013, Madison, WI.

for developing, reviewing, and approving guidelines, and improving the documentation process for matching statutory regulations and policy requirements for all of WEDC's loan programs. WEDC also demands financial statements from all loan recipients receiving amounts of $100,000 or greater.

Support for SMEs
WEDC's Technology Development Loans are not restricted to a particular size of business and can be accessed by any enterprise meeting the minimum criteria. WEDC also has programs designed to facilitate small business that are not sector-specific and could be used for projects relating to technology and innovation. For example, the Greater Wisconsin Fund provides loans from $35,000 to $1 million for new and expanding businesses. Between the Technology Development Fund and other funding, SMEs have a variety of options to consider when deciding on the ideal program for their needs.

3.4.2 Saskatchewan Small Business Loans

Saskatchewan's Small Business Loans Association[24] (SBLA) mirrors NSBI's business loans program and is available to enterprises that have had difficulty getting funds from banks or credit unions. The loans are for new ventures or expansions and are limited to businesses not associated with agriculture, exploration (e.g. mining), real estate or multi-level marketing. Similar to the NSBI program, businesses can use SBLA loans or loan guarantees to purchase assets, for construction or renovation, or for start-up inventory. The largest difference between the programs is that SBLA only issues loans of $20,000 or less. Its main purpose is to promote a diversified local and community-level economies.

Why it is a Best Practice

- Focusing on very small business but broadly applicable in many sectors and to rural enterprises, Saskatchewan's modest program is very popular.

Decision-Making Process
The application process is relatively simple for this program, which is understandable given the maximum value of loans is $20,000. The SBLA reviews all applications, which include a completed application form, a business plan, and several legal and security prerequisites. There is also an administration fee.

Program Ending
Loan terms are 2–5 years with a maximum 10% interest per year.

Sector vs. Individual Support
The small sum of funding available to any applicant is tailored to the demands of individually support for small businesses. The program places a value on the contribution that an individual can make to the economy through entrepreneurship. Spinoffs include retail and hotel and accommodation sectors, but consultants and technical trade-related industries may also be associated with SBLA loans.

Support for SMEs
This program is exclusively for small enterprises and loan amounts are not very large; however, the intent is to promote new business growth in Saskatchewan and to stimulate local economic growth.

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[24] Small Business Loan Association, Small Business Association Program – SLBA Loan Requirements, economy.gov.sk.ca/SBLArequirements, 2013.

3.4.3 New Jersey Loans and Loan Guarantees

The State of New Jersey's small business loans programs gives priority to several specific sectors and groups including women and minority-owned businesses, technology and life sciences, manufacturing, logistics, financial services, arts, culture and tourism, and retail. The programs are administered through New Jersey's Economic Development Authority[25] (EDA). There are four different loan classifications: operating expenses; purchases or renovation of buildings; machinery or equipment to accommodate business growth or expansion; and businesses looking to grow in a specific urban municipality (up to $2 million for any urban area other than those on a specific list, which are eligible for more). Rather than have a variety of named loan programs, loans and loan guarantee options are defined by a combination of the amount required and the classification. Revenue for loans is derived from taxable bonds. Loans are available for businesses as well as registered not-for-profits.

Why it is a Best Practice

- Funding is not available unless minimum requirements for consultation with a business development advisor are achieved.
- Job creation is a clearly stated goal and requirement of success.

Decision-Making Process

As a starting point the EDA assigns Business Development Officers to each applicant to advise on the preparation and filing of loan applications. The application cannot be fully completed unless the applicant has consulted at least once with an advisor. The approval process follows:

- Loan applicants engage with a business development officer to review and prepare for application.
- The application is submitted through a preferred lender (i.e., a bank or credit union in good standing).
- The bank approaches the EDA for approval, with a decision rendered within three business days.

While project approval criteria are determined to an extent on a case-by-case basis (e.g., specific application questions suited to the type of business project), the EDA uses the following minimum criteria:

- The business must have met with a Business Development Assistance Officer.
- The business must be located in New Jersey.
- The loan or guarantee must apply to fixed assets, debt refinancing, or working capital.
- The business must be in good standing with the EDA as well as other state and federal agencies.
- The business, its owners, and guarantors must have no criminal history.
- The business must have a minimum credit score of 680 and have a 1.1 X debt service coverage ratio.

The EDA requires that businesses demonstrate how at least one full-time job will be created for every $50,000 of guaranteed loans. This special criterion for loan guarantees ensures that funding is used primarily in ways that create economic spinoffs through job creation.

[25] New Jersey Economic Development Authority, Financing & Incentives – Small-Mid Sized Businesses, n/d.

Performance Evaluation
Evaluation of loan repayment is contingent on whether the loan is fixed-rate or variable. The former is indexed according to national authorities, such as the five-year U.S. Treasury rating or the Wall Street Journal prime rate. The latter is evaluated on a number of indicators, including the applicant's credit score and public policy criteria, such as the number of jobs created. The two approaches mean that interest rates, and therefore the terms of repayment, vary according to the type of rate the applicant has chosen. Nonetheless, for variable loans, criteria appear more closely tied to performance—when performance is not as effective, interest rates are harsher.

Program Ending
Programs end when the loans have been repaid. Repayment terms are 5–15 years and businesses can reapply for further funding at the end of a term. Loan guarantees, however, must be repaid within a five-year term. Once repayment is complete, the applicant is considered to have completed the program.

Support for SMEs
While New Jersey has some bond-derived loans ranging from $500,000 to $10 million for the manufacturing sector, its most publicly applauded programs have been those for SMEs. The classifications, depending on the specific project, determine the amount of available funding and range from a maximum of $750,000 in one category to $3 million in another. The needs of the applicant largely determine how much funding is ideal and from where the funding should come, making the tool rather flexible. The requirement that all loan applicants consult a Business Development Officer ensures that SMEs are adequately prepared to undertake the responsibility of incurring debt. This support is especially important to newer businesses that may not be familiar with the demands and responsibilities associated with getting a business off the ground.

3.5 Equity Investments

3.5.1 Maryland Small Business Development Financing Authority

The Maryland Small Business Development Financing Authority (MSBDFA) promotes the viability and expansion of all small businesses in the state. This includes those owned by economically and socially disadvantaged entrepreneurs as well as small businesses that do not meet the established credit criteria of financial institutions and are unable to obtain adequate business financing on reasonable terms. MSBDFA provides financing in a range of forms, including loan guarantees, equipment loans, equity investments, interest rate subsidies, and surety bonding.

The MSBDFA Equity Participation Investment Program (EPIP) provides direct loans, equity investments, and loan guarantees to technology-based businesses, as well as to support the acquisition of an existing profitable business. Equity investments may take the form of the purchase of qualified securities, certificate of interest, interest in a limited partnership, and other debt or equity investments. Investments in technology-based businesses are limited to $2 million, while funding to support the acquisition of a business is limited to 49% of the initial investment (to a maximum of $2 million), with the applicant required to make an equity investment of 5% of total project costs.

Why it is a Best Practice

- The MSBDFA programs target gap areas of small business support that are not typically served by private sector or other government investors.
- Funding and assistance programs not only provide the financing needed to support business growth, but also are designed to build the capacity of the small business to achieve greater fiscal sustainability through ongoing management consulting activities.

Decision-Making Process
The Maryland Department of Business and Economic Development has engaged Meridian Management Group (MMG) to manage the EPIP on the department's behalf. Meridian is a privately-owned firm that invests funds through the MSBDFA (among other funds) and strategic management consulting services. MSBDFA activity is governed by a nine-member board of directors that offers guidance to Meridian in the implementation of the program.

The MSBDF program strives to preserve its capital base by minimizing loan losses. However, the risk profile of the client population served by MSBDFA programs makes them less attractive to commercial banks and commercial surety companies. Despite oversight in the program intake process, the fund is still exposed to risk.

Performance Evaluation
The annual fiscal status report developed by the Maryland Department of Business and Economic Development for MSBDFA provides annual performance metrics for the investment program. One of the key metrics is the number of jobs that have been retained through equity participation program activities.

Program Ending
All equity investments made on the part of the MSBDFA in client businesses must be disposed of by the end of the seventh year. Prior to any agreements being entered into, a general agreement regarding the most probable method of exit must be determined. In the most common exit plan the owner buys back its interest in a predetermined pricing formula between the fourth and seventh year. In all cases, the recovery amount is the greater of its percentage of the current value of the business or the initial investment made.

Sector vs. Individual Business Support
The EPIP is focused strictly on individual business owners.

Transparency and Accountability
The annual fiscal status report developed by the Maryland Department of Business and Economic Development for MSBDFA provides transparency for the organization's activities. On an annual basis, the report outlines the performance of the EPIP since inception, the program performance for the fiscal year (including graduations and problem loan status), and the projected performance for the following fiscal year.

Support for SMEs
The EPIP targets support at small to medium-sized technology-based enterprises, specifically those that may not be eligible for financing through traditional funding channels, or those owned by economically or socially disadvantaged citizens. The program strives to help businesses achieve long-term objectives of growth and profitability by structuring financing programs to build equity and expand market share of new businesses or new technologies. Through financing and assistance, the graduation process typically takes three years.

3.6 Payroll Rebates

3.6.1 Missouri Works Program

The Missouri Department of Economic Development announced the Missouri Works Program in August 2013 with the mandate to streamline and improve the economic development incentives in the state and to encourage investment and job creation. This program replaced several previous incentive programs, including the Quality Jobs Program, and enabled consistent definitions, procedures and reporting. The program features are outlined in Figure 8.[26]

FIGURE 8: ELEMENTS OF THE MISSOURI WORKS PROGRAM

Program	Minimum New Jobs	Minimum New Private Capital Investment	Minimum Average Wage	Automatic Benefit
Zone Works (Enhanced Enterprise Zone)	2	$100,000	80% of county average wage	Retention of withholding taxes, 5 or 6 years
Rural Works	2	$100,000	90% of county average wage	Retention of withholding taxes, 5 or 6 years
Statewide Works	10	N/A	90% of county average wage	Retention of withholding taxes, 5 or 6 years
Mega Works 120	100	N/A	120% of county average wage	6% of new payroll, 5 or 6 years
Mega Works 140	100	N/A	140% of county average wage	7% of new payroll, 5 or 6 years

<u>Why it is a Best Practice</u>

- The program is an example of an initiative that was recently overhauled after an extensive review of previous economic incentive programs, which included payroll rebates (under Quality Jobs Program) and other incentives.
- The new incentive program has streamlined several different economic incentives into a comprehensive strategy that aims to eliminate redundancies.
- Missouri has very clear definitions of the benefits, processes, and reporting procedures for the program.

<u>Selection and Decision-Making Process</u>

The program includes five categories with different benefits based on location and number of new jobs created (Figure 8). The company may be for-profit or non-profit. Headquarters and research and development facilities of an otherwise-excluded business may also qualify.

There are stringent criteria on what the company is allowed to do prior to the application. For example, the company cannot have already performed significant, project-specific site work; purchased equipment related to the project; or publicly announced its intention to make new

[26] Missouri Works Program Guidelines, October 2013, Missouri Department of Economic Development, ded.mo.gov/upload/MOWorksGuidelines.pdf

capital investment at the project facility. The company also cannot receive benefits from other related incentive programs and should have a strong history of creditworthiness.

Sector- and Area-Specific Development

Some sectors are not eligible, including health care, ethanol/biodiesel producers, and food and drinking establishments.

There is a separate category for companies based in rural counties or in designated Enhanced Enterprise Zones (EEZs) where there are low average incomes and high levels of unemployment.

Benefits are calculated taking into account average salaries in the local county, levels of economic distress in the area, and the local incentives available to the company.

Benefits

The State of Missouri has the flexibility and discretion to provide the rebate in the form of refundable tax credits and/or to allow companies to divert the appropriate fraction of their remittance of employee withholding taxes to the companies' bank accounts. Kansas is another example; it sets rebates solely as a percentage of the withholding taxes, thus eliminating the need for clawbacks.

Benefits include both automatic and discretionary components. Automatic benefits are based on the wages of the new jobs in comparison with state and county wages, the classification of the company, and the total payroll increase. Discretionary benefits are calculated on several factors, including the projected net fiscal benefit to the state, level of economic distress in the area, competitiveness of alternative locations for project facility, and creditworthiness of the qualified company. They are also made available to existing companies to promote retention of business within the state. This has been particularly successful for Missouri, and is significant because of the competition it faces from adjoining states.

There is a cap of $6 million for retained withholdings in job retention projects, but none for job creation projects. The tax credits available are capped at $106 million in 2014, $111 million in 2015 and $116 million in 2016.

Benefit agreements are executed between the company and the Department of Economic Development. These agreements specify commitments such as number of new jobs, new payroll, new capital investments, and required reporting. They also contain clawback provisions for events such as relocation or dropping below the minimum job threshold. The purpose of the clawbacks is to encourage realistic estimates.

