# PROMOTING FOREIGN INVESTMENT

# AN ORGANIZATIONAL REVIEW OF INVESTMENT PARTNERSHIPS CANADA AND ASSOCIATED DEPARTMENTS AND AGENCIES

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# EXECUTIVE SUMMARY

Attracting foreign investment is a goal of the government which is delivered by several government departments working individually and collectively. The purpose of this review was to profile the government's investment promotion system, to explore how departments and agencies work together through Investment Partnerships Canada, to identify areas of potential improvement, and to suggest an agenda for the future.

**Investment Partners and Governance Framework**

Within the federal government, the task of promoting and facilitating foreign direct investment is shared by several departments and agencies. Foremost among these are Investment Partnerships Canada, three "domestic" departments (Industry Canada, Agriculture and Agri-Food Canada, and Natural Resources Canada), and one "international" department (Foreign Affairs and International Trade).

IPC is a joint Industry/DFAIT creation whose two main functions are (a) to lead campaigns to attract and retain MNE investment and (b) to coordinate the federal role in FDI attraction and build "partnerships" among the three levels of government. In 1999, a "realignment" of responsibilities with DFAIT enhanced IPC's coordination role and assigned it a number of additional responsibilities, notably management of the federal government's "branding" initiative and administration of the PEMD-I program. In four years of operation, IPC has grown from 24 FTEs and a budget of $3.5 million to 58 FTEs and $4.9 million today.

The role of the "domestic" departments is to analyze Canada's economic development needs, develop strategies and plans to meet those needs, and encourage investment in sectors which could most benefit from it. Each of the departments has resources dedicated to investment promotion, collectively in the order of 65 FTEs and $1.5 million in operational funding. Two sectors have full divisions devoted to investment issues.

The role of DFAIT is to advance Canada's international economic relations, *inter alia* by using its missions abroad to induce foreign companies with world-class expertise and technology to invest in Canada, particularly in targeted sectors. The department has 21 missions with dedicated investment counsellors, and a further 48 missions with trade officers who can perform investment functions.

Every provincial and territorial government also runs some sort of program to attract foreign investment. The largest provinces now have investment promotion agencies with well developed strategies, plans, and performance measures; operations which are every bit as sophisticated as those of the federal government; and individual budgets which dwarf that of IPC and may exceed the combined federal total. Ontario has 77 people and a budget of $26.3 million, Quebec has 49 people and a budget of $32.7 million.

## Operation of the Partnership

The federal investment promotion system is a challenge to horizontal governance which the parties have yet to meet.

Since IPC was created, foreign direct investment into Canada has continued at a high level and IPC's engagement of deputy ministers to lead investment campaigns in priority countries is estimated to have facilitated $5 billion in new investment. Progress has also been made in eliminating some regulatory impediments to investment. New procedures have been put in place to enhance cooperation among the parties. Marketing materials have been developed to assist in international prospecting. Additional investment counsellors have been placed in key missions abroad.

But the goal of an IPC-led "partnership" among departments and agencies remains elusive. There is cooperation, but it takes place on a case-by-case basis and is more a function of individuals finding ways to get along than of institutional bonding. IPC manages a program which is not integrated with those of other departments and agencies, though it has grown over the years and has crowded out resources for other things – including tasks IPC has been asked to assume which were not part of its original mandate. Sector branches and missions have their own strategies and corporate calls programs, developed with input from a variety of sources. Despite parties' considerable efforts to fashion a governance structure to integrate their efforts, there is no strategic framework to guide their operations, they occasionally work at cross purposes, and collectively they make less than optimal use of their resources.

All the parties are struggling with mandate and resource issues. The arrival of IPC introduced a new player, but the team is still working out who does what. At Industry Canada, the problem has been compounded by a loss of sector expertise as a result of Program Review, and at DFAIT by a divestiture of resources to missions and IPC. Missions have pressed ahead with their investment promotion efforts, but there has been little money for local marketing initiatives.

In general, the parties are not comfortable with the current arrangements. They wish they had more resources for what they consider a critical function of government. They wish they could draw more on the expertise of others. They wish they could find a way to work more closely together without having to attend coordination meetings which generate little coordination.

Departments value the role IPC could play in leading the drive for foreign investment, but it has yet to develop the "team" to take investment promotion to another level. All value the personal engagement of deputy ministers, but they wish deputies were deployed more strategically. One investment counsellor summed up the views of many when he said that what people want is "a group of deputies who will answer the call, not necessarily a deputies' program".

**Assessment**

The principal findings of the study may be grouped under five headings: strategy, governance and accountability, planning and priorities, process and instruments, and performance management.

*Strategy*

The main guidance document is five years old, prepared at a time when the world economy and Canada's place in it looked very different. The choice of sectors to receive attention and the improvements to be sought in each sector have not been reviewed since 1996. The approach taken to achieve objectives remains what it was, notwithstanding the experience of five years.

*Governance and accountability*

The governance structure being developed is complex and has yet to produce the coordinated approach anticipated when IPC was established. The roles and responsibilities of the various parties are not clear, despite much effort to define and delineate them. IPC has a mandate which has expanded over time, but one which has not yet been fully accepted by others. The accountability structure has placed few obligations on parties to work as a team.

*Planning and priorities*

Federal departments and agencies have never developed a consolidated plan of action to guide their collective efforts in investment promotion. The principal parties also disagree on the weight to be accorded various activities, for example prospecting for MNEs vs. SMEs.

*Process and instruments*

To date, the federal government has devoted more effort to sowing and tilling than to reaping and aftercare. One reason is that federal investment promotion lacks "method". In addition, investment promotion has yet to develop the disciplines one would expect of a more mature program such as trade promotion. There are no doubt lessons to be learned from the trade program's management and administration.

Little should be expected from current efforts to raise awareness of Canada as a place to invest. Unless it is informed by a vision of the kind of country Canada is to be and a strategy to create it, "branding" is unlikely to produce the results desired.

The federal government does not have a coherent approach to prospecting. The Deputy Minister Investment Champion Program marshals a resource no other country does, but the experience of four years suggests adjustments are due in how it is deployed. Issues include the choice of deputies to participate in the program, the country/sector focus of deputies' efforts, the planning of visits abroad, and management of investment climate and impediments issues.

*Promoting Foreign Investment*

The federal government's limited focus on reaping contrasts with the heavy emphasis other countries and other jurisdictions place on working with prospective investors to "find a path" through the obstacles inhibiting a positive investment decision. Re-investment has long been the major source of foreign investment, but the federal government has placed little emphasis on it.

*Performance management*

A performance management framework has not yet been developed. (An interdepartmental committee under the auspices of IPC has been working on developing a framework for IPC since April 2000.) No indicators have been established against which to measure whether the federal government is getting better at investment promotion. This makes it very difficult to assess whether departments and agencies are adequately funded – though the experience of other jurisdictions suggests that the resources devoted to investment attraction and facilitation may not be commensurate with the results expected. In the absence of a performance management framework, it is difficult to evaluate the efficiency and effectiveness of the program.

## CONCLUSIONS

The findings of the study indicate that the federal investment promotion function:

- has no "fatal flaw" in its design,
- is complex and will only work if people are genuinely interested in cooperating,
- has made some progress in recent years,
- lacks strategic direction for the future,
- requires a "game plan" which all members of the team will subscribe to,
- requires more purposeful direction and tighter accountability arrangements,
- needs to reassess some of its methods, particularly the deputies program, and the relative weight it assigns sowing, tilling, reaping and aftercare, and
- should develop a performance framework so that true resource needs can be determined.

## FOLLOW UP

1. A high priority should be placed on developing a new federal strategy.
2. As part of the federal government's annual business planning process, parties should begin to develop an annual plan of action for investment promotion.
3. A performance management framework should be put in place.
4. There should be a review of governance and accountability arrangements.
5. The Deputy Minister Investment Champion Program should be reoriented to accentuate deputies' value-added.
6. Investment promotion "method" should be reviewed.
7. Marketing, communications and branding programs should be more closely aligned with strategic objectives and operational needs.

# PREFACE

In the Speech from the Throne on January 30, the Government indicated it intended to put more effort into attracting foreign investment. The Government announced it would be launching a branding strategy to raise awareness of the advantages of investing in Canada and inaugurating Investment Team Canada missions to the United States and Europe. In his Address in Reply, the Prime Minister noted that "We have a great story to tell American and overseas investors about the success of the Canadian economy. About Canada as a place to invest. About Canada as a place of action and excitement. We will be devoting a lot of effort with the help and cooperation of the private sector and the provinces to promote Canada as a highly innovative and skilled economy that attracts and keeps talent."

The research for this study began before the Speech from the Throne, but it provides important insight into how departments and agencies are currently positioned to meet the government's expectations for enhanced performance in attracting and retaining direct foreign investment (FDI).

## Origins

The review was commissioned in November 2000 by the two deputy ministers with primary responsibility for the government's FDI promotion efforts, the deputy minister of Industry and the deputy minister of International Trade. In addition to the operations of their own departments, they also co-manage Investment Partnerships Canada (IPC) created in October 1996 to lead and coordinate federal FDI promotion activities. Deputies requested a general review of IPC's mandate, its relations with partners and clients, and the instruments it has available to implement its mandate with specific reference to the Deputy Minister Investment Champion Program (DMICP).

The Terms of Reference divided the review into two phases: a diagnostic phase profiling the Canadian federal FDI promotion system including IPC, and a prescriptive and implementation phase during which parties would agree on directions for the future and a plan of action for affecting desired changes. This report deals with the first phase only.

## Objectives

The objective of the diagnostic phase of the review was to prepare a report which:

- Provides a profile of the federal government's investment promotion system, including mapping the investment promotion functions, processes, programs and mechanisms of federal departments and agencies and their connections with provincial and municipal partners (links with the private sector were not part of the focus of the study);

- Reviews IPC's mandate, activities and expected results; its relationships with partners and clients; its resources and operational capabilites; and its performance to date;

- Discusses issues related to the challenges and opportunities IPC faces in fulfilling its mandate and identifies gaps between expectations and performance; and

- Makes recommendations for follow-up action in a possible second phase of the study.

The objectives of a second phase would be "to reach agreement among parties on (a) clarification of mandates, responsibilities and accountabilities for IPC and its federal partners, and (b) measures to enhance their ability to meet joint objectives".

**Methodology**

The Terms of Reference divided the diagnostic first phase of the review into four parts:

- Part One focused on preparing a brief problematique to serve as a point of departure for the study. The problematique offered a general appreciation of current conditions, addressing such issues as the need for foreign investment, how the system functions, and the role of IPC. The main sources of information for the problematique were files and completed studies, and preliminary interviews with principals in IPC, Industry Canada, DFAIT, AAFC, and NRCan.