There are also penalties for failing to comply with reporting requirements. The penalty is 2% of the value of the credits for each month of delinquency after six months past the deadline, and 10% per month after one year past the deadline.

Transparency and Accountability

All legislated tax credit programs are subject to a review every five years. The review includes a State Auditor's report.

In 2004 the Missouri State Legislature passed the Tax Credit Accountability Act, which requires that the Missouri Department of Economic Development prepare an annual report of all the economic incentives administered in the previous calendar year. The report includes summaries of the incentives by category of incentive, type of industry, and size of industry. For example, the

2013 Tax Credit Accountability Report[27] states that $129 million of $181 million in incentives went to businesses with fewer than 100 employees.

The state also hosts the Missouri Accountability Portal, which has reports as well as raw data[28] in the form of accessible text files that can be used for analysis. Currently the data does not include much information on the impact of the incentive programs.

3.7 Tax Credits

3.7.1 Equity Tax Credits

In many Canadian provinces, personal income tax credits successfully provide an incentive for citizens to invest in businesses, expanding the capital available to support business growth and success. Examples include the Manitoba Small Business Venture Capital Tax Credit, Newfoundland Direct Equity Tax Credit Program, the Invest in Saskatchewan program, the Small Business Investor Tax Credit in New Brunswick, and a share purchase tax credit in Prince Edward Island (P.E.I.). The Saskatchewan program has been so successful in raising capital that the maximum amount that can be earned each year has recently been limited.

Innovation PEI

P.E.I. offers a suite of tax credits to increase innovation in the province's businesses. The tax credits target specific sectors such as aerospace and bioscience, offering long-term exemptions from corporate taxes. The sectors are selected based on a desire to increase the number and size of businesses in the province as well as to maintain and increase employment.

- Bioscience Tax Holiday – tax holiday providing rebates of up to 10 years of provincial corporate income taxes
- Aerospace Tax Holiday – 20-year tax rebate on all provincial corporate income taxes.

The extended timelines of the tax holiday programs are intended to create stability and improve the power of the incentive to attract and retain substantial projects. However, this may also make the rebate difficult to terminate.

- Specialized Labour Tax Credit – workers with specialized expertise or skills receive a 17% decrease in personal income taxes paid to support recruitment for one year.

In addition, P.E.I. uses tax credits to attract talent. The Specialized Labour Tax Credit is designed to provide firms with a business in P.E.I. with a competitive advantage in attracting talent. The timeline of the incentive is well defined.

Why it is a Best Practice

- The program targets specific sectors and identifies economic development priorities.
- It illustrates the danger of long-term tax holidays that are difficult to terminate.
- P.E.I. has been creative in that it allows labour tax credits to support recruitment.

[27] ded.mo.gov/upload/1099Reporting2013.pdf

[28] mapyourtaxes.mo.gov/MAP/Download/Default.aspx

3.7.2 Colorado Enterprise Zone Tax Credits

The State of Colorado has created Enterprise Zones (EZ) in distressed areas of the state, along with an aggressive suite of tax credit programs that businesses can access when locating and maintaining a business in an enterprise zone. A similar program offered in the United States is Start-up New York, which offers no taxes for a period of 10 years.

The goal of the EZ program is to attract and retain businesses in specific areas that are experiencing economic hardship. It is only accessible after evidence of economic benefits is provided.

Businesses must achieve pre-certification before incurring expenses and prove their economic impact before qualifying for a credit. The maximum amount that a business can claim in one year is $750,000. The programs available to qualifying businesses include:

- Investment Tax Credit: 3% of equipment purchases
- Job Training Credit: 12% of qualified training expenses
- Vacant Building Rehabilitation Credit: 25% of rehabilitation expenditures
- Jobs Credit: $1,100 per new job
- Agricultural Processing Jobs Credit: $1,000 per new agricultural processing job
- Research & Development Credit: 3% of increased R&D expenditures
- Health Insurance Credit: $1,000 per insured job for first two years in EZ
- Commercial Vehicle Investment Tax Credit: 1.5% of commercial vehicle purchases
- Manufacturing/Mining Sales & Use Tax Exemption: Expanded S&U tax exemption in EZ
- Contribution Tax Credit: Income tax credit for donation to an approved Enterprise Zone Contribution Project.

There is a population limit of 115,000 people in urban enterprise zones and of 150,000 people in rural enterprise zones. There are additional credits available for the rural class of enterprise zones.

Why it is a Best Practice

- EZ target incentives are based on geography, to distribute economic development gains into distressed areas where they are most needed.
- Value is placed on retaining employment in distressed areas.
- The program highlights the importance of transparency in that it is evaluated on a regular basis while detailing a broad set of goals and links program outcomes to these goals.
- The initiative has a wide diversity of credits available to businesses.

Decision-Making Process

Eligibility for the program is determined by the economic impact of the associated investment in the enterprise zone. The performance evaluation makes it clear that the EZ program is designed to encourage business development in specific locations, and not necessarily to create new employment.

Performance Evaluation

The return on investment created by enterprise zone tax incentives is calculated in an annual report available on the program website. One measure of return on investment in 2011 is presented as $126.4 million in tax revenue, associated with $43.8 million in tax credits. This figure includes $62.3 million in state sales and use tax, $16.9 million in average tax collections per new employee, $27.6 million for school districts, $13.9 million for counties, and $5.7 million for cities. The goal of the program is to attract and retain tax revenues and other economic benefits in distressed areas. Where employment is a measure of program performance, the cost per job in 2011 was $500.

The metrics associated with each tax credit program are worth noting for their breadth; the tax credits are associated with many aspects of economic development. The local economic effects that are recognized by the program are described[29] in the program guidelines:

- Purchase equipment – the tax revenue that is paid on qualifying investments typically far exceeds the amount of credits for the entire program (Investment Tax Credit)
- Perform job training – this develops a skilled workforce in the distressed area and if the business leaves, the skilled workforce is typically retained as an asset to the local economy (Job Training Credit)
- Rehabilitate an old, vacant building – this removes blight and replaces a building that is 20 years old and has been vacant for 2 years, with a building that can house jobs (Vacant Building Rehabilitation Credit)
- Create a job – in addition to improving the quality of life for the population, new employees pay taxes to the state and local governments (Jobs Credit, Agricultural Processing Jobs Credit)
- Perform research and development – creating new products and services that are purchased by customers outside of the local economy brings new money into the economy (R&D Credit)
- Create a job with benefits – quality job creation that provides benefits receives an additional incentive (Health Insurance Credit)
- License and register their commercial vehicles in state – this brings additional revenue to the state (Commercial Vehicle Investment Tax Credit)

Enterprise zone boundaries are evaluated at least every five years to ensure that the area still meets the requirements of a distressed economy. The program was reviewed and tightened by a task force in 2012 to ensure that the program outcomes were well defined.

3.8 Common Themes and Trends in Best Practices

The best practices highlighted in this section outline effective programs in a range of common areas of focus for economic development incentives. The experiences of each jurisdiction or organization offer Nova Scotia a number of considerations for the development, provision, management, and evaluation/refinement of incentives that meet ongoing objectives of fiscal sustainability, program effectiveness, and transparency/accountability.

These leading practices identify the following themes and trends that should be considered in the evaluation of existing and new economic development incentives in Nova Scotia.

- Decision-making processes should be outlined to ensure that potential applicants have a clear understanding of the steps required to receive the incentive, and the information should be publicly posted on the organization's website. This includes identification of the individual/group with authority to approve the application, and direction on the interactions required with the decision-making group/organization (e.g., presentations). Advanced

[29] Program Intent, Enterprise Zones www.advancecolorado.com/funding-incentives/incentives/enterprise-zone-tax-credits/data-intent

systems offer an online tool so the applicants can track, in real time, where their application is in the process.

- Some concerns about grant programs include government interference with competitive forces in the private sector and the sustainability of grant funding when no long-term funding may be available. The case studies analyzed here deal with these issues in a straightforward way. Both cases relate to economically challenged northern regions of Ontario and British Columbia. British Columbia's Northern Development Initiative Trust (NDI) addresses sustainability using a trust fund model that is independent from the provincial government, with strong internal management processes. The Northern Ontario Heritage Fund Trust (NOHFC) is technically an independent organization, which offers entrepreneurship grants (forgivable loans) to businesses that are not competing directly within the local area, or that operate where enough market exists.
- Economic development incentives should minimize competition in their application. There are two primary considerations:
    - Ensure public assistance does not interfere with assistance from the private sector (and instead enhances it or covers an underserviced area).
    - Ensure incentive recipients do not directly compete with others in the local area.
- Indirect incentives can be disbursed through partner organizations and other levels of government to achieve broader economic or sector-based growth based on business and community agreement. Indirect incentives support things like infrastructure investment to generate business growth (with the support of business and local governments), and workforce development and training.
- Comprehensive evaluation steps at the early stages of the program can improve potential for fiscal sustainability by matching funding to established need, strongest market potential, or stable business performance. Even where grants, loans, or investments are relatively small (such as at the pre-seed stage), most leading programs have a comprehensive evaluation and due diligence process in place to ensure each disbursement supports the fiscal sustainability of the recipient and the program (such as through the potential return on investment of an equity investment). In most cases, the final decision is made by a committee comprising skilled investment managers and stakeholders from both public and private sectors; often this is the Board of Directors of an administering organization.
- Incentive programs should employ a targeted (e.g., by sector or size of company) approach to the disbursement of funds, with the flexibility to respond to opportunities slightly outside of those targeted areas when appropriate. Where more general and discretionary funding programs and incentives exist, they are often administered by arms' length or private sector managers to remove political interests from the decision-making process.
- At the time of disbursement, incentives should have an established program "sunset" timeline or a clear outline of how relationships will be managed and terminated. Though the length of that timeline varies among the assessed programs, most incentives are focused on a short- to medium-term (1–5 years) in order to balance financial commitments with the length of time that may be needed to generate economic benefits. The exception is loan programs, of which a number have the potential for longer repayment terms with capped interest rates or deferral options. A number of the incentive programs have also outlined the duration of the entire program based on existing funding commitments. Not only does this offer certainty to

applicants about the sustainability of the program; it also lets the administering organization plan for program funding and disbursement on an annual basis, and defines a term over which the program can be evaluated (without committing to longer term investments beyond that date).

- Incentives should require evaluation on a regular basis through the duration of the program, or at the conclusion of the program, to assist with overall economic impact assessment and program accountability. Annual reports, including detailed financial and audit statements, are commonly requested for all types of incentives in the leading programs. In addition to financial information, many organizations require the recipient to report on jobs created, jobs maintained, wages disbursed, or economic activity generated (e.g., patents, investment). Most leading organizations use this information to highlight the economic impacts of their programs in their own annual reporting activities. Monitoring and evaluating performance on an ongoing basis also creates the framework for clawback policies in incentive programs where program milestones and objectives are not being met.
- Public accountability and transparency can be established through regular reporting to government agencies and departments that administer the program. Common report elements include the financial performance of the incentive/fund (including disbursements and returns) and impacts of the incentive (e.g., jobs, investment) on the broader economy.
- Incentives targeted at either very-early-stage companies or SMEs up to 500 employees offer strong potential to support economic development growth, given the established potential of SMEs as drivers of employment and economic growth.
- In most leading incentive programs the focus on SMEs is established as an eligibility criterion. Incentives focus on a number of objectives that range from pre-seed challenges (prototype design, intellectual property development, market assessment) to challenges associated with the movement from small to medium-sized business (strategic acquisitions, machinery and equipment acquisition, facility expansion/improvement).
- Strong programs aimed at SMEs require a minimum number of consultations with business development advisors. In Manitoba, it is required that all applicants attend a three-day business workshop prior to being awarded the financial support.

4 Use of Incentive Tools in Nova Scotia

In order to provide insight into the demand and use of the incentive tools that are utilized by Jobs Fund, NSBI, and Innovacorp, each agency was requested to report on the clients served in the five-year period from Jan. 1, 2009 to Dec. 31, 2013. A summary of the data from these programs follows.

In many cases, program partners were able to provide information on the total funds authorized for disbursement as well as the funds actually disbursed. Despite anecdotal evidence suggesting that many companies were accessing multiple programs, the self-reported data does not support this claim.

4.1 Nova Scotia Business Inc.

The NSBI Business Finance Unit assists clients in obtaining financing needed to grow its businesses. Its services are organized under a three-pillar service model (Figure 9).

FIGURE 9: NSBI BUSINESS FINANCING GROUP'S BUSINESS ASSISTANCE TOOLS

Loans	Incentives	Connect to Capital
Loans and guarantees provided directly by NSBI	Domestic payroll rebates (Nova Scotia resident companies planning a significant expansion)	Facilitating access to capital through the Business Financing Referral Network

NSBI provides financing directly to clients through the Nova Scotia Business Fund. This fund is administered by NSBI as provided in the Nova Scotia Business Incorporated Act and the Nova Scotia Business Incorporated Financial Assistance Regulations.

Venture capital assistance, in terms of clients and funds disbursed, represents the smallest incentive tool portfolio at NSBI. Figure 10 outlines these investments. There were 12 active clients in the five-year period receiving a total of $38,806,108. While job creation is not a required outcome for NSBI venture capital investments, NSBI's venture capital tool reportedly led to the creation of 374 jobs in Nova Scotia.

The average disbursement size was $3,233,842 but individual disbursements ranged from $250,000 to $11 million.

Most venture capital disbursements were made to companies based in Halifax. No venture capital funds were disbursed in the Annapolis or Southern regions during the study period. However, it is sometimes difficult to specifically allocate employment benefits. In at least one case, a Halifax-identified company had substantial operations in North Shore region.

FIGURE 10: NSBI VENTURE CAPITAL DISBURSEMENTS BY ECONOMIC REGION

Region	No. of Clients	Funds Distributed	Average Funds Distributed/Company	Jobs Created	Funds Distributed/Job
Cape Breton	3	$10,500,000	$3,500,000	86	$122,093
Halifax	8	$17,306,108	$2,163,263	100	$173,061
North Shore	1	$11,000,000	$11,000,000	188	$58,511

Payroll rebates are the primary incentive tool related to investment attraction, which had 61 active clients (those that received funds) in the five-year period ending Dec. 31, 2013. There was a total of $155 million authorized for disbursement and $19 million dispersed in the period, creating and retaining an estimated 3,684 jobs (Figure 11).

Funds authorized and disbursed focused largely on Halifax. While Halifax accounts for just over 43% of the province's population and 49% of the province's employment, businesses in the region received

- 79% of payroll rebate deals
- 86% of the authorized disbursements
- 81% of jobs created through payroll rebates

While it might be argued that deals signed late in the evaluation period have not had time to be disbursed due to the fact that payroll rebates are not paid until after jobs are created, just over half of the disbursements (33) were for deals authorized before the deal period. Approximately 35% of funds authorized for these deals were expended in the study period. For the remaining active deals only 15% of authorized funds were expended during the deal period.

FIGURE 11: NSBI INVESTMENT ATTRACTION DISBURSEMENTS BY ECONOMIC REGION

Region	No. of Clients	Funds Authorized	Funds Distributed	Percentage Funds Distributed	Average Funds Distributed/Client	Jobs Created	Funds Distributed/Job
Annapolis	2	$1,266,130	$579,369	45.8%	$289,685	97	$5,972.88
Cape Breton	5	$8,806,037	$2,346,192	26.6%	$469,238	414	$5,667.13
Halifax	52	$127,599,020	$30,133,755	23.6%	$579,495	2965	$10,163.16
North Shore	5	$7,600,082	$1,594,110	21.0%	$318,822	128	$12,453.98
Southern	2	$2,317,350	$247,157	10.7%	$123,579	78	$3,168.68

The Business Finance Unit within NSBI works with companies through the use of payroll rebates, retention rebates, loans, and loan guarantees. Retention rebates are no longer programmed at NSBI, and the use of payroll rebates by this unit is now very limited. The business financing unit disbursed $40 million to 56 clients over the five-year period, resulting in 3,152 new or retained jobs.[30]

There was greater geographic balance in the delivery of these tools. Halifax businesses received 52% of disbursed funds while retaining/attracting 36% of jobs. The North Shore was also a significant recipient, receiving 27% of disbursed funds while retaining/attracting 28% of jobs.

[30] Jobs data was not available for nine companies.

FIGURE 12: NSBI BUSINESS FINANCING DISBURSEMENTS BY ECONOMIC REGION

Region	No. of Clients	Funds Authorized	Funds Distributed	Percentage Funds Distributed	Average Funds Distributed	Jobs Retained or New	Funds Distributed/ Job
Annapolis	6	$3,532,500	$1,430,900	40.5%	$238,483	427	$3,351
Cape Breton	10	$4,466,049	$3,728,105	83.5%	$372,810	304	$12,264
Halifax	17	$24,026,386	$21,082,849	87.7%	$1,240,168	1133	$18,608
North Shore	14	$12,560,540	$10,989,709	87.5%	$784,979	889	$12,362
Southern	8	$3,738,503	$3,114,737	83.3%	$389,342	339	$9,188
Multiple	1	$175,000	$140,000	80.0%	$140,000	60	$2,333

Loans comprised the greatest portion of the Business Financing unit's portfolio (37 of the 56 deals). Clients received on average $1.1 million for each loan accessed. The loans generated 1,775 new or retained jobs and the average fund distribution for each job was $21,541. It is important to note that this amount is not the cost of each job, as the intention is that the loan will be paid back, except in cases of write-offs and bankruptcy. In addition, these loans accumulate interest, which is positive for the province's income statement.

FIGURE 13: NSBI BUSINESS FINANCING DISBURSEMENTS BY TOOL

Region	No. of Clients	Funds Authorized	Funds Distributed	Percentage Funds Distributed	Average Funds Distributed	Jobs Retained or New	Funds Distributed/ Job
Guarantees	2	$1,050,000	$0	0.0%	$0	116	$0.00
Loans	36	$40,723,581	$38,234,535	93.9%	$1,062,070	1,775	$21,540.58
Payroll Rebate	18	$6,725,397	$2,251,765	33.5%	$125,098	1,261	$1,785.70

4.2 Jobs Fund

Data received from the Jobs Fund does not allow correlation with authorized disbursements due to the fact that the data submitted covered different time periods. In addition, the Jobs Fund did not collect data on job creation for part of this period.[31] The Jobs Fund provided a total of $479.6 million over 72 disbursements to 70 clients during the five-year period ending Dec. 31, 2013.[32] Total funds disbursed by the Jobs Fund exceeded those disbursed by NSBI and Innovacorp combined. The average disbursement was $6.7 million while the median disbursement was $1.5 million. This indicates there were a few very large disbursements that skew the average (e.g., New Page Port Hawkesbury, Northern Timber, Bowater).

Jobs Fund disbursements were evenly distributed across Nova Scotia, with greatest disbursements in the North Shore and Southern economic regions, followed closely by Cape Breton. Annapolis received the least amount of funding. The average size of disbursement was highest in Cape Breton (Figure 14).

FIGURE 14: JOBS FUND DISBURSEMENTS BY ECONOMIC REGION

Region	Number of Disbursements	Funds Distributed	Average Funds Distributed/Client
Annapolis	9	$17,034,546	$1,892,727
Cape Breton	11	$109,965,628	$9,996,875
Halifax	17	$82,117,720	$4,830,454
North Shore	15	$141,023,667	$9,401,578
Southern	20	$131,657,404	$6,582,870
Total	**72**	**$481,798,966**	

Loans comprised the largest portion of disbursements from the Jobs Fund. Averaging more than $6.5 million, there were 46 loans for a total of $300 million. Grants made up most of the balance of disbursements.

FIGURE 15: JOBS FUND DISBURSEMENTS BY TOOL

Economic Development Tool	Number of Disbursements	Funds Distributed	Average Funds Distributed
Grant	19	$166,532,543	$8,764,871
Loan	48	$307,339,586	$6,402,908
Royalty	2	$1,600,000	$800,000
Loan Guarantee	1	$2,214,673	$2,214,673
Combined	3	$3,937,022	$1,312,341
Undisclosed	1	$175,142	$175,142
Total	**74**	**$481,798,966**	

[31] In response to Auditor General recommendations in 2010 and 2011, the Jobs Fund is now collecting this data.
[32] One loan guarantee was also provided to a Halifax-based company but because it was not paid out it is not considered as an actual disbursement.

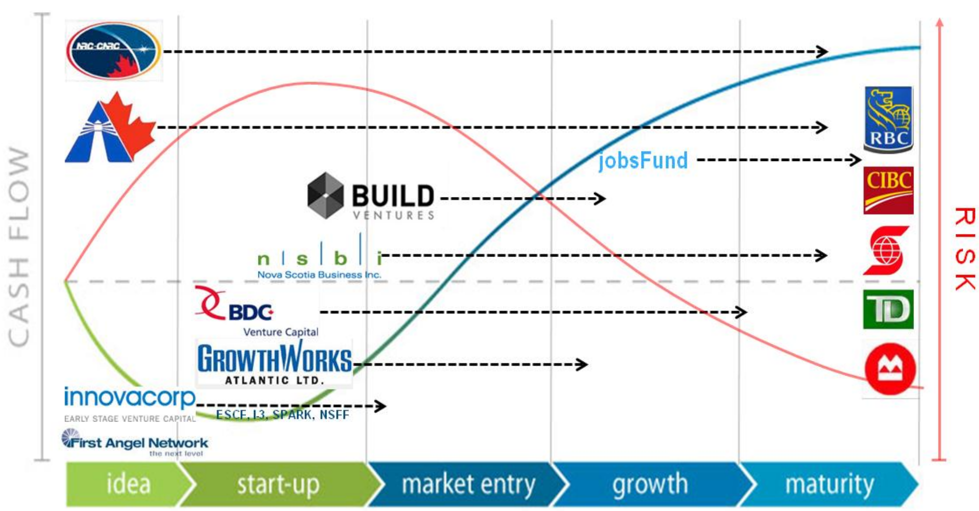
4.3 Innovacorp

Not all of Innovacorp's venture capital investments and other support (e.g., incubation, hands-on business guidance, assistance for academic researchers with commercialization potential, start-up competitions) target companies at the pre-commercialization stage. While still early-stage, their portfolio companies are sometimes already in market and generating revenue.

4.3.1 Venture Capital

Increasing business diversification in Nova Scotia is not one of the organization's expressed purposes. Innovacorp wants to seed and support technology start-ups—and get a return on its investment. Innovacorp's view of their position in the marketplace is shown in Figure 16.

FIGURE 16: INNOVACORP'S POSITION IN THE MARKETPLACE



Source: Innovacorp (2014)

Venture capital (VC) investments are directed to companies that have moved past the commercialization phase and are growing to establish market share with a new technology. These funds are focused on Halifax (67% of total funding), although six clients based outside the province with operations in Nova Scotia received 28% of funding. There were a total of 39 clients receiving an average of $486,630, resulting in total disbursements of $19 million during the period.

FIGURE 17: INNOVACORP'S VENTURE CAPITAL DISBURSEMENTS BY ECONOMIC REGION

Region	Number of Clients	Funds Disbursed	Average Funds Disbursed
Cape Breton	3	$700,000	$233,333
Halifax	28	$12,645,502	$451,625
North Shore	2	$350,000	$175,000
Outside Nova Scotia	6	$5,283,098	$880,516
Total	**39**	**$18,978,600**	

Venture capital funding is disbursed as Seed Funding (offered to early-stage, high-potential, growth companies), Series A (offered after the Seed Funding round as growth funding), and Other VC. These are designed to be delivered in stages as the company grows and requires additional capital.

During the study period, most clients received Series A funding; however, average disbursements for Seed Funding and Other VC were larger. Overall, approximately half (51.6%) of funds were disbursed as Series A funding. At this point is not possible to measure the success rates of these firms. It will be necessary to track clients over time to determine success rates. That being said, an inherent risk associated with venture capital funding is that it is expected a large portion of firms will fail.

FIGURE 18: INNOVACORP VC DISBURSEMENTS BY TOOL

Incentive Tool	Number of Clients	Funds Disbursed	Average Funds Disbursed/Client
Seed Funding	26	$7,126,396	$274,092
Series A	5	$5,500,000	$1,100,000
Other	8	$6,352,204	$794,025
Total	**39**	**$18,978,600**	

4.3.2 Early Stage Commercialization Fund

The Early Stage Commercialization Fund (ESCF) is not part of Innovacorp's venture capital fund. ESCF is a program that targets academic research projects with market potential. The ESCF awards are in the form of non-repayable "grants" (i.e., an equity position is not taken). The goal is to encourage commercialization and entrepreneurial activity at universities and colleges. Innovacorp also views the program as building the pipeline for future NSFF investments.

A total of 77 clients received funds through ESCF in the five-year period ending Dec. 31, 2013. Average disbursement was $33,616. Due to the nature of the target market (primarily university researchers), funds were focused on Halifax with 58 clients receiving 85% of the total funding. As Nova Scotia's main research institution, researchers at Dalhousie have received 50 of the 77 disbursements.

FIGURE 19: INNOVACORP ESCF DISBURSEMENTS BY ECONOMIC REGION

Region	Number of Clients	Funds Disbursed	Average Funds Disbursed
Annapolis	6	$146,025	$24,338
Cape Breton	3	$60,281	$20,094
Halifax	58	$2,209,694	$38,098
North Shore	9	$152,500	$16,944
Southern	1	$20,000	$20,000
Total	**77**	**$2,588,500**	

4.3.3 I-3 Technology Start-Up Competition

The purpose of Innovacorp's I-3 Technology Start-Up Competition is to find and support high-potential early-stage Nova Scotia knowledge-based companies, and encourage entrepreneurial activity across the province.