- Part Two focused on mapping out the FDI promotion activities of key players, exploring issues and concerns, and generating discussion of practical measures for improvement.

- Part Three consisted of refining understanding of issues and preparing the first draft of a report including an inventory of suggested options and prescriptions.

- Part Four was devoted to seeking validation of the findings and options, and developing a set of recommendations for follow-up action in a second phase study.

This four-part process was designed to maximize the involvement of key players, ensure the relevance and usability of the results, and prepare the groundwork for taking early action on an agreed plan for enhancing the federal government's investment promotion efforts.

**Sources**

The review drew on three main sources of information: interviews, internal papers and memoranda supplied by departments and agencies, and related studies and reports. The principal documentary sources are listed in Annex C.

Through individual interviews, group meetings, conference calls, and correspondence by e-mail, in the order of 85 people were able to provide input to the study. Among these were:

- four deputy ministers including the two who conceived and launched Investment Partnerships Canada,
- senior managers and operational level officials in four departments (Industry Canada, DFAIT, AAFC and NRCan) and at IPC,
- a group of heads of mission in the United States,
- investment counsellors in the United States, Europe and Asia, and
- a small group of provincial and municipal authorities.

Interviews were all off-the-record and generated frank and insightful commentary on the strengths of current arrangements and areas for development.

**Management arrangements**

An Interdepartmental Steering Committee served as a management board for the review, assisted by evaluation managers from Industry Canada and DFAIT. The Committee was comprised of representatives from IPC, Industry Canada, DFAIT, AAFC and NRCan, and was chaired by Mark Corey, Assistant Deputy Minister, Market and Industry Services Branch, Agriculture and Agri-Food Canada.

The Committee's responsibilities included approving the work plan of the review, meeting periodically to consider progress, ensuring the production of a balanced report useful to clients, and forwarding the results of the review to senior management.

# INTRODUCTION

*Money goes where it wants, and stays where it is well treated.*
(Walter Wriston, former chairman of Citibank)

## CANADA'S INTERNATIONAL BUSINESS DEVELOPMENT STRATEGY

The Government of Canada has set four goals for its International Business Development (IBD) Strategy:

- To create jobs and economic growth in Canada,
- To become the world's best trading nation by enhancing Canada's international competitiveness,
- To exercise leadership in global trade liberalization, and
- To make Canada the location of choice for investment in North America.

To realize these goals, a range of federal departments and agencies offer programs and services to Canadian business that address six specific challenges. One of these is improving Canada's share of global investment, particularly investments directed at the NAFTA region.

## THE IMPORTANCE OF FOREIGN INVESTMENT

Canada is at the leading edge of globalization. It is well integrated into the global economy, it is one of the most "wired" countries in the world, and it has been developing the people, processes and other assets critical to its success over the longer term. But it will find it difficult to sustain that position if its global competitors continue to attract a disproportionate share of international investment and if it fails to direct sufficient investment to critical sectors of the new economy. Attracting world-class companies to Canada and getting such companies to increase their investment in Canada facilitates the transfer of technology, promotes innovation, builds management expertise, improves productivity, and creates jobs. It has been calculated that every $1 billion increase in FDI increases GDP by $4.5 billion and results in 45,000 jobs by the fifth year.

During the 1990s, inflows and outflows of foreign direct investment involving OECD countries reached unprecedented levels. In 1998, firms from OECD countries invested about $575 billion abroad, 45% more than in the previous year. OECD countries in turn received about $465 billion in new foreign investments, a 60% increase over 1997. The United States and the UK have been the most prominent countries for FDI, representing about half of both outflows and inflows for the OECD area (see table on next page).

| **DIRECT INVESTMENT FLOWS IN SELECTED OECD COUNTRIES 1998 AND 1999 (Millions of US dollars)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **COUNTRY** | **Inflows/Ranking 1998** | | **Inflows/Ranking 1999** | | **Outflows/Ranking 1998** | | **Outflows/Ranking 1999** | |
| **USA** | **193,357** | **1** | **282,507** | **1** | **132,829** | **1** | **152,152** | **2** |
| **UK** | 64,388 | 2 | 82,176 | 2 | 119,463 | 2 | 199,275 | 1 |
| **Sweden** | 19,569 | 7 | 59,102 | 3 | 24,376 | 8 | 18,951 | 9 |
| **Germany** | 21,271 | 6 | 52,403 | 4 | 91,183 | 3 | 98,853 | 3 |
| **France** | 28,955 | 4 | 37,416 | 5 | 41,913 | 5 | 88,324 | 4 |
| **Netherlands** | 41,977 | 3 | 33,341 | 6 | 51,365 | 4 | 45,540 | 5 |
| **Canada** | **16,499** | **8** | **24,268** | **7** | **26,575** | **7** | **17,362** | **12** |
| **Belgium Lux** | 22,724 | 5 | 15,868 | 8 | 28,453 | 6 | 24,937 | 7 |
| **Japan** | 3,193 | 17 | 12,378 | 9 | 24,159 | 9 | 20,730 | 8 |
| **Mexico** | **11,311** | **11** | **11,568** | **10** | **--** | **--** | **--** | **--** |
| **Spain** | 11,797 | 10 | 9,357 | 11 | 18,935 | 10 | 35,421 | 6 |
| **Korea** | 5,416 | 14 | 8,798 | 12 | 4,799 | 14 | 4,044 | 15 |
| **Norway** | 3,882 | 16 | 6,579 | 13 | 2,418 | 16 | 5,483 | 13 |
| **Ireland** | 3,904 | 15 | 5,422 | 14 | 8,569 | 13 | 18,326 | 10 |
| **Australia** | 6,502 | 13 | 4,441 | 15 | 2,466 | 15 | -3,192 | 16 |
| **Switzerland** | 7,499 | 12 | 3,412 | 16 | 16,631 | 12 | 17,910 | 11 |
| **Finland** | 12,141 | 9 | 3,024 | 17 | 18,643 | 11 | 4,194 | 14 |
| **TOTAL OECD** | **509,313** | | **683,744** | | **636,480** | | **767,814** | |

*Source: "Recent Trends in Foreign Direct Investment", Financial Market Trends, No. 76, OECD, June 2000*

According to the OECD, the main factors contributing to the high levels of FDI have been deregulation, de-monopolization, privatization, and the reform of trade and investment regimes. FDI trends are also to some extent self-perpetuating. As multinational enterprises expand their global presence, suppliers of goods and services often follow in their wake. Further, when one firm invests abroad, its competitors often do as well.

Between 1992 and 1998, world FDI inflows quadrupled. But during the same period, FDI inflows to the United States increased by a factor of nine (from $19 billion to $189 billion). In 1992, the US share of world FDI inflows was 16%; in 1998 it was 40%. Canadian FDI inflows also rose dramatically, from $4.7 billion in 1992 to $16.5 billion in 1998 (3.5 times). But Canada's share of world FDI inflows declined from 4% to 3.5%, and its share of NAFTA FDI inflows declined from 16.6% to 7.6%. Since the mid-1990s, Canada has been a net exporter of FDI, and its stock of direct investment abroad now exceeds FDI in Canada

Summing up these findings, one senior official interviewed for this study concluded that a country which attracts less FDI than its competitors is failing.

## FACILITATING FOREIGN INVESTMENT

The "democratization" of finance, technology and information in the 1980s and 1990s opened up vast new opportunities for companies to expand market share and improve profitability. But as more companies went "global", the result was sharpened competition and squeezed profits in many industries. This produced two kinds of responses on the part of multinationals and start-ups alike: sell abroad to make up in volume for shrinking profit margins, and/or invest abroad in production facilities or expertise to become more effective global producers.

Increasingly, much foreign investment no longer takes the form of buying or building factories but of developing alliances with firms which can serve as affiliates, subcontractors or partners. These production relationships, in turn, are often highly volatile, moving from one country to another in search of the best conditions – low production costs, quality labour, tax deals, access to neighbouring markets, and other factors.

Every investment is a calculated one, based on a company's particular needs and wants. The easiest decision is to expand domestically, the next easiest to expand a successful investment already made abroad. In both cases, conditions are familiar and the risks reasonably well understood. The most difficult decisions are those involving launching operations in a new country whose culture, laws, and regulations are all alien. Companies contemplating new foreign investment typically approach the matter with great care, cognizant that the prospective benefits need to be substantial to offset the increased risk. To mitigate risk, companies go to a variety of sources for information on foreign conditions: their own research offices, accountants and law firms; investment bankers and venture capitalists; site selectors; companies already doing business abroad; and, inevitably, foreign governments.

Appreciating the benefits of foreign investment, there is strenuous competition among countries, states/provinces, regions and municipalities to induce multinationals and promising new companies to locate in one place rather than another. Many Western governments have developed a significant capacity to attract strategic foreign investment, including investment promotion programs, problem-solving services, and fiscal and financial incentives.

But attracting attention and making a business case for investment are different matters. The chairman of Intel, Craig Barrett, reports that ambassadors and statesmen from all over the world call on him every month to locate a plant in their country. Some countries, however, have more to offer than others. "We are the biggest investor in Ireland", Barrett has said, "because Ireland is very pro-business, they have a very strong educational infrastructure, it is incredibly easy to move things in and out of the country, and it is incredibly easy to work with the government. I would invest in Ireland before Germany or France." (*)

Attracting investors to Canada poses a number of problems, but cost is not one of them. A KPMG comparative analysis of eight OECD countries has found that Canada has the lowest overall costs for establishing and operating a business, including in eight of nine industries studied. Canada's competitive cost advantages include low land, construction, labour, electricity, and telecommunications costs. Annual location-sensitive costs including all taxes were lowest in Canada. On average, costs in Canada were 7.8% lower than in the United States. But Canada presents potential investors with other obstacles. Some of these are real (tax rates, a shortage of high-skilled labour, regulatory structure, and inter-provincial trade barriers) and some not (Canada's image as a resource-based economy).

An enduring problem is that Canada is often overlooked altogether.

## FROM FIRA TO IPC

Canada has come a long way over the last 30 years in how it approaches the issue of foreign direct investment. Following the rapid expansion of FDI in the early postwar years, the 1970s witnessed strenuous efforts on the part of host-states throughout the world to control the inflow of direct investment and manage its effects. By the 1980s, however, there was momentum in favour of the development of international rules that embodied principles of national treatment and restricted host-state policy discretion. The principal reasons were the deepening integration of the global economy, the demand for enhanced access to and security within host economies, and the changing role of a number of economies from capital importers to both importers and exporters.

(*) Quoted in The Lexus and the Olive Tree: Understanding Globalization, Thomas L. Friedman, The New York Times, Random House, 2000, p. 135

Canada's *Foreign Investment Review Act* exemplified the policy orientation of many Western governments in the 1970s. But during the 1980s, FIRA was replaced by the *Investment Canada Act*, a more accommodating regime which still preserved the government's ability to review important FDI files. In addition, the late 1980s and early 1990s saw the negotiation of the FTA and NAFTA, which included comprehensive rules on the treatment of foreign investors. These committed governments to national treatment, limited the types of performance requirements that could be imposed on investors, and placed restrictions on governments' ability to offer investment incentives. Considered a "state of the art" approach to foreign investment, Canadian negotiators sought to replicate NAFTA's obligations, exemptions and reservations in developing the Multilateral Agreement on Investment.

In the course of Program Review, the root and branch review of federal departments and agencies which took place between 1993 and 1995, Investment Canada was dissolved and its principal functions reassigned to Industry Canada and to the Department of Foreign Affairs and International Trade (DFAIT). Industry Canada assumed responsibility for investment issues within Canada, such as the development of strategy and investment review ("border in"), while DFAIT was in charge of promoting investment abroad ("border out").

In 1996, a federal strategy paper (*A New Strategy to Attract and Retain International Business Investment*) determined that international awareness of Canada and what Canada had to offer as an investment site paled beside that of the US, and that there was an urgent need to get Canada permanently on international investors' "radar". At a time when Canadian governments at all levels had been reducing or eliminating programs to assist businesses, other jurisdictions in the US, Mexico and Europe had been expanding their efforts to attract foreign investment. The strategy identified three objectives: (a) to increase international investor awareness of and confidence in Canada, (b) to attract new job-bearing international investments, and (c) to facilitate retention and expansion of existing investments. The strategy designated five countries and nine industrial sectors to be the focus of Canada's attention because of their "economic significance" and potential "return on effort".

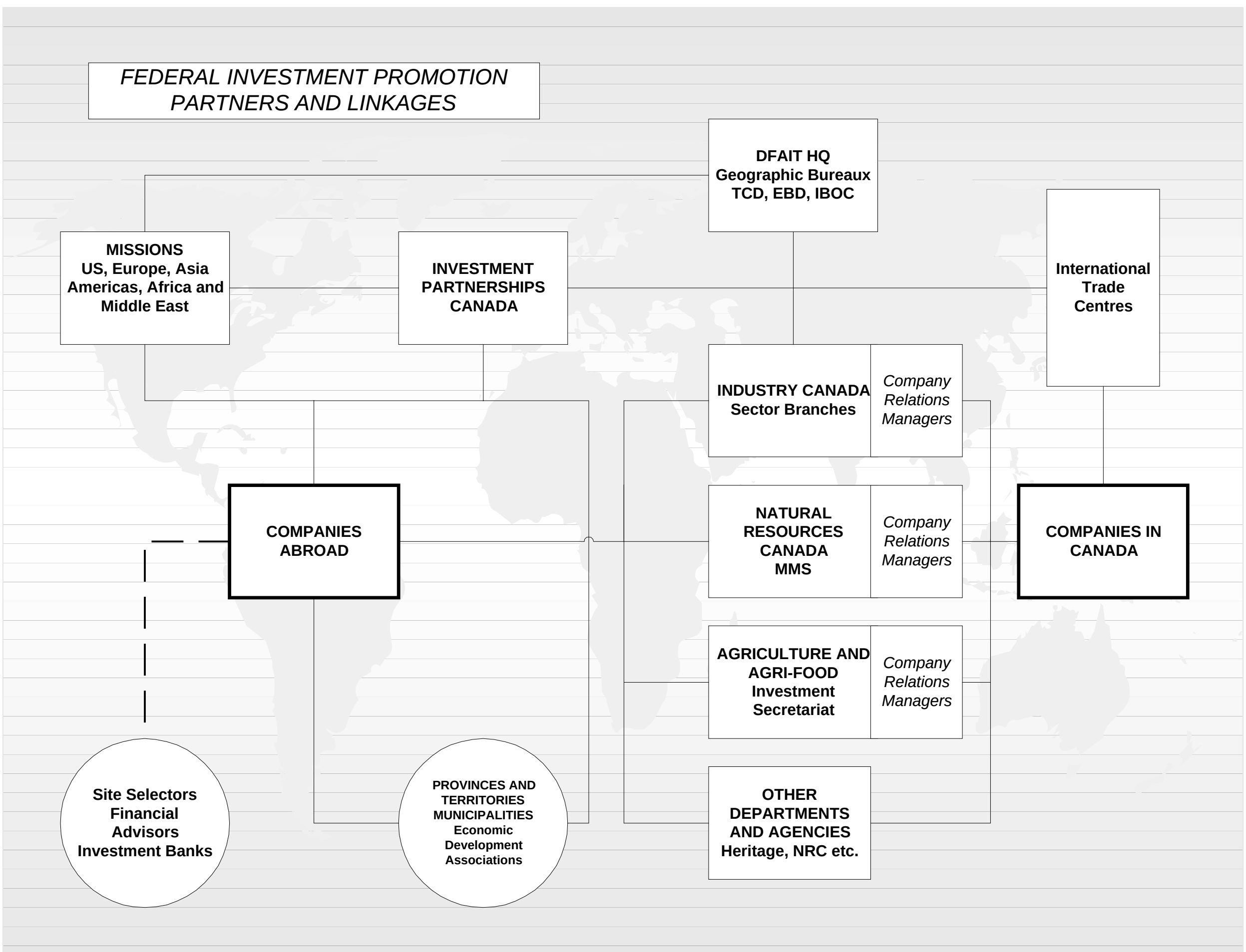
The strategy also announced that "Incremental to existing structures, a new jointly managed IC-DFAIT investment unit will be established to coordinate sectoral expertise when dealing with conglomerates and to focus resources on a selected few of the most promising MNE investors".

# INVESTMENT PARTNERS AND GOVERNANCE FRAMEWORK

## OVERVIEW

Within the federal government, the task of attracting foreign investment in Canada (as well as enhancing and protecting Canadian investments abroad) is shared by several parties. Foremost among these are a lead agency (Investment Partnerships Canada), three "domestic" departments (Industry Canada, Agriculture and Agri-Food Canada, and Natural Resources Canada), and one "international" department (Foreign Affairs and International Trade).

The following chart provides a rough approximation of how the various parties are currently linked together:



Each of the parties has a distinctive role to play:

- Investment Partnerships Canada was created in 1996 to lead federal campaigns to attract key MNE investment and to build partnerships among the three levels of government active in investment promotion.

- The role of the domestic departments is to determine Canadian economic development needs in their sectors and to develop strategies to meet those needs, including the encouragement of investment in particular sectors which could most benefit from it.

- The role of DFAIT is to advance international economic and trade policies to the advantage of Canadian industry, to provide international business development services to capable and committed organizations that have researched and selected their target markets, and to induce foreign companies with world-class expertise and technology to invest in Canada particularly in targeted sectors. DFAIT headquarters units focus mainly on strategic analysis, policy development, bilateral relationships management, and operational support to missions abroad, while missions focus mainly on program and service delivery.

In addition to the federal government, every provincial and territorial government also finances and supports an investment promotion program of some sort. In some cases (Quebec, Ontario, Alberta, BC), the provincial agencies are well resourced and even have missions of their own abroad. Major municipalities and regional development agencies are also engaged in investment attraction, more often than not in a reactive mode.

Cooperation among the partners is facilitated by a governance structure of lead deputy ministers, interdepartmental management committees and roundtables, and a federal/provincial consultative group.

Investment promotion, of course, is an integral element of Canada's International Business Development Strategy, and parties engaged in investment promotion are also active participants in the federal government's international trade promotion efforts. All are members of Team Canada Inc, a partnership of 23 federal departments and agencies working with provincial and territorial governments and others to help Canadian companies succeed in world markets.

## INVESTMENT PARTNERS

The following provides overviews of the mandates, priorities, organization and activities of the key parties.

### Investment Partnerships Canada

*Mandate and priorities*

Investment Partnerships Canada was created in October 1996, giving effect to the intention expressed in the 1996 investment strategy aide-memoire to establish an investment unit "to coordinate sectoral expertise when dealing with conglomerates and to focus resources on a selected few of the most promising MNE investors". From the outset, however, IPC was also conceived as playing a larger leadership role across government. In the event, its mandate focused on two objectives:

- To serve as a "strategic investment unit" to lead campaigns to attract and retain key MNE investment in Canada, principally through a program which engages deputy ministers in investment promotion activities abroad, and

- To operate as a "virtual agency" to coordinate the federal role in FDI attraction and to build "partnerships" among the three levels of government active in investment promotion.

In 1999, a "realignment" of responsibilities among departments enhanced IPC's coordination role by according it responsibility for *strategic analysis and policy development*, and for the *governance structure and administration* of federal investment promotion efforts. In addition, the "realignment" transferred other responsibilities to IPC, namely:

- To act as the "focal point for cross-sectoral and pan-geographic investment opportunities",

- To serve as a "single window" for servicing investment inquiries from Canadian missions and from prospective investors,

- To engage in marketing and communications including assuming responsibility for the federal government's "branding" initiative, and

- To assume responsibility from DFAIT for the administration of PEMD-I (Program for Export Market Development – Investment).

The net effect of these measures was a broadening of IPC's mandate which transformed it from being a small "strategic investment unit" and "virtual agency" into a multi-dimensional operational agency, accountable not only for its own programs but also for the effective integration and conduct of government-wide investment promotion programs.

To date, IPC's priority has been the *Deputy Minister Investment Champion Program* (DMICP), earlier titled the Deputy Minister Country Champion Program. The DMICP schedules and manages the international travel of seven deputy ministers to designated countries and to regions of the United States in pursuit of priority FDI investment projects. The program also supports six of these deputy ministers in addressing obstacles and impediments to investment in Canada.

In recognition of the importance and potential of the semi-conductor industry, IPC has also accorded special priority to working with companies in this particular sector to expand their investment in Canada. An Investment Projects unit manages major projects in the semi-conductor field and deals with aftercare.

In 2000, IPC established an Investor Services Group to enhance its ability to service inquiries from potential investors and from Canadian missions in contact with potential investors.