Innovacorp ran a pilot I-3 competition in Cape Breton in 2006, and subsequently held provincial competitions in 2007–2008, 2009–2010, and 2011–2012. Over the years the competition has received 414 start-up company submissions. The latest I-3 competition covered all of Nova Scotia and began in September 2013 with an end date of February 2014. Figure 20 reflects funds distributed between 2009 and 2012.

FIGURE 20: INNOVACORP'S I-3 DISBURSEMENTS BY ECONOMIC REGION

Region	Number of Clients	Funds Disbursed	Average Funds Disbursed
Annapolis	1	$25,000	$25,000
Cape Breton	4	$150,000	$37,500
Halifax	4	$150,000	$37,500
North Shore	4	$150,000	$37,500
Southern	7	$265,000	$37,857
Total	**20**	**$740,000**	

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4.4 Lessons Learned on Use of Incentive Tools

- It takes some time to expend authorized funds. Jobs are not created quickly. Assistance tools need sufficient time to establish credibility with their target audience and be disbursed appropriately. Then recipient businesses need time to achieve employment growth.

- Payroll rebate is the only incentive tool that has job creation as a requirement for funding in Nova Scotia.

- There may be many reasons other than job creation to provide incentives, but there should always be performance measures and appropriate tracking.

- There is a disproportionate focus on Halifax for most of the economic development tools assessed. In some cases, such as the Early Stage Commercialization Fund that focuses on research in universities, this is entirely appropriate. However, it should be investigated how economic development support could be disbursed with greater geographic coverage without detracting from the support for Halifax-based businesses.

- Data provided for the Jobs Fund was limited, although the data improved after 2010 when tracking was initiated at the recommendation of the Auditor General. The situation emphasizes the need for performance benchmarks and suitable tracking to ensure accountability.

- Anecdotal evidence suggests that some clients have been receiving funding over time from different agencies. The data provided for this study does not raise this as a concern but that might be due to the limited term (five years) of the assessment period. It is recommended that all agencies disbursing funds use a single client relationship management software system for uniform client assessment, more seamless transition between agencies, and more effective service delivery.

5 Program Review and Performance Metrics

5.1 Survey Analysis

Millier Dickinson Blais contracted Forum Research to conduct telephone interviews with clients of NSBI, Innovacorp, and Jobs Fund. Contact information was provided by the partner agencies. All names provided were contacted by Forum Research, and 70 interviews were completed, representing a 33% response rate. This exceeded the anticipated 20% response rate.

The purpose of the survey was to understand

- who accesses the economic development tools (geography and size of clients)
- how the funds received by clients were utilized
- how effective the economic development tools were in assisting Nova Scotia in achieving its economic development objectives

The following section presents the results of this survey, in aggregate form to ensure confidentiality of the individual respondents. While the limited number of responses presents challenges in cross-tabulating by geography, incentive tool, and size of firm, where possible these details are provided.

Questions relating to the size of businesses do not equate to Nova Scotia's definition of small business. From the questions it is not possible to know if any of the businesses responding had more than 100 employees.

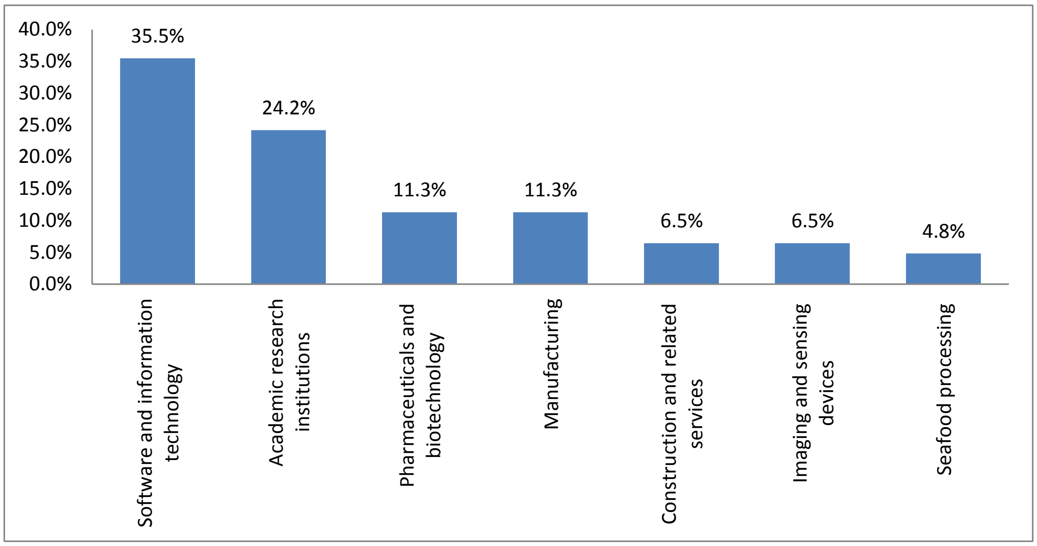
For NSBI, privacy and confidentiality policies required that clients be contacted in advance of the survey to provide consent. As a result not all clients were contacted. It is important to note that this is not a representative survey.

5.1.1 PART A: Profile of Survey Participants

Q1. Please provide a brief description of your business

The greatest number of responses were received from Innovacorp clients (Question 7 and Figure 24). This resulted in many of the businesses surveyed being from the emerging technologies sector. The businesses responding to the survey belong to the following industries:

FIGURE 21: DESCRIPTION OF YOUR BUSINESS

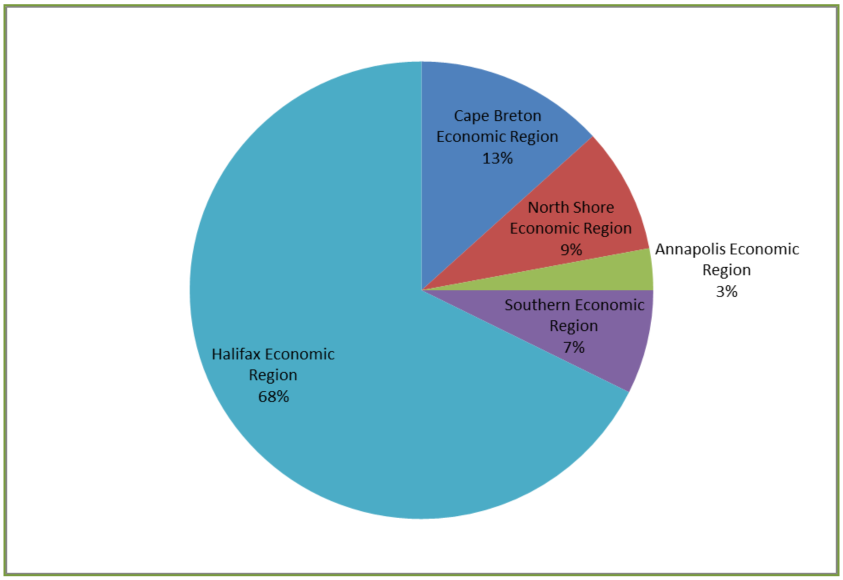


Q2. Where is the base of your operations in Nova Scotia?

While the majority of responses were from Halifax, interviews were also conducted with head offices of businesses across the province.

- Cape Breton Economic Region – 9
- North Shore Economic Region – 6
- Annapolis Economic Region – 2
- Southern Economic Region – 5
- Halifax Economic Region – 46

FIGURE 22: LOCATION OF BASE OF OPERATIONS



Q3. Are you a Nova Scotia-based business or is your head office located outside Nova Scotia?

Most businesses contacted were based in Nova Scotia with 64 respondents (91.4%) indicating their headquarters were in the province.

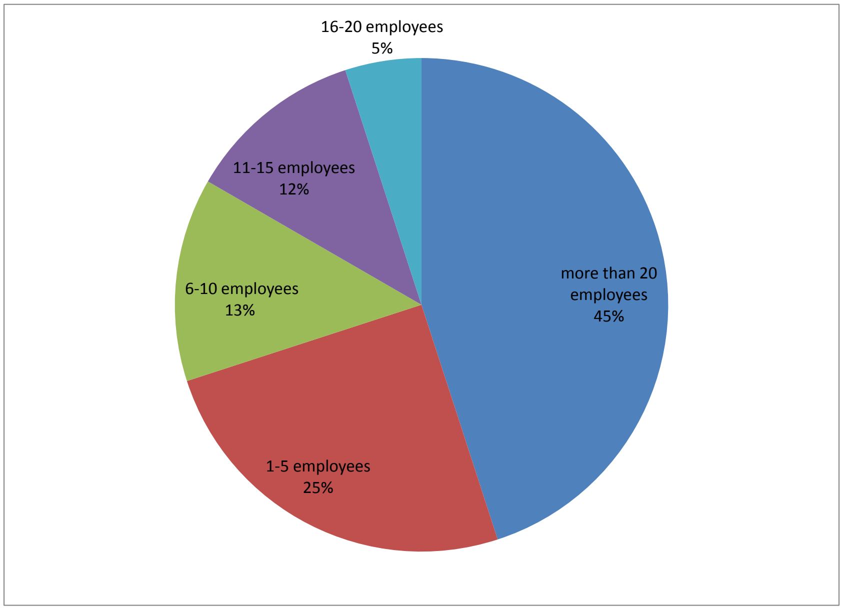
Q4. If your head office is located outside Nova Scotia, where is your head office located?

Six companies indicated their headquarters were outside of Nova Scotia. Virtually all had headquarters elsewhere in Canada, including in Newfoundland, Prince Edward Island, and Ontario. One business was based in the United States, in New York.

Q5. How many full-time or equivalent employees does your business have in Nova Scotia?

It appears that all businesses surveyed were small businesses with fewer than 100 employees. The majority employed fewer than 20 people.

FIGURE 23: NUMBER OF EMPLOYEES OF RESPONDENTS



- 27 respondents had more than 20 employees
- 15 respondents had 1–5 employees
- 8 respondents had 6–10 employees
- 7 respondents had 11–15 employees
- 3 respondents had 16–20 employees

Ten businesses did not respond to the question. All businesses interviewed with more than 20 employees were located in Halifax Regional Municipality.

5.1.2 PART B: Profile and Impact of Tools Accessed

Q7. Since 2009, please identify the organizations that you have used

Figure 24 breaks down organizations by geographic region and company size. Some companies have multiple locations, resulting in totals greater than the total number of survey respondents.

FIGURE 24: CHARACTERISTICS OF SURVEY RESPONDENTS

Characteristic	NSBI	Jobs Fund[33]	Innovacorp
Number of Respondents	32	15	55
Percentage from Halifax	47%	40%	64%
Number of Employees[34]	1–10: 6 11–20: 9 20+: 15	1–10: 2 11–20: 1 20+: 7	1–10: 19 11–20: 5 20+: 9

Innovacorp client businesses are centred in Halifax and tend to be smaller in size. For those contacted in the survey, the Jobs Fund program had the greatest geographical distribution of responses. This supports anecdotal evidence that the Jobs Fund has a client base largely outside of Halifax. While the survey is not considered to be a statistical representation of the client base of the three organizations' clients, it should be noted that the Annapolis Valley Economic Region garnered the least number of total responses.

Given the nature of the programs, it is not surprising that Innovacorp had the highest number of responses with 1–10 employees. While NSBI had the most responses from companies with more than 20 employees, this group comprises a larger percentage of responses for the Jobs Fund. Overall, NSBI had the most even distribution by number of employees.

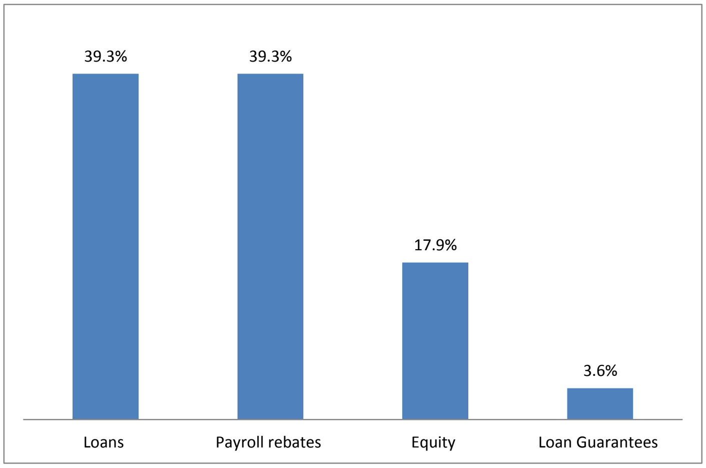
[33] Inconsistencies in responses across questions resulted in a mismatch between the number of businesses stating they had received assistance from the Jobs Fund and the size of those businesses.

[34] Not all respondents provided an answer to this question.

Q7A to Q7C. Since 2009, please identify the organizations and their respective tools that you have used.