One other priority has been marketing and communications, refining the "message", gathering support data, and developing communications products. IPC also manages the "Invest in Canada" website which is a key element of the "Doing Business in Canada" cluster of services on the new Canada Site, and is also the focus of the Treasury Board funded GOL (Government on Line) Single Window for Investment Services pathfinder project.

IPC has also established a Branding Secretariat to manage the branding initiative on behalf of federal departments and agencies, a major focus of which has been two pilot projects in Boston and Dallas.

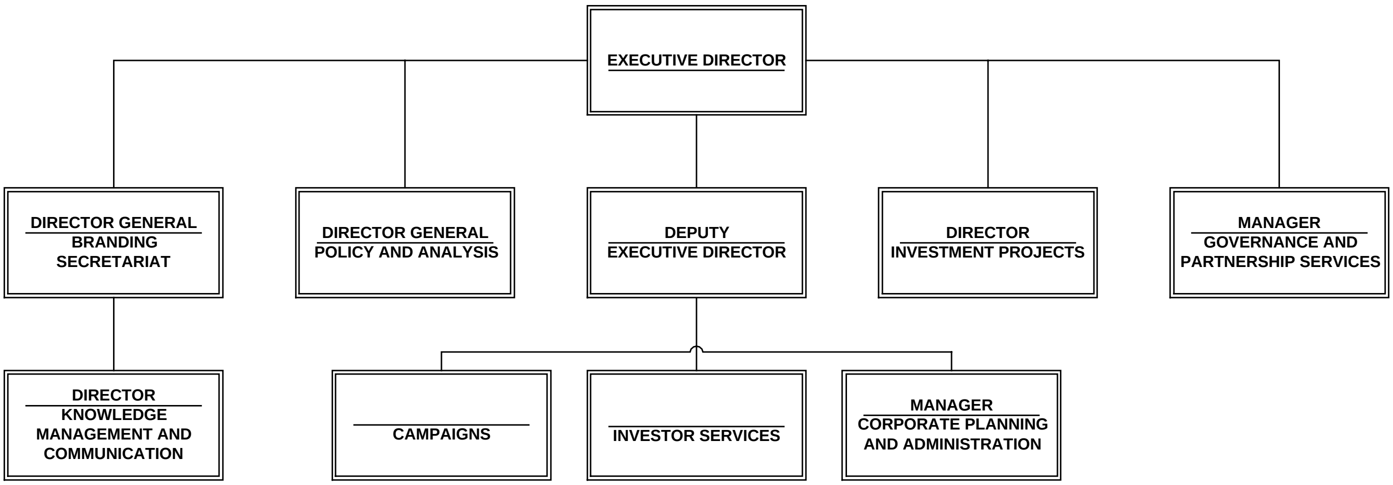
*Organization and activities*

The organization is managed by an Executive Director and a Deputy Executive Director with specific responsibility for the DMICP and for servicing. The current staff complement of approximately 60 individuals is divided into eight sections:

- A Campaigns unit to manage the DMICP program, consisting of 18 "account executives" divided into three groups: USA (6), Europe (9) and Asia (3);

- An Investment Projects unit of five people focused on semiconductors; and

- An Investor Services unit to deal with inquiries from missions, departments, provinces, municipalities, and prospective investors, consisting of five people: USA (2), Europe (2), and Asia (1);




- A Knowledge Management, Marketing and Communication unit of nine people, headed by a director, among whom one manages PEMD-I , one develops marketing materials, and three provide website support;

- A Branding Secretariat of five people, headed by a director general, to manage branding pilot projects in Boston and Dallas;

- A Policy and Analysis unit of five people, headed by a director general;

- A Governance and Partnership Services unit of two people;

- A Corporate Planning and Administration unit of five people.

IPC is jointly financed by Industry Canada and DFAIT, who share the costs according to a 60/40 ratio.

IPC's base budget is $3.5 million, of which Industry Canada contributes $2.1 million and DFAIT $1.4 million ($413K for 5 FTEs and $987K for O&M). In FY 2000/01, IPC's planned salary and O&M expenditures totaled $4.9 million. At inception, IPC's base staff was 24 FTEs (19 from IC and 5 from DFAIT). IPC's current staff totals 58, which includes contract and agency personnel as well as contributions from HRDC and Transport Canada. (AAFC also supports the salary of one FTE at IPC.)

IPC also has a separate budget for "branding" in the range of $6.0 million over two years, to which Industry Canada and DFAIT each contribute $1.0 million a year, ACOA $395K and AAFC $290K. In addition, IPC administers a budget of $5.0 million for the PEMD-I program.

## Industry Canada

*Mandate and priorities*

Industry Canada's mandate is "to help make Canadians more productive and competitive in the knowledge-based economy" through improving Canada's innovation performance, making Canada the most connected nation in the world, building an efficient and competitive marketplace, improving Canada's position as a preferred location for domestic and foreign investment, and working to increase Canada's share of global trade.

On investment, the department performs several functions. Key among these are (a) to provide information, policies and services to business clients, (b) to assist SMEs to form international investment partnerships, (c) to work to attract and retain increased MNE investment in Canada, (d) to increase awareness of Canada as an investment location of choice, and (e) to improve the domestic and international investment climate by adopting competitive, efficient and fair marketplace laws and regulations for both businesses and consumers. The department has five priority sectors for investment: automotive, aerospace, chemicals/petrochemicals, life sciences, and information and communications technologies.

*Organization and activities*

Primary responsibility for investment issues is divided among three assistant deputy ministers and their respective organizations: (a) Industry and Science Policy, (b) Industry Sector, and (c) Spectrum, Information Technologies and Telecommunications.

Industry and Science Policy is responsible for "leading the development of industry, science, international business, and economic framework policy in the department". Within the organization, there are branches devoted to economic policy analysis, international business, and strategic policy development, all of which play a role on the investment front. The economic policy analysis branch includes a strategic investment analysis division as well as a business frameworks and taxation policy analysis division. The international business branch contains four divisions dealing with trade and investment, among which are an international investment and services policy division and an investment review division (the vestiges of Investment Canada).

The role of Industry Sector is to "support and promote a more innovative and intellectually competitive economy through trade, technology, investment and human resource development by providing detailed sectoral analysis, strategic policy advice and information services for business".

Industry Sector comprises eight sector branches supporting all the manufacturing, processing and services industries, other than information communications and technologies (and tourism). A number of the sector branches, notably aerospace and automotive, have a long history of engagement on investment issues. Others, such as life sciences, have active investment promotion programs of more recent vintage. And some sector branches appear to have been largely inactive to date on the investment front. Among the sector branches there is little uniformity of approach to managing investment issues. The pattern varies from detailing one or two individuals to assume responsibility on behalf of the sector to dedicating a unit to the cause.

While the Industry Sector does not have a dedicated investment unit, the investment activity resources of IS are 32 FTEs and an operational budget of $667K. In FY 2000/01, each of the four priority sector branches (automotive, aerospace, chemicals/petrochemicals, and life sciences) received $115K for investment-related activities; non-priority branches received $20K. Funds were also set aside for training ($25K), with the focus on developing Company Relationship Managers.

Spectrum, Information Technologies and Telecommunications fosters the early development and use of information and communications technologies, infrastructure and services. The sector uses its policy and regulatory rule-making powers and sector development services to promote the development of Canada’s telecommunications and information infrastructure, the international competitiveness of Canadian IT and telecommunications industries, and the strategic use of IT by all sectors of the Canadian economy. (It also ensures the effective and efficient use of the radio frequency spectrum.)

A key component of the organization is the Information and Communications Technologies branch. ICT is divided into four divisions, one focused on sector and corporate analysis, one on innovation, and two on international business development -- one for trade and one for investment. The latter is a one-year old division (International Business Development – Investment) with a personnel complement which has already grown to fourteen. ICT also has 20 officers at regional offices across the country. ICT’s budget for investment-related operations is in the order of $400K.

### Agriculture and Agri-Food Canada

*Mandate and priorities*

The mandate of Agriculture and Agri-Food Canada (AAFC) is to provide information, research and technology, policies and programs in order to achieve security of the food system, health of the environment, and innovation for growth. The overall goal is to contribute to the quality of life for all Canadians by promoting the development, adaptation, and competitiveness of the country’s agriculture and agri-food sector.

*Promoting Foreign Investment*

Promoting strong investment in the sector and in rural Canada is a key departmental priority, as it will help make Canada a world leader in agriculture, food and bio-based life science industries. The main thrusts of the department's investment strategy are (a) to improve the business climate in Canada, (b) to promote Canada as the "location of choice" within North America, and (c) to retain and attract incremental investment and strategic alliances. This approach is consistent with the Federal-Provincial Investment Strategy which has driven joint agri-food investment initiatives since agriculture ministers from across Canada endorsed it in 1998. Furthermore, the departmental strategy has been expanded to include high-tech life science industries that use agricultural inputs, such as bio-materials, bio-energy, bio-health and nutraceuticals, and bio-services. Attracting foreign firms in this area would stimulate the technological infrastructure of the life science industry in Canada, both through the processes, products and market linkages that firms introduce, and through the "backward" relationships they provide to suppliers (whether of agricultural inputs produced under increasingly sophisticated methods or of equipment, packaging and research).

*Organization and activities*

The focal point for investment attraction resides in the department's Market and Industry Services Branch. Specifically, the Investment Secretariat was created in 1999 to help retain and expand existing investment in Canada's agriculture, food and bio-based life sciences industries, to encourage new foreign investment in the sector, and to broker alliances and partnerships among Canadian and international enterprises. The Secretariat serves as the primary contact point in AAFC for information, services and programs related to international investments and strategic alliances in the agriculture and agri-food sector. It is the key link with IPC, DFAIT, missions abroad, provinces and investors. The Secretariat is responsible for:

- Developing and implementing the department's agri-food and life science investment framework,
- Servicing investment inquiries,
- Promoting Canada as a place to do business,
- Participating in inter-departmental investment initiatives, and
- Leading selected key projects.

AAFC's Investment Secretariat is headed by a director and has a core staff of 10. There are dedicated units within the Secretariat to deal with investment promotion (two officers), agri-food investment (three officers), and life science investment (three officers). The Investment Secretariat has built a larger matrix organization which includes the department's sectoral, regional, and international trade specialists and brings their expertise to bear on investment cases and initiatives. Consequently, the Secretariat maintains an extensive network of contacts consisting of sector experts (grains, dairy, etc.), trade specialists, policy advisors, researchers, inspectors, and regional marketing officers.

The Secretariat has worked with Industry Canada to adapt the Company Relations Manager training program for matrix staff, to enhance understanding of investment throughout the department and related agencies. AAFC also funds a Senior Account Executive position in IPC responsible for managing the Deputy Minister Investment Champion Program for the central US region.

AAFC also works with federal and provincial counterparts in Canada and abroad to implement investment attraction activities in a strategic and coordinated manner. For instance, the department has coordinated the common strategy and ongoing activities of the Federal-Provincial Steering Committee on Investment since it was formed in 1997. Examples of joint initiatives include a competitor intelligence study of state investment programs in the United States and a myth-busting promotional campaign in the central United States. Furthermore, AAFC is one of four departments sponsoring the Brand Canada pilot projects and has played an active role on the interdepartmental steering committee directing the project. Lastly, the Secretariat coordinates with sector experts, provinces, and missions abroad to develop common target lists of foreign companies for corporate calls (including the DMICP), to prepare business cases and domestic calls, and to conduct follow-up actions which turn investment prospects into successes.

## Natural Resources Canada

*Mandate and priorities*

The goal of Natural Resources Canada (NRCan) is to make Canada “the world’s ‘smartest’ natural resources steward, developer, user and exporter”. To achieve this goal, the department generates and disseminates scientific knowledge and research on forests, earth sciences, energy, and minerals and metals; promotes the long-term sustainable development of natural resources; and encourages investment in natural resource technologies, services and development.

Since the early 1990s, a priority of the department has been to attract a greater share of mineral investment flows and correct the negative views of Canada’s investment climate. Pursuant to an intergovernmental study to evaluate the “competitiveness” of Canada’s mineral investment climate, the department initiated a comprehensive investment program in Canada and abroad. Current activities are aimed at increasing interest in Canadian mineral properties and Canada’s minerals and metals industry; promoting Canadian advances in mining, mineral processing, and related technologies; and highlighting Canada’s ability to supply a broad range of equipment and services to the world’s mining community.

*Organization and activities*

A small Trade, Investment and Missions division within the Strategic Planning and Coordination Branch is responsible for organizing ministerial missions and other high-level NRCan contacts internationally. In this, the division draws on a broad range of departmental expertise in energy, forestry, minerals and metals, and resource-related technologies.

The organization most actively involved on investment issues is the Minerals and Metals Sector (MMS). Within the Sector, the principal constituents are a policy branch, a technology branch, and an economic and financial analysis branch. The latter has been the locus of much of the department's investment promotion activities, some of which date back to the mid-1980s. MMS has a broad range of interests, in addition to investment promotion, and its industry contacts – both nationally and internationally – cover many issues (investment climate, taxation, environmental regulation etc.). The broad scope of these contacts improves credibility and is an important advantage when MMS approaches industry for the purposes of marketing Canada as an investment destination. MMS investment events have been characterized by a high degree of participation by private sector parties with experience in assisting foreign investors in Canada's minerals and metals industry.

Investment activities have traditionally focused on four main target groups:

- The investment and financial community (e.g. London, Geneva, Hong Kong, Taiwan)
- The mining community (e.g. Australia, the United States, Chile, South Africa)
- Major importers of minerals and metals (e.g. Japan, Korea)
- Government and quasi-government agencies (e.g. the Metal Mining Agency of Japan, Korea Resources Corporation, China Nonferrous Metals Corporation).

Directed at informing both upper management decision-makers and middle-level technical experts, activities include ministerial-led missions overseas, investment-related calls by deputies, participation at major international mining events such as the annual *Investing in the Americas* conference in Miami, the organization of seminars and conferences, technical discussions with senior executives in both the mining and investment communities as well as governmental and non-governmental organizations, publication of articles, and innovative websites.

NRCan benefits from excellent industry contacts, quality analysis, and knowledge of investor concerns. These are considerable advantages in developing effective contacts with foreign investors, but assembling a public/private partnership which will pay its way and be a success with potential investors absorbs a good deal of time. NRCan's investment promotion experience has convinced it that putting on investment events is worthwhile, but these are costly in terms of personnel time and there is no departmental budget earmarked for investment promotion.

NRCan typically has more requests for investment seminars than it is capable of fulfilling, and officials believe that without the high level support of Canadian missions abroad and the willingness of other government and private sector participants to share some of the overhead costs, they would not have been able to accomplish what they have.

***The "Company Relations Managers" program***

Departments have long maintained links with companies in their sectors. Since mid-2000, however, the industry sector branches at Industry Canada, along with units within AAFC and NRCan, have been collaborating in developing a cadre of *Company Relations Managers* (CRMs) to serve as lead contacts between departments and companies in their respective sectors.

While the exact functions of CRMs remain to be decided, key responsibilities include:

- Developing a specific focus for investment work with companies,
- Undertaking the necessary analysis and intelligence collection to develop a strategy for dealing with particular prospects, in collaboration with IPC and DFAIT,
- Developing tailored information products, and
- Following through on the execution and aftercare of campaigns.

A training program has been developed to prepare officials to serve as CRMs. The program lasts three to five days depending upon participants' needs, covers the fundamentals of international business development, and incorporates case studies to enhance learning. The program appears to provide the kind of introduction new CRMs need, but those involved recognize that it represents only a beginning. While there is uncertainty over the exact number who have participated in the program to date, the program facilitator estimates the total to be in the order of 100 – 80 from Industry Canada, 18 from AAFC, and a handful from NRCan and DFAIT.

## Foreign Affairs and International Trade

*Mandate and priorities*

The core of DFAIT's mandate is to conduct "the external affairs of Canada, including international trade and commerce and international development". The 1985 Act specifies that the department is to "coordinate Canada's international economic relations" and "foster the expansion of Canada's international trade". To facilitate the exercise of its mandate, the Act specifies that the department is also to "coordinate the direction given by the Government of Canada to the heads of Canada's diplomatic and consular missions". DFAIT is responsible, therefore, for (a) substantive policy issues, (b) the delivery of specific programs and services, and (c) ensuring a coordinated approach to international issues shared among departments.

In FY 2000/01, the priority of DFAIT's *Trade and Economic Policy* business line is "the effective management of Canada's trading relationships and liberalization of trade and capital flows around the world, based on clear and equitable rules that reflect Canadian interests". Objectives include bilateral and multilateral agreements that promote balanced trade and investment liberalization, and stimulation of export performance and investment through improved conditions of access to markets.

The priority of the *International Business Development* business line is "encouraging Canadian firms to take full advantage of international business opportunities and facilitating inward investment and technology flows". Objectives include (a) the growing participation of Canadian business, particularly SMEs, in the international economy, (b) attraction and retention of job-creating international investment in key sectors, and (c) private sector strategic alliances in investment and technology. Objectives include growing participation of Canadian business, particularly SMEs, in the international economy; attraction and retention of job-creating international investment in key sectors; and, private sector strategic alliances in investment and technology.

*Organization and activities*

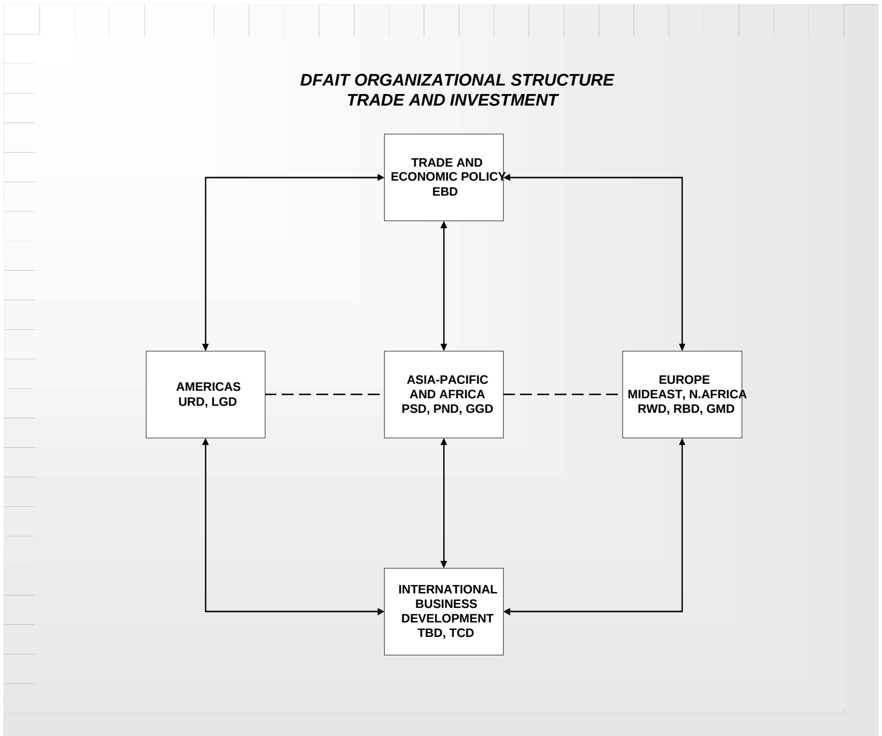
The department has a matrix organizational structure which reflects the duality of DFAIT's mandate: (a) managing issues and (b) conducting operations through a network of 162 missions worldwide. In the trade and investment area, leadership is shared among two "functional" branches" and three "geographic" branches, each headed by an Assistant Deputy Minister. Within each branch are subordinate bureaux and divisions with varying degrees of responsibility on investment issues.

On the functional axis, the Trade and Economic Policy branch is concerned with global trade and investment, and with the development of international rules to facilitate the pursuit of Canada's trade and economic interests worldwide. The branch includes a Services, Investment and Intellectual Property bureau (EBD) whose Investment Trade Policy division (EBI) is focused on the development and implementation of policy with respect to multilateral and bilateral investment regimes.

The International Business Development branch is concerned with promoting exports abroad and attracting investment and technology to Canada. To this end, the branch has a policy and planning bureau (TBD) to ensure that plans and assets are in place to assist Canadian industry, and an overseas programs and services bureau (TCD) to support the delivery of business and partner-client services abroad through the Trade Commissioner Service.

- Within TBD, there is a Policy and Strategic Planning division (TBX); a Science and Technology division to facilitate commercial cooperation in S&T, venture financing, and partnering (TBR); a division for Export Services to Small and Medium-Sized Enterprises (TSME), an Export Financing division (TBF); and a division in support of Team Canada Inc. (TBL).

- Within TCD, there is an Overseas Operations division (TCS), a Trade Commissioner Marketing Division (TCW), a Market Support division (TCM), a Team Canada Trade Missions division (TCT), an Export Development division (TCE), and the International Business Opportunities Centre (IBOC).