NSBI

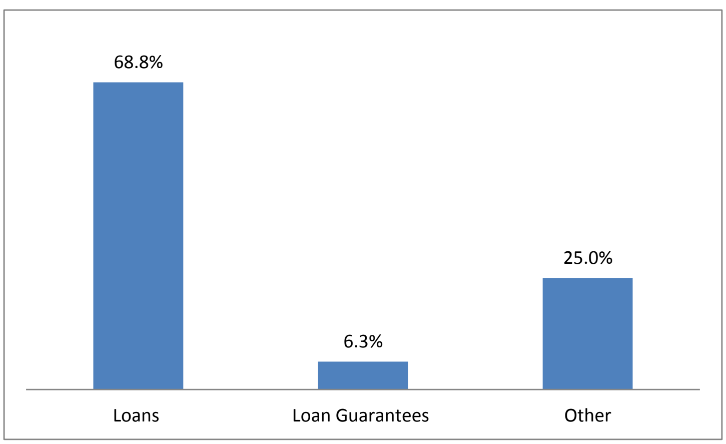
FIGURE 25: NSBI TOOLS ACCESSED



In terms of core economic development tools employed by NSBI, most of the 28 respondents have made use of loans and payroll rebates. Clients in Cape Breton and Halifax economic regions have accessed the greatest diversity of tools.

Jobs Fund

FIGURE 26: JOBS FUND TOOLS ACCESSED



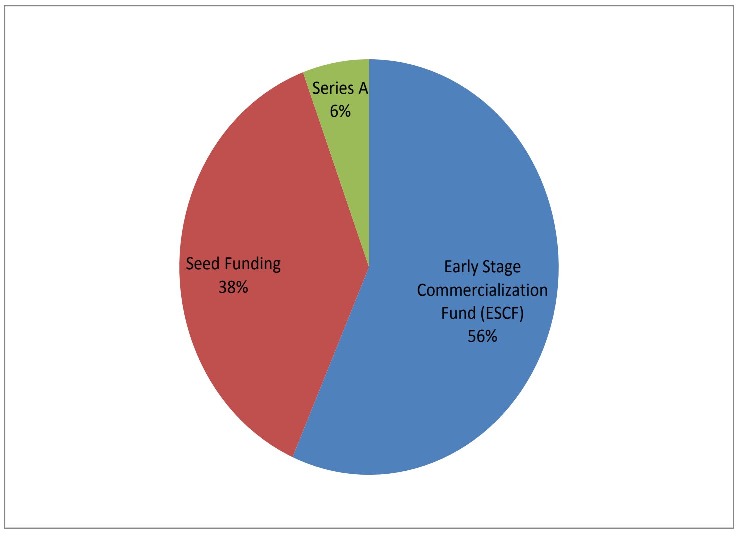
Loans were the primary tool utilized by the 16 Jobs Fund respondents. These loans were primarily distributed to firms in the Cape Breton and Halifax economic regions. Firms with more than 20 employees were the major recipients of these loans.

Innovacorp

FIGURE 27: INNOVACORP TOOLS ACCESSED

Innovacorp's clients responding to the survey were primarily located in Halifax. Outside Halifax, the economic regions with the most survey respondents were Cape Breton, North Shore and Southern.

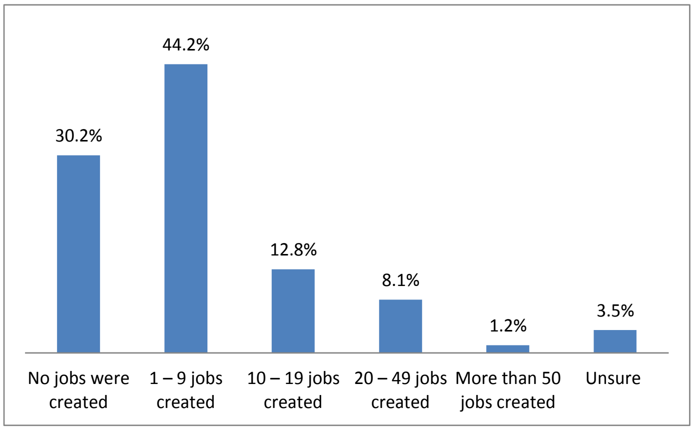
Venture Capital Seed Funding and the ESCF were the tools most commonly accessed by survey respondents. ESCF was the only tool accessed in larger numbers outside Halifax, with four clients in Cape Breton and five in the North Shore. Most Innovacorp clients responding to the survey have fewer than 10 employees, which fits the target client profile.



Q8A1 to Q8A18. If jobs were created in the course of participating in these programs, how many new full-time-equivalent jobs were created?

Some respondents have accessed different tools from different agencies, therefore the total number of responses across all tools exceeds the total number of companies participating in the survey. There were 86 unique responses to this question. Figure 28 shows aggregate responses across all tools.

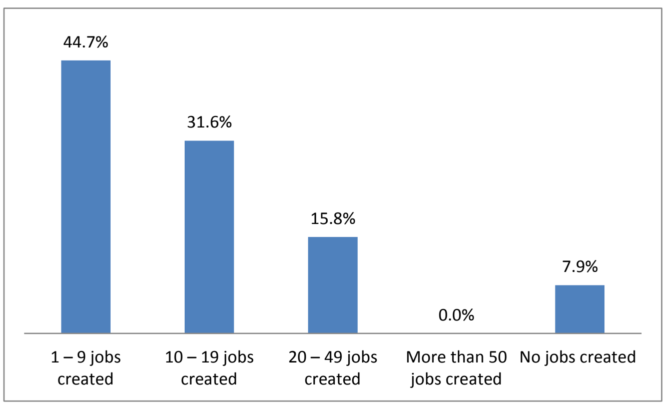
FIGURE 28: TOTAL NEW FULL-TIME-EQUIVALENT JOBS CREATED



Assuming the median number of jobs were created in each category (i.e., 5 jobs were created for each response in the 1–9 category) and 50 jobs were created in the More than 50 category, this would result in 615 jobs having been created by survey respondents. The following discussion breaks down the number of jobs created by partner agency.

NSBI

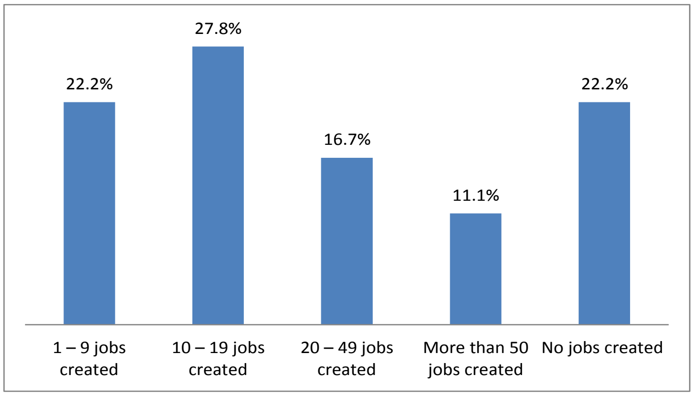
FIGURE 29: NSBI NEW FULL-TIME-EQUIVALENT JOBS CREATED



Most jobs created by tools administered by NSBI were through loans (11 responses) and payroll rebates (10 responses). Six companies indicated 20–49 jobs were created through tools accessed by NSBI.

Jobs Fund

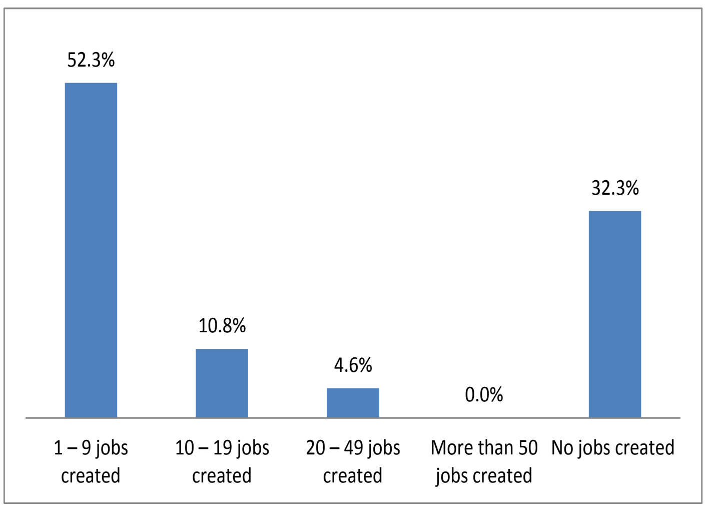
FIGURE 30: JOBS FUND NEW FULL-TIME-EQUIVALENT JOBS CREATED



Most jobs created by tools administered by the Jobs Fund were through loans. Of 18 responses, 8 indicated the loans program generated jobs in Nova Scotia. One response indicated more than 50 jobs were generated. There was also one response indicating that accessing another program (not provided in the list) generated more than 50 jobs.

Innovacorp

FIGURE 31: INNOVACORP NEW FULL-TIME-EQUIVALENT JOBS CREATED

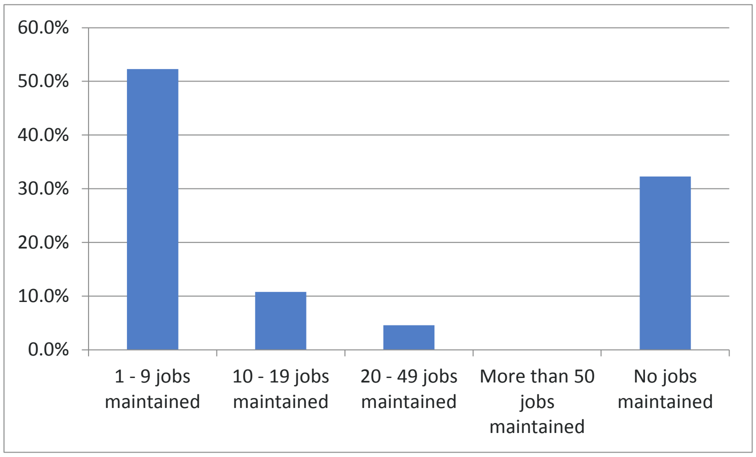


A large number of Innovacorp clients suggested no jobs had been created through the programs. However, the most number of responses indicated 1–9 jobs had been created. This is impressive, given that job creation is not a performance measure for these tools and that many Innovacorp clients are small businesses. Most jobs were created through accessing Venture Capital Seed Funding and ESCF. Three respondents indicated ESCF generated 20–49 jobs.

Q8B1 to Q8B18. How many full-time-equivalent jobs were maintained via incentive, investment or lending tool?

Some respondents have accessed different tools from different agencies. As a result, the total number of responses across all tools exceeds the total number of companies participating in the survey. There were 86 unique responses to this question. Across all tools the aggregate responses were:

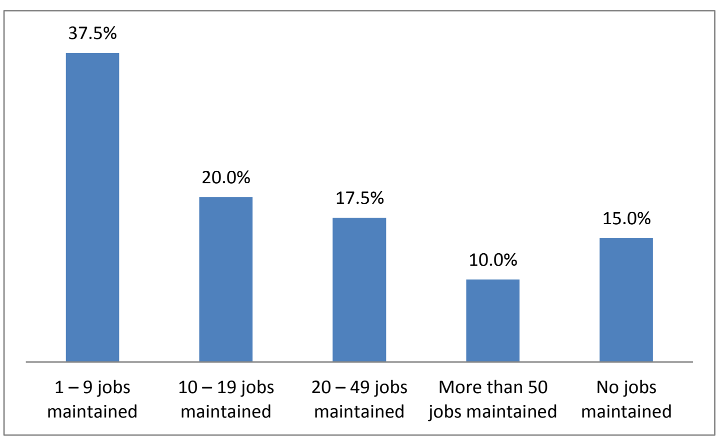
FIGURE 32: TOTAL FULL-TIME-EQUIVALENT JOBS MAINTAINED



Assuming the median number of jobs were maintained in each category (i.e., 5 jobs were maintained for each response in the 1–9 category) and 50 jobs were maintained in the More than 50 category, this would result in 820 jobs having been maintained by survey respondents. The following discussion breaks down the number of jobs maintained by economic development tool.

NSBI

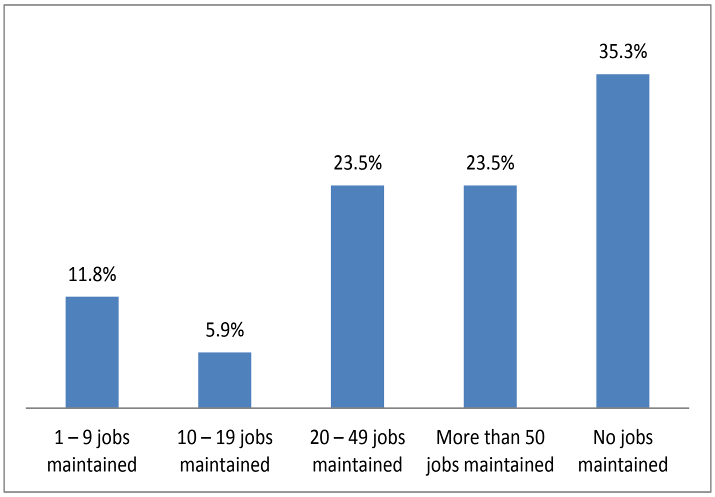
FIGURE 33: NSBI FULL-TIME-EQUIVALENT JOBS MAINTAINED



Most jobs maintained by tools administered by NSBI were through loans (11 responses) and payroll rebates (11 responses). Four respondents indicated more than 50 jobs were maintained through tools accessed by NSBI.

Jobs Fund

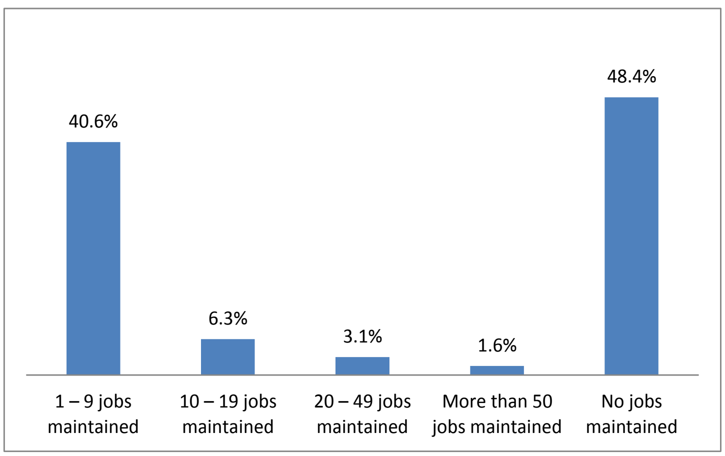
FIGURE 34: JOBS FUND FULL-TIME-EQUIVALENT JOBS MAINTAINED



Most jobs maintained by tools administered by the Jobs Fund were through loans. Of 18 responses from Jobs Fund clients, 11 indicated that the loans helped maintain jobs in Nova Scotia. Four respondents indicated more than 50 jobs were maintained. One response indicating that accessing another program (not provided in the list) maintained more than 50 jobs.

Innovacorp

FIGURE 35: INNOVACORP FULL-TIME-EQUIVALENT JOBS MAINTAINED



A large number of respondents to Innovacorp's tools suggested no jobs had been maintained through the programs. However, a significant number also indicated that 1–9 jobs had been maintained. Most jobs were maintained through accessing Venture Capital Seed Funding and ESCF. One response indicated that access to ESCF maintained more than 50 jobs. This is interesting, given that early-stage commercializing would typically be granted to small start-up firms or researchers. However, it is possible that a larger firm accessed these funds to commercialize its research.

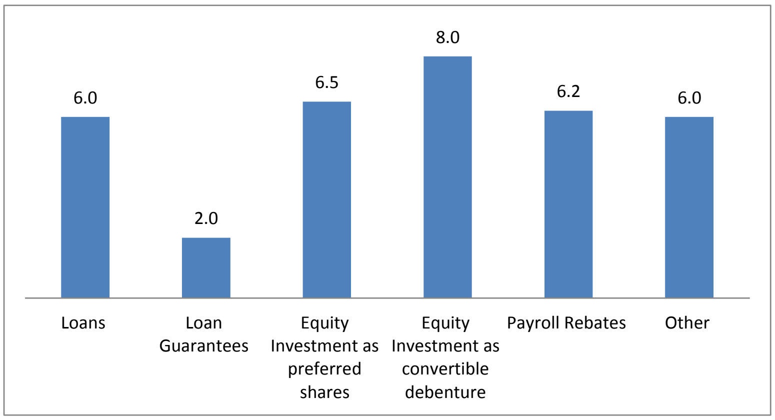
Q12A. On a scale of ONE to TEN, with ONE being NONE AT ALL and TEN being COMPLETELY, to what degree do you attribute your success (jobs or investments) to the provincial tool you accessed?

This question may have an implicit bias in the response. While the economic development tool may have been very beneficial, business owners and operators might be biased in thinking their success is due primarily to their own efforts.

NSBI

Overall it appears that respondents consider the tools accessed by NSBI as a key contributor to the success of their business. Mean scores to this question are shown in Figure 36.

FIGURE 36: NSBI SUCCESS ATTRIBUTED TO TOOL - SCORE OUT OF 10



While the most utilized tools are loans and payroll rebates, these two programs registered mean scores just above 6 on a scale of 10, which suggests they contributed to success but were not the primary reason for success. Payroll rebates, which are designed to create or maintain jobs, received a mix of responses as to whether the tool actually assisted companies in those objectives.

Equity investment as convertible debenture, however, registered few responses with very high scores and might be a program to consider expanding.

NSBI was able to provide job creation data from clients receiving funding during the five-year period from Jan. 1, 2009 to Dec. 31, 2013. By applying the success ratings received in the survey to the job creation numbers as a contribution factor, we determine the adjusted numbers of jobs created through the economic development tools administered by NSBI.

By applying this contribution factor, the number of jobs created through NSBI-administered tools declines from 7,197 to 4,492 jobs. This adjusted number might more accurately reflect the contribution of the economic development tools to job creation in Nova Scotia. It should also be noted that there was no overall gain in employment in Nova Scotia during the five-year period. If these jobs were indeed created by the economic development tools, then an equal number of jobs were lost elsewhere in the economy.

FIGURE 37: ADJUSTED JOB CREATION NUMBERS FOR NSBI

Program	Jobs Created	Factor	Adjusted Jobs Created
Loans	1878	60%	1127
Payroll Rebates	4945	62%	3066
Venture Capital	374	80%	299

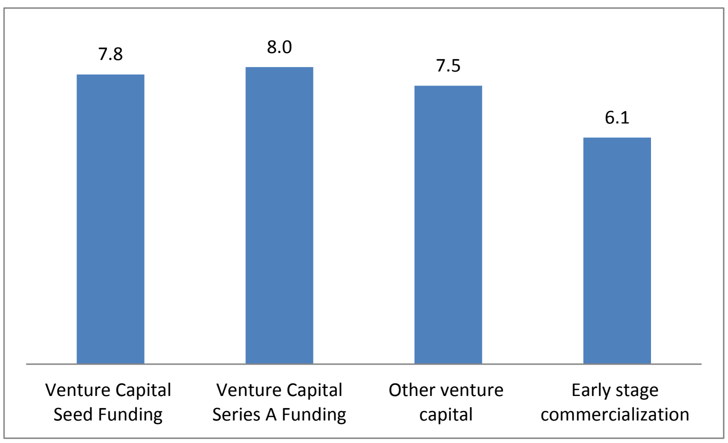
Jobs Fund

Most respondents accessing the Jobs Fund tools received loans. This program had a mean score of 6.5 out of 10, suggesting the program contributes to business success but is not the only factor. However, the scores were wide-ranging; four out of seven respondents provided a score of 8, suggesting that these loans were a very important factor in their success. All other programs were ranked as very important by respondents but generated very few responses.

Innovacorp

Clients of Innovacorp considered the venture capital programs to be instrumental to their success. The venture capital programs all have mean scores over 7 (see Figure 38).

FIGURE 38: INNOVACORP SUCCESS ATTRIBUTED TO TOOL - SCORE OUT OF 10

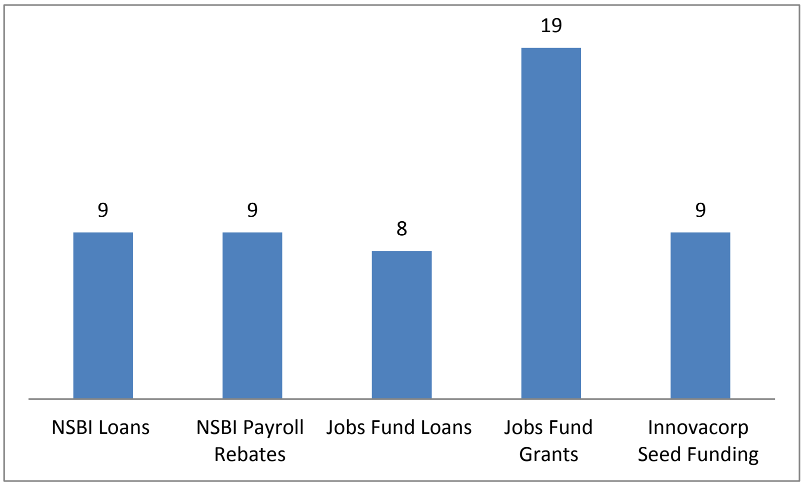


The Early Stage Commercialization Fund is a popular tool with Innovacorp clients. While the mean score for this tool is only 6.1, 10 responses scored it 8 or above. Three clients gave it a score of 10. Further investigation may determine why some felt this tool was the primary reason for their success while others considered it negligible to success.

Q12B. If you accessed tools from multiple organizations, which tools were the most influential for your business need/activity?

Again, respondents could provide multiple responses to this question. The following summarizes responses across all tools and all agencies.

FIGURE 39: MOST INFLUENTIAL TOOLS FOR BUSINESS NEEDS

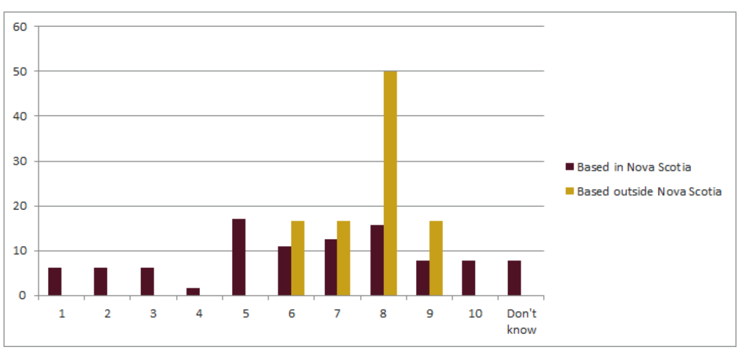


Interestingly, 19 respondents considered grants to be the most influential when no respondents had indicated they had received grants from the Jobs Fund.

Q13A. On a scale of one to ten, with ONE being NEVER and TEN being ALWAYS, to what extent does your business access Nova Scotia suppliers for business needs?

This question was meant to determine if businesses with head offices in Nova Scotia were more likely to make use of suppliers in Nova Scotia. From Figure 40 it appears that is not the case. The mean response to this question was 6 for businesses with headquarters in Nova Scotia and 7.6 for those with headquarters elsewhere. However, there were only six businesses with headquarters outside Nova Scotia surveyed; these results are not statistically representative of all businesses operating in Nova Scotia with headquarters elsewhere.

FIGURE 40: RESPONSES TO "TO WHAT EXTENT DOES YOUR BUSINESS ACCESS NOVA SCOTIA SUPPLIERS FOR BUSINESS NEEDS?"



While cross-tabulated responses are available by county, the small number of responses outside Halifax reduces the usefulness of providing those results here.

Q13B. Did any of the incentive, investment or lending tools you used help you to increase purchases from Nova Scotia-based businesses?

NSBI
Loans and payroll rebates are NSBI tools most commonly accessed by survey participants. Respondents indicated that payroll rebates do assist them in purchasing goods and services from Nova Scotia-based businesses while loans do not. Recipients of equity investments as convertible debenture also indicated that support assisted them in purchasing goods and services from Nova Scotia-based businesses.

Jobs Fund
Loans were also the most commonly accessed tools for Jobs Fund clients. Survey respondents indicated that the loans they received did assist them in purchasing goods and services from Nova Scotia based-businesses.

Innovacorp
Survey results are inconclusive as to whether the tools accessed assisted Innovacorp clients in purchasing good and services from Nova Scotia businesses. While some respondents receiving ESCF and other venture capital agreed, those receiving Venture Capital Seed Funding did not.

Q14. On a scale of ONE to TEN, with ONE being NONE AT ALL and TEN being COMPLETELY, to what extent were you able to

A. Increase Competitiveness

NSBI
The mean response across all responses was 6.9, indicating that NSBI clients overall were able to increase competitiveness through accessing economic development tools. Most responses came from those receiving payroll rebates and loans.

- 12 responses to payroll rebates provided a mean score of 6.1
- 7 responses to loans provided a mean score of 7.3

Jobs Fund
The mean response across all responses was 7.0, indicating that Jobs Fund clients overall were able to increase competitiveness through accessing economic development tools. Most responses came from those receiving loans.

- 7 responses to loans provided a mean score of 7.1

Innovacorp
The mean response across all responses was 7.5, the highest result of the three partner agencies. Most responses came from those accessing ESCF and Seed Funding.

- 15 responses to Seed Funding provided a mean score of 7.9
- 22 responses to ESCF provided a mean score of 7.2

Summary
Overall, respondents believe that tools assist them in increasing competitiveness. Venture capital seed funding and loans ranked quite highly in increasing competitiveness. Scores for payroll rebates were lower, but still marginally positive.