On the geographic axis, the department is divided into three geographic branches: (a) Americas, (b) Asia-Pacific and Africa, and (c) Europe, Middle East and North Africa. Each branch, in turn, is divided into a number of geographic bureaux whose functions are to develop integrated Canadian strategies towards particular regions and countries, coordinate the execution of government programs and services in those areas, and manage the operations of their respective missions in the field.

Geographic bureaux comprise a mix of political/economic and trade officers from the Foreign Service (FS), along with an assortment of non-FS officers with particular subject expertise as required. Bureaux which deal with larger countries have dedicated units or individual staff members to handle trade and investment issues. These are:

- the United States Bureau (URD) which has a separate United States Business Development Division (URT) to handle trade and investment issues;

- the European Union, North and West Europe Bureau (RWD) whose Northern Europe Division (REN) has a European Business Development section (RENB), and

- the two bureaux for the Asia-Pacific region (North Asia and Pacific Bureau -- PND) and South and Southeast Asia Bureau – PSD) who are jointly served by the Asia Pacific Regional Planning and Coordination Unit – Trade and Investment (PSNP).

Otherwise, regional and country desk officers manage trade and investment issues along with all the other issues which arise within their individual portfolios.

Notwithstanding the volatile character of international affairs and the necessity of responding in a timely manner to new and unforeseen developments, the department’s annual planning process endeavours to set priorities and develop plans for achieving important objectives during the year. Inevitably, plans are the product of extensive consultations between functional and geographic branches, and between DFAIT and the several departments and agencies with international interests and operations. On investment issues, the geographic bureaux whose regions present the most significant inward (or outward) investment opportunities are the most actively involved in working with other departments and with missions in planning and implementing investment promotion activities – through such units as URT, RENB and PNSP. Additionally, functional bureaux are concerned to ensure that the support infrastructure and field operations are working effectively – in large part through TCS and TBR.

***Missions***

The department’s matrix organizational structure also conditions the work of the missions. Under the direction of the ambassador or consul-general (larger missions are managed by DM-level or senior EX officers), missions are tasked to conduct local operations which reflect an integrated Canadian approach to the country in question. Heads of mission and senior officers are personally involved in all major issues engaging the mission, whatever the origin or nature of an issue may be, and sections within a mission are expected to work in close cooperation with one another, sharing information and resources as necessary. On the business development front, missions are tasked with generating local market intelligence and assisting Canadian businesses to find trade and investment partners. Heads of mission and business development officers routinely call on leading businesses in their territory to explore trade and investment opportunities.

On investment issues, missions can be grouped into three categories: (1) missions with dedicated investment sections or investment counsellors, (2) missions with trade officers who can perform investment functions, and (3) missions with no designated investment development capacity. (Every mission, of course, has at least a minimum capacity to carry out specific tasks assigned to it in any field.)

The first category consists of 21 missions, half of which are in the United States, the rest divided between Europe and Asia

- USA (12): Washington, Atlanta, Boston, Chicago, Dallas, Detroit, Los Angeles, Minneapolis, New York, San Francisco, San Jose, and Seattle.
- Europe (5): London, Paris, Berlin, The Hague, and Milan.
- Asia (3): Tokyo, Hong Kong, and Taipei.
- Latin America (1): Mexico.

The second category includes an additional 48 missions, most of whom are also in the United States, Europe and Asia.

- USA (3): Buffalo, Miami, Princeton
- Europe (13): Vienna, Brussels, Copenhagen, Helsinki, Munich, Athens, Dublin, Oslo, Lisbon, Madrid, Stockholm, Berne, Ankara
- Asia (18): Canberra, Brunei, Beijing, Guangzhou, Shanghai, Mumbai, New Delhi, Jakarta, Osaka, Kuala Lumpur, Auckland, Manila, Singapore, Bangkok, Hanoi, and Ho Chi Minh City, Seoul, and Sydney
- Latin America (2): Monterrey, Sao-Paulo
- Africa (5): Pretoria, Rabat, Algiers, Cairo, Tunis
- Middle East (7): Abu Dhabi, Riyadh, Tel Aviv, Tehran, Amman, Kuwait, Beirut

In summary, DFAIT is in a position to manage investment issues at 69 missions in 47 countries.

## *PROVINCES AND TERRITORIES*

Every provincial and territorial government now has an organization mandated to promote economic development, all of which have units dedicated to investment attraction. In most cases, the investment function is performed within a ministry of economic development and/or trade and industry; but Quebec, Manitoba and PEI have established public corporations for this purpose. Ontario and Quebec appear to have the largest investment attraction programs, followed by Alberta and British Columbia. In some cases, provincial government departments like their federal counterparts also have people assigned to investment promotion (e.g. the Ontario Ministry of Agriculture, Food and Rural Affairs which has 12 individuals performing this function).

| PROVINCIAL/TERRITORIAL DEPARTMENTS/AGENCIES |
|---|
| **BRITISH COLUMBIA**<br>Ministry of Employment and Investment, BC Trade and Investment Office |
| **ALBERTA**<br>Department of Alberta Economic Development |
| **SASKATCHEWAN**<br>Department of Saskatchewan Economic and Cooperative Development |
| **MANITOBA**<br>Manitoba Trade and Investment Corporation |
| **ONTARIO**<br>Ministry of Economic Trade and Development, Investment Division |
| **QUEBEC**<br>Investissement Québec |
| **NEW BRUNSWICK**<br>Department of Investment and Exports, Invest New Brunswick |
| **NOVA SCOTIA**<br>Department of Economic Development, Investment Trade Division |
| **PRINCE EDWARD ISLAND**<br>Prince Edward Island Business Development Inc. |
| **NEWFOUNDLAND**<br>Department of Industry, Trade and Technology, Trade and Investment Division |
| **NORTHWEST TERRITORIES**<br>Department of Resources, Wildlife and Economic Development |
| **YUKON**<br>Department of Economic Development |
| **NUNAVUT**<br>Department of Sustainable Development |

The following provides brief descriptions of provincial government operations. Further details can be found in Annex A.

### Ontario

In Ontario, the Ministry of Economic Development and Trade has an Investment Division whose objective is “to market Ontario to the world as a preferred location for North American investment”. The division, which is led by an assistant deputy minister, is comprised of two branches:

- *Investment Marketing and Sales* to develop image and investment marketing strategies for the province and generate leads through corporate call programs by in-market sales representatives and marketing staff who travel to target markets. The branch has an *Investment Marketing* section (8 people), an *International Investment Sales* section (6 people), and a *US Investment Sales* section (8 people).

- *Investment Branch* to provide investment and business services to prospective investors and to multinational enterprises located in Ontario, and to assist with business immigration issues. The branch has an *International Investment Services* section (5 people), an *Ontario Investment Services* (8 people), a *Key Investment Account Program* (9 people), and a *Business Immigration* program (7 people).

Ontario recently recruited three investment development officers in the United States, and within the next year expects to have ten around the world (six in the US, three in Europe, and one in Asia). In FY 1999/00, the province's investment marketing program, titled "Market Ontario", had a staff complement of 77 people and a budget of $26.3 million.

**Quebec**

Investissement Québec is a government corporation established in 1998/99 "to promote investment growth in Quebec by positioning Quebec as a hub of creativity and productivity that allows companies to be competitive in the context of globalization.

Principal responsibility for foreign investment promotion rests with the Vice President for Investment Promotion and Prospecting, who supervises the operations of three "front-line" divisions: *Subsidiaries Development*, *Americas*, and *Overseas*. Staff within each division are divided into (a) *prospectors* whose function is to generate leads and (b) *project managers* whose function is to do preparatory and follow-up work. Most prospectors are based in Montreal but they are constantly on the road. Four are based in Paris. In total, there are 49 people working on investment promotion activities, with an operational budget of $32.7 million.

Among the resources available to these divisions are: (a) the Competitive Intelligence Office "to seek out new investments, consolidate those already made in Quebec, and establish strategies by helping to identify emerging technologies on which Investissement Québec must focus", (b) the Horace Data Bank and Internet Window which provides Quebec economic agents and potential investors with investment-related information held by 13 government departments and agencies, (c) Multimédia-Québec, a marketing tool which provides quality presentations about the Quebec economy, and (d) Prospect-Québec Extranet which links all Quebec agents responsible for prospecting with key personnel and data in sectoral departments.

As of March 31, 1999, Investissement Québec had a financial portfolio of $1.6 billion, with net income of $24 million.

## Alberta

Alberta's International Marketing Strategy (AIMS) reflects Alberta's heavy reliance on trade and investment for its economic growth. More than 2000 Alberta businesses export goods and services to more than 150 countries, and the province consistently records the highest investment per capita among provinces of Canada, with a total of $31.3 billion in investment in 1999. AIMS focuses on the regions and sectors that offer the greatest possibilities for new or expanded business opportunities, and its investment promotion efforts target companies which already hold substantial investment positions in Alberta, are world leaders in FDI, offer special expertise, or express an investment interest in Alberta's targeted industry sectors.

The Department of Alberta Economic Development, specifically the International Markets Division, leads these efforts, but other departments also have specific mandates to facilitate international investment (and trade). The objective is "to get accurate information to our clients, Alberta businesses, within the appropriate time so that it is of enough value to assist Alberta's industry in making investment decisions in response to market opportunities". In keeping with this philosophy, the province has created a "strategic economic planning framework" to involve the private sector.

Unlike Ontario or Quebec, Alberta has an extensive network of international offices. Alberta has three offices in China, another in Japan with a permanent staff of 13 plus contractors, and others in Hong Kong, Taiwan, Korea, and Portland, Oregon. In the FY 2000/01 estimates, the budget of the department of Alberta Economic Development was $51.2 million, of which $29.1 million was for marketing and business development and $5.1 for ministry support services.

## British Columbia

In British Columbia, responsibility for investment issues resides with the Ministry of Employment and Investment, specifically the B.C. Trade and Investment Office. The Office, which operates under the direction of an assistant deputy minister, is responsible both for promoting export trade for BC-based firms and facilitating private sector investment projects and opportunities, along with the administration of various provincial funds and enterprises.

The Office consists of (a) an *Investment Facilitation Branch* which assists investors and prospective investors with all levels of government and regulations, provides analytical support, and supports promotional activities, (b) an *International Services Branch,* (c) a *Strategic Industries Branch,* (d) a *Strategic Business Unit – Asia Pacific*, and (e) a *Japan Trade Unit* focused on maintaining and enhancing BC business relations with Japan, the province's largest trading partner in Asia. The Office has a staff complement of 60 people, not including contract personnel, 15 of whom are sector specialists with a capacity to deal with both the trade and investment dimensions of issues. The Office also manages offices in Tokyo, Taipei and London, at a cost of about $2 million per annum.

### *OTHER PROVINCES*

Other provinces have more modest investment attraction operations, each with its own structure and mode of operation. But they tend to share certain features: (a) a determination to accentuate their distinctive competitive advantages, without explicit comparison with other jurisdictions, (b) third-party testimonials to support their business case arguments, (c) a willingness to provide prospective investors with easy access to managers and business development officers, including providing their names, telephone numbers and e-mail addresses (Newfoundland provides toll free numbers for inquiries from anywhere in North America and from ten countries overseas), and (d) websites which link to federal institutions.

***SELECTED FEDERAL AND PROVINCIAL RESOURCES FOR INVESTMENT PROMOTION***

| **ORGANIZATION** | **FTEs** | **O&M** |
|---|---|---|
| INDUSTRY CANADA | | |
| Industry Sector | 32 | $667K |
| Information Communications and Technologies | 14 | $400K |
| AGRICULTURE CANADA | | |
| Investment Secretariat | 11 | $270K |
| Contribution to IPC | 1 | $500K (branding) |
| NATURAL RESOURCES | | |
| Minerals and Metals Sector | 5/10 | $10/20K |
| DFAIT | | |
| Trade Branch – O&M Funding for IPC | -- | $1.4 million |
| Trade Branch – Contribution to Branding | -- | $1.2 million |
| Trade Branch – Investment Promotion | -- | $900K |
| US Branch | 2 | --- |
| US Missions | 13 | $342K |
| Europe Branch | 3 | $1.0 million |
| Europe Missions | 20 | $5.0 million |
| Asia Branch | 1 | --- |
| Asia Missions | 6 | $241K |
| INVESTMENT PARTNERSHIPS CANADA | 58 | $4.9 million (total) |
| *DMICP* | *18* | *$448K* |
| *Servicing* | *5* | --- |
| *Marketing/Communications/Branding* | *15* | *$3.2 million* |
| ONTARIO | | |
| Investment Promotion and Prospecting | 77 | $26.3 million (total) |
| QUEBEC | | |
| Investissement Quebec | 49 | $32.7 million (total) |
| ALBERTA | | |
| Alberta Economic Development | --- | $35.0 million (total) |
| BRITISH COLUMBIA | | |
| Trade and Investment Office | 60 | $2.0 million |
| *N.B. Data represents rough estimate and is incomplete.* | | |

## ***MUNICIPALITIES***

At the municipal level of government, there would not appear to be any fixed approach. Size, location, and economic circumstances all condition how a municipality might approach the task of local economic development and what kind of resources it would be willing or able to commit.

Larger jurisdictions tend to have organizations whose mandates include both the care of companies which have already invested locally and modest investment attraction programs directed at new business. In some cases, municipalities can afford to join federal or provincial missions venturing abroad or to attend conferences and conventions of value in promoting business for their jurisdictions. More often, however, it is a matter of developing promotional materials and a website to respond to inquiries, and assigning staff to work with companies who have declared a serious interest in investing or forming a partnership and need practical assistance in acquiring property, dealing with local regulations, and the like.

In six provinces (BC, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia) there are economic developers associations to encourage cooperation and enhance professional standards among the members. An umbrella organization, the Economic Developers Association of Canada (EDAC) has over 450 members.

## GOVERNANCE FRAMEWORK

Governance of the federal investment promotion function is complex and still evolving.

### *Deputy Minister of Industry and Deputy Minister of International Trade*

Effective management of the process rests with the deputy minister of Industry and the deputy minister of International Trade, by virtue of the leading roles their departments play on foreign investment issues and their joint supervision of IPC. Deputies meet about once a month, to review an agenda prepared by the Executive Director of IPC, which covers both policy and operational issues.

### *Deputy Minister Advisory Board*

Supporting the two lead deputies is an “Advisory Board” consisting of the deputy ministers who participate in the Deputy Minister Investment Champion Program. The Board is co-chaired by the lead deputies, meets twice a year, and draws on IPC as its secretariat.

The Board does not yet have agreed terms of reference, but a draft under consideration suggests that members will see their responsibilities as (a) putting to ministers, and thereafter implementing, an integrated federal government investment strategy, which identifies priority markets and sectors, sets an investment policy agenda, lays out an investment business plan, and agrees on performance measurement, and (b) leading in resolving investment climate issues.

*ADM Investment Council*

At the next level is a 10-member ADM Investment Council, designed to bring together ADMs from Industry Canada (4), from AAFC and NRCan, and from DFAIT (4) responsible for international business development and the department's geographic branches. While the Council's terms of reference are still under consideration, the intent is to provide a forum for high-level consideration of investment issues, development of inter-departmental consensus on investment strategy, and horizontal management of the investment agenda. It is planned that the Council meet four times a year.

The Council is a new institution and serves to engage ADMs in an important area of public policy from which some had hitherto largely been excluded. But it is not clear from the Council's first two meetings (in August and in November of 2000) how ADMs plan to use the new forum.

*DG Investment Committee*

A DG-level investment committee does not yet exist, but consideration is being given to creating one to manage the process of identifying priority markets and sectors, developing business plans, and preparing the agendas for the ADM and DM committees.

Some other committees of DGs already exist in some sectors (e.g. Aerospace and Automotive, Agriculture) and among geographic bureaux at DFAIT (chaired by the Deputy Executive Director of IPC).

*Roundtables*

At the working level, two sets of roundtables have been established to provide forums for inter-departmental discussion on operational issues such as sector and country strategies and company targeting.

<u>Sector Roundtables</u>

There are currently seven sector roundtables: Chemicals, Minerals and Metals, Life Sciences, Automotive, Aerospace, Agriculture and Agri-Food, and Information Technology. Each roundtable is chaired by an officer from the relevant sector branch in Industry, NRCan or AAFC, typically at the director or section head level.

There is an expectation that the roundtables will follow similar practices, but in fact practice varies widely:

- Some of the roundtables meet regularly every three months, others less frequently or hardly at all.

- Representation naturally varies from sector to sector, but there is an ad hoc character to departments' selection of which roundtable meetings they will attend and at what level. The participation of DFAIT geographic bureaux and missions, and of the regional offices of other departments, is uneven.

- Some roundtables appear to have fairly disciplined procedures for establishing agendas, conducting discussion, and taking follow-up action, others not. There is no indication that the roundtables coordinate their activities or work to a common schedule, for example the government's annual business planning cycle.

- On substance, some roundtables (e.g. Agriculture) appear to have worked successfully to produce agreed strategies and target lists and develop systems to keep them up-to-date. For the most part, however, roundtables have struggled to perform their essential task of forging consensus among departments on sectoral strategies, target company lists, prospecting and corporate call assignments, management of files, and aftercare.

<u>Country Roundtables</u>

There are currently nine country roundtables:

- US (3) -- East Coast; Central; West Coast;
- Europe (4) -- UK/Ireland; France; Germany/Austria; Netherlands/Norway/Sweden;
- Asia (2) -- Japan/Korea; Taiwan/Singapore/Hong Kong.

Each of these roundtables is chaired by the IPC account executive responsible for the DMICP "campaign" in the country/region in question.

Practice among the country roundtables has varied even more widely than among the sector roundtables:

- Only one roundtable (France) has been meeting on a regular basis, four times a year. Most of the others meet intermittently. One roundtable (Germany/Austria) has not met since 1998.

- Only one roundtable (again France) appears to have routine procedures for preparing agendas, keeping minutes, and maintaining a grid to track progress.

- Some roundtables have worked successfully with missions in developing agreed target company lists, others have developed lists separate from the mission lists, and some have yet to produce any.

- Some roundtables have good working relationships with missions and exchange information well, others have poor relations with missions and little or no knowledge of missions' corporate calls programs.

*Invest in Canada: Senior Officials' Working Group*

A relatively recent addition to the governance framework has been the inauguration of what are expected to be twice yearly meetings between federal and provincial officials with lead responsibilities for investment issues. At its first meeting in April 2000, the "Senior Officials' Working Group" agreed that it would serve as "a decision-making forum for future collaborative federal-provincial-territorial work on investment". A second meeting was held in February 2001. The meetings are chaired by the Executive Director of IPC.

It is not expected that the new group will subsume existing sectoral federal/provincial consultative bodies, such as the long-standing federal/provincial steering committee which guides and supports agricultural sector investment initiatives.

# OPERATION OF THE PARTNERSHIP

Size and government structure explain a great deal about how individual countries organize themselves to compete for foreign investment. Small countries with a unitary form of government can vest responsibility for attracting FDI in a single agency or group of ministries, confident that the national investment promotion strategies they devise will not have to compete with those of other jurisdictions. Large federal states, such as the United States and Canada, face a host of complications in developing national strategies able to satisfy the disparate and sometimes competing interests within the country. Indeed, the United States does not even try, leaving it to individual states to develop and implement their own strategies whether in competition with neighbours or not. In the final analysis, however, no national strategy is likely to be effective without the active involvement and support of all the major stakeholders. The Industrial Development Authority of Ireland (IDA-Ireland) offers a classic example of a highly centralized and successful approach to attracting and retaining foreign investment. But IDA first needed to work out cooperative relations with counties and municipalities.

Canada has pursued a two-track approach, with both federal and provincial governments playing an active role in investment promotion. Both levels of government espouse the benefits of cooperating and avoiding direct competition for investment dollars, and it is possible to conceive of circumstances in which the many players in Canada could work collaboratively. But a quick glance at the chart on page 15 illustrates just how many players there are, how extensive their interactions can be, and what a challenge it is to fashion an effective “partnership” among them. Without knowing anything about how the partnership actually operates, one can imagine the potential for trouble which might exist:

- Companies abroad being approached by too many parties,
- Missions and IPC working at cross purposes abroad,
- DFAIT and the sector branches following different strategies,
- Sector branches failing to provide adequate guidance,
- Company relations managers pursuing objectives different from those of missions or IPC,
- International trade centers becoming engaged at inappropriate times,
- Provinces and municipalities competing with federal agencies,
- Site selectors and other external advisors offering alternative advice.

Trouble can only be avoided if the factors compelling the parties to work in partnership are greater than the inertial forces tending to encourage parties to go their own way. At present, it is not clear that factors contributing to partnership have the initiative.

Following is an appreciation of how the main players in the operation of Canada’s investment promotion system currently work together in four key areas: (a) the Deputy Minister Investment Champion Program, (B) Strategy and Coordination, (c) Servicing, and (d) Marketing and Communications.