B. Increase Wages

NSBI
Across all responses, the mean score for those accessing tools from NSBI was only 4.8, indicating the tools were not a significant factor in increasing wages. Most responses came from those receiving payroll rebates and loans.

- 12 responses to payroll rebates provided a mean score of 5.4
- 7 responses to loans provided a mean score of 3.9

Jobs Fund
The mean score across all responses was 5.2, indicating the tools were not a significant factor in increasing wages. Most responses came from those receiving loans.

- 7 responses to loans provided a mean score of 4.9

Innovacorp
The mean response across all responses was 5.4, indicating the tools were not a significant factor in increasing wages. Most responses came from those accessing ESCF and Seed Funding.

- 14 responses to Seed Funding provided a mean score of 6.5
- 21 responses to ESCF provided a mean score of 4.4

Summary
Responses indicate that the tools accessed did not allow companies to increase wages. This is particularly true of loans and payroll rebates. Venture Capital Seed Funding did assist companies to increase wages, while Series A Funding did not.

C. Increase ROI

NSBI
Across all responses, the mean score for those accessing tools from NSBI was only 5.3, indicating the tools were not a significant factor in increasing return on investment (ROI). Most responses came from those receiving payroll rebates and loans.

- 12 responses to payroll rebates provided a mean score of 4.3
- 7 responses to loans provided a mean score of 6.1

Jobs Fund
The mean response across all responses was 7.8, indicating the tools accessed by the Jobs Fund were a significant factor in increasing return on investment. Most responses came from those receiving loans.

- 7 responses to loans provided a mean score of 7.3

Innovacorp
The mean response across all responses was 6.3, indicating the tools were somewhat useful in increasing return on investment. Most responses came from those accessing ESCF and Seed Funding.

- 14 responses to Seed Funding provided a mean score of 7.2
- 21 responses to ESCF provided a mean score of 5.3

Summary
While loans, grants, and venture capital funding appear to allow clients to increase return on investment, payroll rebates do not. Seed funding from Innovacorp and loans from the Jobs Fund received the highest scores.

D. Increase Trade

NSBI
Across all responses, the mean score for those accessing tools from NSBI was 6.2, indicating the tools were a factor in increasing trade. Most responses came from those receiving payroll rebates and loans.

- 12 responses to payroll rebates provided a mean score of 4.9
- 7 responses to loans provided a mean score of 6.4

Jobs Fund
The mean response across all responses was 7.4, indicating the tools accessed by the Jobs Fund were a factor in increasing trade. Most responses came from those receiving loans.

- 7 responses to loans provided a mean score of 7.7

Innovacorp
The mean response across all responses was 6.0, indicating the tools had a low level of influence in increasing trade. Most responses came from those accessing ESCF and Seed Funding.

- 13 responses to Seed Funding provided a mean score of 6.3
- 20 responses to ESCF provided a mean score of 5.1

Summary
Loans, grants, and venture capital funding appear to assist clients in increasing trade, while it was felt that payroll rebates do not influence an increase in trade.

E. Stay in Business

NSBI
Across all responses, the mean score for those accessing tools from NSBI was 6.3, indicating the tools were a factor in allowing the firm to stay in business. Most responses came from those receiving payroll rebates and loans.

- 12 responses to payroll rebates provided a mean score of 5.6
- 7 responses to loans provided a mean score of 7.6

Jobs Fund
The mean response across all responses was 8.4, indicating the tools accessed by the Jobs Fund were a significant factor in allowing the firm to stay in business. Most responses came from those receiving loans.

- 7 responses to loans provided a mean score of 8.1

Innovacorp
The mean response across all responses was 6.9, indicating the tools were a factor in allowing the firm to stay in business. Most responses came from those accessing ESCF and Seed Funding.

- 15 responses to Seed Funding provided a mean score of 7.9
- 22 responses to ESCF provided a mean score of 5.7

Summary
As with other aspects of business it appears that loans, grants, equity, and venture capital have the greatest influence in assisting the client to stay in business. While respondents agreed that payroll rebates also support staying in business, the scores are relatively low, which indicates the influence of the payroll rebates is small.

5.1.3 PART C: Qualitative Results

Q7D. Could you please describe the need as well as the kinds of activities you carried out using the tools?

Companies gave a variety of responses about how the tools were used. Interviewees were able to provide multiple responses; as a result, there were more than 70 responses to the question.

- research and development of new products (cited 37 times)
- retaining or hiring new employees (20)
- purchasing new equipment or machinery (19)
- marketing products or business (12)
- start-up capital for a new business (11)
- capital for growth or expansion (11)

Clients also accessed tools to obtain advice from experts, solicit additional investments, conduct drug trials, and cover intellectual property protection fees.

Q11. What could the government have done, if anything, to facilitate more of your business being done outside of Halifax?

A majority of respondents (40 of 70) had no advice for the Government of Nova Scotia for facilitating business outside Halifax. Of the 30 who made comments, none raised concerns that there are unique needs associated with doing business outside Halifax. However, their responses suggest that businesses anywhere in Nova Scotia could benefit from funding for:

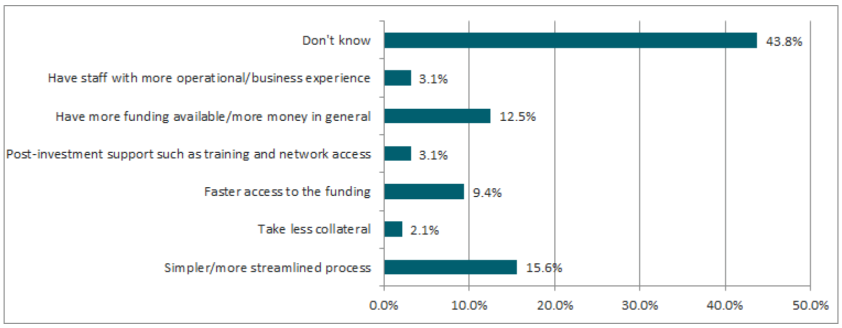
- capital expansion
- travel
- research and development
- support expansion for exports

Some indicated that responding more rapidly to funding requests would be helpful and a few suggested there should be more support directed to rural businesses.

Q15. What suggestions would you make to improve the delivery and the effectiveness of the program?

These responses are reflected across all programs, although it is clear some responses are program-specific, such as taking less collateral.

FIGURE 41: RESPONSES TO "WHAT SUGGESTIONS WOULD YOU MAKE TO IMPROVE THE DELIVERY AND THE EFFECTIVENESS OF THE PROGRAM?"

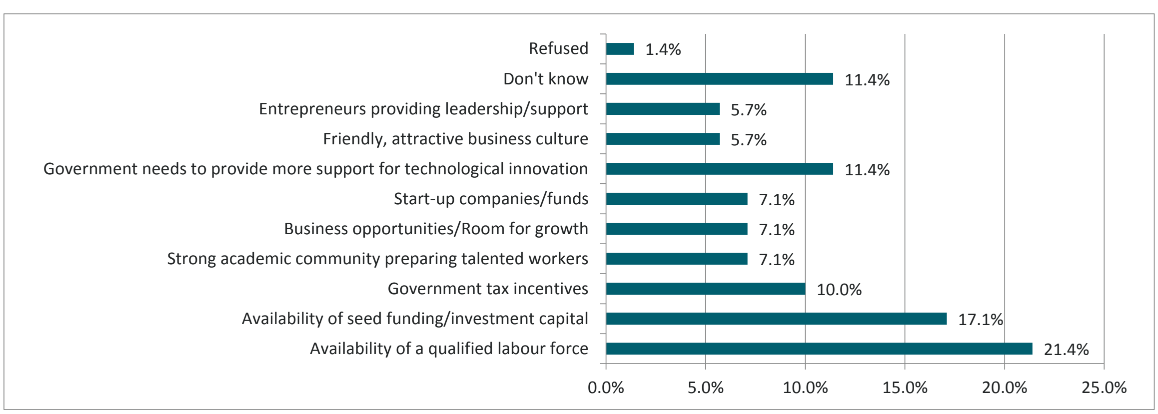


Respondents did provide clear direction to ERDT with respect to how to improve delivery and effectiveness of the program. Comments focused on streamlining the process, increasing the level of funding, and increasing the speed of access to funding.

Q16. In your opinion, what else influences investment and job creation in Nova Scotia?

Most respondents indicated that access to a qualified labour force influences investment and job creation. This, more than any tax or incentive program, seemed to be an influencing factor. Respondents indicated that seed funding and support for technological innovation were also important. Tax incentives ranked fourth in the suggestions.

FIGURE 42: RESPONSES TO "IN YOUR OPINION, WHAT ELSE INFLUENCES INVESTMENT AND JOB CREATION IN NOVA SCOTIA?"



Q17. What suggestions would you make, in general, to improve Nova Scotia's business and economic development tools?

Respondents provided several suggestions to improve the province's economic development tools. Focusing on research and technology and supporting innovation were common themes.

- provide more funding for technological and academic research (7 responses)
- build closer relationships with academic institutions (6)
- simplify the process/criteria for funding (6)
- provide more funding for technologically innovative businesses (5)
- more support for start-ups (4)
- include business leaders in the process (4)
- provide funding beyond the initial seed/funding for later stages of development (3)
- educate people on the existence and use of these tools (3)
- faster process/quicker access to funds (2)
- lower tax rates for business (2)
- take more risks with funding (2)

5.2 Summary of Survey Responses

- While the survey instrument has been implemented successfully in other jurisdictions to measure the influence of services on economic development performance, a few factors limited the effectiveness of these results. These include the limited amount of time to conduct the survey, access to clients, and the nature of the data that was provided by clients.

- Regular program reviews should be a priority. Clear performance measures should be attached to each economic development tool.

- Due to privacy and confidentially agreements, it was not possible to contact all incentive tool recipients. This greatly reduced the number of responses to the survey. It is suggested that being contacted for performance measurement purposes should be included in the contract with each client.

- The Jobs Fund does not make use of client relationship management software, which made it challenging to assemble data for this project on short notice. It is recommended that common relationship management software be used by all partner agencies, which would allow data to be assembled more easily. This might also allow ERDT to determine which companies are accessing multiple tools and agencies.

- Economic development tool recipients are disproportionately weighted in the Halifax Economic region. While this region accounts for half of the province's population and employment, the region receives much more than half of economic development assistance.

- Not all economic development tools are designed to increase or maintain employment in Nova Scotia; however, firms responded that the economic development tools do influence job creation. More jobs were maintained than generated. Positive responses from Early Stage Commercialization Fund clients are encouraging.

- Respondents did not provide many suggestions about how to improve service delivery. However, when asked what influences investment and job creation, the availability of a qualified labour force was the most common response (21% of all responses).

6 Considerations for ERDT

6.1 Enabling Factors for Incentive Programs

In recent years the definition of an economic development incentive has broadened considerably to encompass a full range of financial and non-financial measures that support business growth and attraction. Given the breadth of programming that qualifies as an economic development incentive, it is a difficult exercise to determine enabling factors or components of leading economic development incentive programs.

However, there are common enabling factors that should be part of all economic development incentive programs. These particularly relate to the target and scope of incentives as well as their evaluation or improvement. This section describes program enablers that should be in place to ensure the Province of Nova Scotia can administer and manage economic development programs in accordance with leading principles.

6.1.1 Incentive Programs are Highly Focused

Site selectors (consultants who help companies determine investment locations) stress that economic development incentives are best deployed where location factors are already generally competitive for a community or jurisdiction, and where the incentives will either address notable competitive disadvantages or form a competitive advantage that will be a deciding factor in the final stages of a location, expansion, or relocation decision. Incentives are most effective when used to enhance competitiveness, rather than positioned as the sole driving factor in a jurisdiction's competitiveness. Overall, the most effective economic development incentives across North America are typically focused on a range of key functions.[35,36]

- **Addressing competitive disadvantages:** Some incentives focus on offsetting some or all of an operating cost or site selection factor that cannot be controlled in the near term (e.g., labour, workforce skills, real estate availability, or transportation infrastructure). The creation of an incentive to deal with the short-term challenge should not inhibit the jurisdiction from turning this negative characteristic into one that is a positive or non-factor in the future. If not ameliorated, the cumulative long-term effects of these disadvantages can often mean the loss of a potential investment through site selector evaluations.

- **Revitalizing distressed regional economies and mitigating risks:** Some incentives encourage investment in particular regions where unemployment and poverty have been high, or the attraction of private sector investment has been challenging. Incentives in these areas are often focused on mitigating risks to businesses that invest, such as funding new infrastructure through tax increment financing, ensuring quick permitting and approvals processes, or exchanging development benefits for community benefits. However, they may also target specific areas of a community or region that require additional support to increase competitiveness, such as rural areas in urban-rural regions, or regions where dominant industries have encountered economic challenges.

[35] Ghosh, S. and McHugh, P. (2013). Best Practices in Developing Investment-oriented Incentives.

[36] CBRE Economic Incentives Group. (2010). Economic Incentives – The Intersection of Site Selection and Economic Development.

- **Inducing favourable economic activity including increased productivity, innovation, export ability, and employment:** Incentives often target industries that will have the greatest employment and fiscal benefits to the jurisdiction, offer the greatest potential for diversification of the employment base, or bolster and protect key economic development industries and sectors.

- **Signalling business friendliness:** At a broader level, the provision of incentives that encourage and facilitate business investment are considered to be an indicator of a jurisdiction's sensitivity to the needs of business. This has likely in part driven a broader range of tactics being branded incentives (e.g., streamlined permit processes).

- **Balancing new with retained activity:** A vast majority of economic development incentives have historically been directed at net new economic development opportunities. During times of rapid business and economic growth this strategy can result in significant benefits, but may create challenges as the number of potential deals declines. In times of economic restraint, the retention and expansion of high-impact businesses to encourage their viability becomes a preferred objective. There is a need to ensure administrative flexibility so that economic development incentives can be adapted to every stage of a jurisdiction's business or economic cycles.

6.1.2 Incentive Programs are Effectively Evaluated

The decision to make economic development incentives available, how much to spend on them, and which businesses should receive them all involve policy choices with significant implications. Economic development incentives take away from finite resources that may otherwise be spent on services to the general population. By not offering incentives—or doing a poor job of it—a jurisdiction may miss out on opportunities to support job creation, business expansion, or business attraction. Because of the significant financial commitment required, stagnant or diminishing resources, and pressure to regain economic development activity lost over the last decade (or several decades), the evaluation of incentives to ensure their effectiveness becomes a critical component of economic development strategies. The most effective programs connect to optimal outputs and expect clear and identifiable outcomes.

A number of strategies can ensure that incentives remain fiscally sustainable. Most relevant literature comes from state-level initiatives focused on tax incentives that ensure they result in the intended benefits of the program. Comparative Canadian literature is nearly non-existent, though U.S. direction on program evaluation is likely still valid.

In 2012 the PEW Center on the States undertook a survey of all 50 states and the District of Columbia to identify and evaluate the approaches used to determine the effectiveness of tax incentives.[37] Each state was evaluated on four key criteria (Figure 43). At a broader level, the four indicators were meant to assess both the scope and quality of the evaluation program.

[37] PEW Center on the States. (2012). Evidence Counts, Evaluating State Incentives for Jobs and Growth.

FIGURE 43: FOUR CRITERIA FOR EFFECTIVE EVALUATION

Criteria for Effective Incentive Evaluations		What States Can Do	Leading Example
Scope of the Program	Inform policy choices	Use the results of evaluations in policy and budget deliberations	**Oregon:** Tax credits expire every six years unless lawmakers extend them, requiring evaluations of programs to determine which incentives should continue after expiration.
	Include all major tax incentives	Review all tax incentives for economic development on an ongoing basis	**Washington:** Non-partisan analysts work with a citizen commission on an annual basis to review a particular group of incentives, advancing recommendations on whether or how they should change for the consideration of lawmakers at hearings.
Quality of the program	Measure economic impact	Use good data and analysis to provide the right conclusions	**Louisiana:** Through detailed analysis, the State was able to determine that competing businesses were receiving incentives, merely displacing existing positions rather than creating new employment opportunities.
	Draw clear conclusions	Determine if tax incentives are achieving state goals for economic development	**Connecticut:** Using sophisticated analysis techniques, the State has been able to determine exactly which incentives were beneficial and cost-effective, and which incentives were not meeting the State's goals.

Source: Adapted from PEW Center on the States by Millier Dickinson Blais, 2014.

Understanding the knowledge gap between economic development incentives and economic development impacts, the State of Rhode Island approved the Economic Development Tax Incentives Evaluation Act in 2013. The Act clearly outlines the methods to be used to measure the effects of tax credits, deductions, and exemptions on job and business growth benefits. There are five steps in the evaluation process for Rhode Island's tax incentive programs:

1. **Create a strategic evaluation schedule:** Programs are required to be reviewed once every three years under the new law.
2. **Measure benefits and costs:** Analysts evaluate each state program in detail, drawing conclusions about how tax incentives affected business decisions, and to what extent impacts were retained in Rhode Island (or flowed elsewhere). The evaluations are also meant to identify instances where analysis is limited by lack of data or uncertainty of the goals of the program, with the intent of having lawmakers remove these obstacles where possible.
3. **Use evidence to inform recommendations:** The law requires that the State Governor's budget proposal include a recommendation to continue, reform, or end tax incentive programs after each review, which helps focus attention on evidence from recent evaluations.
4. **Decide to continue, change, or end programs:** Budget hearings in the legislature offer the opportunity to review evaluation results, consider the Governor's recommendations, and examine the costs of each initiative as a basis for deciding whether to change incentive programs.
5. **Repeat steps One to Four:** Recurring evaluations are critical to economic development incentive programs, as they allow for the opportunity to revise policies to match changing economic development conditions. New programs must be evaluated within the first five years of taking effect, while existing programs will continue to be evaluated over three-year terms.

The organization must put in place the mechanisms that allow for continuous review and improvement of incentive programs. This includes clearly-understood linkages between program elements and outcomes; processes to review and consider these linkages against economic development objectives within budgetary debate and discussion; and the ability to modify or conclude programs that are not working. Though focused primarily on tax incentives, the factors and components of these evaluation programs have implications on the evaluation of any other economic development incentive, where the cost of the incentive to the government needs to be balanced with the creation of economic development benefits for the community.

6.1.3 Incentive Programs Appreciate Cost Considerations

Ensuring effective economic development policy evaluation and deployment begins when programs are first proposed. Unless cost containment is considered in the initial program design, the costs associated with economic development incentives may grow unpredictably. This is the case for some statutory incentives in the U.S. and Canada (though some discretionary incentives may also pose a risk). Setting cost expectations and limitations at the outset offers a financial benchmark against which the jurisdiction can measure the program's fiscal sustainability and impacts.

Two key elements can offer greater potential for the fiscal sustainability of both governments and incentive programs, as well as set the framework for program evaluation based on cost.[38]

- **Understanding budget implications of proposed incentives through reliable cost estimates:** This suggests developing all information needed to assess the impacts of the program and identify the potential risks. In order to understand the potential budget implications, jurisdictions should forecast the impact of the program on the jurisdiction (and to the extent possible broader economy), highlight areas of uncertainty to be monitored, link cost estimates to policy making and deliberations, and make all processes as professional and transparent as possible.
- **Managing the size of incentives by setting annual cost control limits:** By setting annual limits on incentive program cost, spending becomes more predictable and manageable. In order to avoid unintended growth of program spending and cost, jurisdictions should budget for tax incentives as they would other services (e.g., education, transportation). Annual caps should be set on the cost of the specific incentive or entire incentive program to facilitate longer-term budgeting (though a jurisdiction may also cap the funding an applicant can receive). They should also develop mechanisms to reconsider the economic development incentive, including sunset dates for decisions on continuation, modification, or conclusion of the program based on an evaluation of the costs and benefits.

Regardless of their components, economic development incentive programs have widespread budget implications. Without detailed planning at the outset, there is a greater risk of unexpected costs. Reliable estimates of cost and clear limits on annual spending improve the potential for effective fiscal stewardship.

6.1.4 Important Emerging Trends

Increased competitiveness and greater emphasis on the fiscal sustainability of incentive programs are driving new strategies and trends. The overall intent is to ensure that subsidies and incentives generate the highest potential returns for resources invested. Three key trends are emerging in economic development incentive thinking.[39]

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[38] PEW Centre on the States. (2012). Avoiding Blank Checks, Creating Fiscally Sound State Tax Incentives.

[39] LeRoy, G. (2013). The Future of Economic Development Subsidies. *Economic Development Journal, 12*(4), 35-39.

- **Increased transparency:** In 2007 only 23 U.S. states had any form of online subsidy disclosure, while 45 states and the District of Columbia currently disclose subsidy data online. Some provinces currently do. By using online data and Freedom of Information requests, the Subsidy Tracker tool provided by Good Jobs First has been able to collect information on 470 programs across all 50 states and the District of Columbia. This signals an increased emphasis on transparency in economic development incentives, including reporting on companies that received funds, deals that were made, amount of funding disbursed, and the actual benefits of the program. Reporting at the local level is slightly behind reporting at the state level, though the rate of disclosure is growing. Continually rising expectations for government transparency from the public are expected to increase pressure on economic development spending (as on other areas of government programming), resulting in increased need for economic development organizations to report on programs and outcomes. This is likely true of Canadian provinces and municipalities as well, as many governments are under considerable fiscal restraint.
- **Greater location efficiency:** All but a few economic development incentive programs offered at the state and provincial levels are geography-specific, in that their deployment is specifically aligned with land use and transportation objectives. Most economic development incentives at the provincial level lack geography-specific considerations as well, although federal-level programs may target rural areas. In part, the “greenfield” nature of some programs may contribute to trends contrary to community objectives (e.g., greenfield development vs. infill development). However, by creating better location efficiency in economic development subsidies and incentive programs, there may be opportunities to make more efficient use of existing and planned infrastructure while achieving specific community development objectives (e.g., poverty reduction, rural development).
- **Reduction of risk:** In order to increase the potential for a return on investment through economic development subsidies, some jurisdictions increasingly focus on supporting larger clusters of strategically chosen businesses—especially small businesses with growth potential—instead of a small number of larger companies. This means a shift from some forms of company-specific deals to more indirect incentives in the form of technical assistance that benefit multiple employers in strategic sectors (e.g., technology adoption, export assistance, or workforce development). This can take the form of investments in public institutions that provide these services, or can deploy funding on behalf of the public agency. However, it can also mean investments in the broad range of factors that improve business conditions across the jurisdiction (e.g. transportation improvements).

These three factors are expected to continue driving economic development incentive programming in the future as fiscal restraint continues across the U.S. and Canada. Since every investment will be asked to generate more under that fiscal reality, each of these factors likely will increase in prominence to ensure government funding is directed in areas that provide the greatest impacts.

6.2 Lessons for Nova Scotia – Aligning with Enabling Factors

Based on a review of comparator jurisdictions, best practices, and a survey conducted of economic development tool clients in Nova Scotia, the following lessons provide guidance to future use of economic development tools in Nova Scotia.

6.2.1 Focusing Business Assistance Tools

- There is a disproportionate focus on Halifax for most of the economic development tools assessed. How all funding could be disbursed with greater geographic coverage should be investigated.
- Most jurisdictions focus their economic development tools on specific sectors they feel have the best chance of success. Nova Scotia would benefit from an economic development strategy that will help ERDT focus its business assistance tools.
- Nova Scotia should ensure that incentive recipients are not competing with others in the same industry or market. Within the province, tools should be competition-neutral.
- The consultations and research identified a need for different types of programs. One is a program to assist with business succession planning, especially in rural areas; this might be similar to a program offered by the Farm Loan Board. Another program could leverage community-based angels who are interested in investing locally.
- Nova Scotia is soon going to reach a peak population, after which it is estimated that the population will begin a decline that will last for more than a decade. It is therefore relevant to determine the appropriate measure of business assistance. Merely creating jobs may not be the best approach. For example, innovation, trade, and skills enhancement will become more important in the future; programs should be developed with these goals in mind.

6.2.2 Evaluating Effectively

- Few of the jurisdictions investigated make use of payroll rebates. While this is a primary tool for NSBI, its clients were unclear as to whether payroll rebates contributed to their success or their ability to create jobs. The program needs to be more fully evaluated.
- There should be clear performance measures for each economic development tool, and the evaluation process should be clear to each incentive recipient. Third-party evaluations should be conducted on a regular basis. Participation in a third-party evaluation should be a part of the funding contract.
- All agencies should utilize client relationship management software. This will assist the evaluation process and provide a clearer picture of which applicants are accessing multiple tools and agencies or have been in contact with the province's regulatory departments and agencies.
- The evaluation conducted as part of this review should be repeated annually. Increasingly clients will understand the importance of evaluation and sample sizes will improve significantly over time. The evaluation goals will be to understand how the assistance tool directly affected the business.

- Economic development tools should have clear timelines for implementation, realization of benefits, and evaluation. If benefits are not meeting expectations, the evaluation should determine why. It takes time for benefits to be realized, and because changing conditions in the broader economy can influence the ability of a local business to be successful, there should be provision to renegotiate terms and conditions if necessary.

6.2.3 Appreciating Cost Considerations

- Other provinces have been able to streamline their application process so that one application is used by multiple funding programs.
- All applicants should be required to attend a minimum number of meetings with business counsellors prior to funding being approved. Government-employed counsellors should conduct an initial assessment of training needs, but ideally the training will be done by experts in specific areas of business management or sector expertise. While this may increase the upfront cost of the application (the cost could be incorporated into the funding) it should establish a stronger platform for business success.
- Arms' length decision making has been a success in Nova Scotia (e.g., the Small Business Loan Guarantee Program and Innovacorp) The Province should investigate extension of this decision-making mechanism.