## THE DEPUTY MINISTER INVESTMENT CHAMPION PROGRAM (DMICP)

Investment Partnerships Canada is the newcomer to the federal government's foreign investment "team", and it joined the team in October 1996 with a mandate that required the existing players to make adjustments. IPC was charged with (a) taking the lead on major accounts, and (b) bringing greater coherence to the actions of other players.

*Origins and evolution*

From the beginning, IPC determined that the first part of its mandate should be the priority. Cultivating multinationals was where the greatest returns could be expected and where success could best help to "make the case for investment" within government. This view had been encouraged by the recent experience of the deputy minister of Industry, whose direct involvement in discussions with Swedish business interests and the premier of Nova Scotia about the impending closure of a pulp and paper mill at Port Hawkesbury produced a $750 million investment by Stora AB – and demonstrated that engaging deputies could indeed "make a difference".

The focus of IPC's efforts has been the Deputy Minister Investment Champion Program which began operations in the spring of 1997. The program brought together eight deputies who agreed to assume responsibility for "priority markets" and to make regular trips to these markets (on average two a year) to meet with senior executives of major companies identified as prospective investors or re-investors in Canada. Six of the deputies also agreed to take the lead on one or more "corporate issues", policy or administrative matters which could present impediments to foreign investment (border issues, immigration/labour, regulatory regimes, taxation, etc.) Selection was based in part on deputies' portfolio responsibilities and in part on their personal experience and interests. Since the program began, the number of deputies associated with it has dropped from eight to seven; five have been involved since the beginning; two have remained after changing portfolios.

At the outset, the deputies' program was intended to be "very strategic and very focused". It proposed to target just 12 companies and to concentrate on the five countries that dominated global investment flows: the United States, the UK, France, Germany and Japan. Within months, however, "lots of new opportunities" had been identified and "campaigns" (i.e. trips abroad) were also being planned for Sweden, the Netherlands, and South Korea. Other countries have since been added to the list (Finland, Norway, Belgium, Austria, Ireland, Hong Kong, Taiwan and Singapore) bringing the current total to 16. Canadian missions in Italy, Spain and Switzerland (all major world suppliers of FDI) as well as in other countries have argued for still more additions to be made to the list of places deputies should visit.

As the program grew in scope, the number of "campaigns" undertaken by deputies rose steadily, from six in 1997 to 12 (1998) to 19 (1999) to 20 (2000) – now about one every three weeks. While some campaigns take only a couple of days, others can absorb more than a week of a deputy's time. The average campaign involves six meetings and two other events, such as a speech, conference or reception. Some have involved as many as 14 meetings and four other events. Deputies' visits involve so much work and are so "high maintenance" that one IPC executive described the organization as having become "the department for the DMs outside their portfolio".

IPC was "never really resourced for this", one official pointed out, and the deputies' program produced "constant tension between demand and resources". The number of IPC staff supporting the deputies' program grew with the program. The Campaigns section now has 18 members, not many fewer than the total staff complement of IPC when it began.

Obstacles aside, IPC estimates that deputies have held in the order of 300 meetings with corporate leaders outside of Canada – and that these meetings have facilitated about $5 billion in foreign investment.

*Current views*

In light of the program's record, IPC managers and staff appear to share a strong conviction that the organization "knows what business it's in" and takes "a very results-oriented approach" to its work. IPC's business is to facilitate MNE investment in Canada, and its methodology is to arrange for deputies to meet with MNE decision-makers, encourage them to undertake missions to Canada to look closely at investment possibilities, and convert those missions into investment decisions.

*Visits ➔ Missions ➔ Investments*

The process typically takes several years and requires commitment over the long term, building up relationships and enhancing confidence to the point where investors put Canada on their "short list" and deputies can intervene to affect the final calculus of their decisions.

As one official in the Campaigns section observed, "one of our main deliverables is a visit of a DM". These take a lot of planning and follow-up, much of which IPC staff can do on their own. "But we don't hold all the cards", another pointed out, and IPC has to count on the cooperation of others -- the sector branches and missions abroad for information on targeted companies, and the missions to schedule events and provide logistics. Sometimes, a visit is prepared and a deputy cancels it. Follow-up almost always requires the assistance of the sector branches, along with provincial and municipal authorities once sites begin to be identified.

According to IPC staff members, however, much of their work takes place in an atmosphere of inter-departmental rivalry. “Some sector branches provide really good service”, one individual commented, and IPC works well with them on incoming missions. But their performance could sometimes be disappointing. While sector branches were responsible for calling on Canadian subsidiaries, they did not always do so. Committing to making a certain number of calls did not appear to be part of their culture. Nor did writing reports or sharing information.

“We can work around the sectors”, one staff member noted, “but not around the posts. Their cooperation is essential.” IPC’s relations with the missions, however, are problematic. While staff members reported being in frequent communication with the missions (though IPC staff are not linked to DFAIT’s worldwide SIGNET/MITNET system), their sense was that the “Posts don’t perceive us as part of the same organization”. IPC’s requests for assistance appeared to be viewed as just one more chore for missions to handle.

As a result, IPC members reported, some missions were reluctant to provide their target lists or to make preparatory calls on IPC’s behalf. Some appeared to want to protect certain calls for the head of mission to make. “They would rather we prepare <u>them</u> to go in, with the same preparation as for the DM regardless of the DM having special ties with the people involved.” At missions without an investment counsellor, the focus was on exports and an IPC mission could be viewed as a distraction. But missions with investment counsellors were not necessarily more receptive. Because these tended to be larger, they were inundated with visits of all kinds and were not enthusiastic about having to deal with one more from IPC.

*As others see it*

Within the sector branches, the operation of the Deputies Program generates a mixture of responses. In most quarters, there is a good deal of enthusiasm for the program’s ability to mobilize deputy ministers in direct support of a host of investment operations: investment promotion, removal of impediments, closing of deals, and aftercare. But there are also concerns about IPC’s company targeting practices and planning of deputies’ visits:

- IPC has a propensity, some argue, for wanting to “hang on” to certain big accounts, even though it has relatively few staff and limited capacity in-house to deal with them. In some cases, it “doesn’t have the right people”, but more generally “it is simply under-resourced for what it wants to do”.  In consequence, it ends up “doing what others used to do, and could do better”.

- Deputies’ visits typically are planned around the availability of the deputy, not the needs of the account, so deputies are sometimes teed-up to meet the wrong people at the wrong time. The problem is compounded by “IPC’s propensity to want to avoid down time for the deputy” by filling the program with “less than fully qualified prospects”. But “low-value” meetings can generate as much or more need for follow-up as high-value ones do, needlessly adding to branch workloads.

Missions too harbour few doubts about the value of being able to draw on deputy ministers to support their efforts. The visit of "dignitaries" always helps to raise Canada's profile and advance mission objectives. And the willingness of deputy ministers to "go to bat" on important accounts is considered an instrument of great value in raising investor confidence.

But the DMICP, as currently implemented, creates problems for the missions. Among those most frequently cited by mission personnel were the following:

- The deputies program is not integrated into an overall strategy, and tends to operate according to its own priorities and schedule independent of the Corporate Liaison Program (CLP) at missions.

- The selection of countries for deputies to "champion" is somewhat arbitrary and excludes major FDI sources like Spain which was the sixth largest foreign investor in the world in 1999.

- Deputies' visits are relatively infrequent. As one head of mission commented, "It is not possible to build an entire country program on a country champion when they hardly ever come here and we don't know when they will be here".

- Deputies have more difficulty getting away from Ottawa than either ministers or lower level officials, beholden as they are to ministers and others on so many issues. As a result, there is high risk a visit will be cancelled – and a cancelled visit leaves Canada's credibility in worse condition than never having scheduled it. (One head of mission reported being party to the cancellation of five visits during postings to two different missions.)

- Deputies do not always have credibility on the issues that matter to the corporate decision-makers they meet in a particular country. A deputy's credibility is more often a function of the portfolio the individual holds, expertise in the relevant fields, and ability to "talk the language of the industry", than of rank in government. In most societies, only ministers are perceived as having decision-making ability.

- The message a deputy delivers tends to be discounted because the individual is typically perceived as a government official who is expected to "tell you the good news".

- In certain societies, deputies do not have much cachet. Ambassadors and consuls general almost always have higher standing locally, understand the culture better, speak the language, and have well developed contacts.

- Deputies are too often used as traveling salesmen or door openers, when the weight they carry is really as “closers” on major deals.

- Organizing deputies’ visits is far more labour intensive and costly than necessary. Visits should be shorter, more focused, and unencumbered by calls of marginal value. Some missions report that putting together a deputy’s program can draw down as much as 25% of the resources available for investment promotion.

- The missions receive little feedback on the deputies’ visits.

*Future directions*

In the final analysis, all parties believe that the four areas where deputies are most needed and where their greatest “value-added” lies are in:

(a) “getting close” to the companies which have already invested in Canada and listening to what they have to say, assisting subsidiaries to identify opportunities for expansion and to make a business case for expansion to their head offices, and <u>then</u> meeting with head office decision-makers to close deals;

(b) making themselves available in Ottawa to meet with visiting CEOs to demonstrate the seriousness of the government’s intent to facilitate investment;

(c) interceding to “cut through the bureaucracy” either to fix problems or to decide they cannot be fixed; and

(d) addressing policy and regulatory barriers to investment, identifying which issues present real deterrents and going to ministers with solutions.

As one investment counsellor observed, what is wanted is “a group of deputies who will answer the call, not necessarily a deputies program”.

## STRATEGY AND COORDINATION

In consequence of the priority attached to the Deputies Program, the second half of IPC’s original mandate has suffered, i.e. the leadership role it is to play on the “team”. The main responsibilities of leadership are to set objectives and mobilize resources to achieve them – strategy and coordination.

*Intent*

Since the earliest days, IPC has listed among its core functions to "develop and update the federal investment strategy", and when deputies announced the 1999 "re-alignment" they explained that a focus of the proposed changes was "ensuring that there is a clear strategic framework for investment". But preoccupation with the deputies' program left few resources for other purposes, and it was not until mid-2000 that IPC established a policy and analysis unit which could begin work on updating the 1996 strategy. (An "update" was undertaken in early 1998, but it did not address strategic objectives and focused mainly on machinery.)

Priorizing and planning, much under IPC direction, have occurred in other forms: in discussions among deputies, in the consultations which have taken place between senior officials in the key departments, in the roundtables, and in IPC discussions with individual departments and missions. But these have not been able to substitute for the development of a concerted plan binding all the parties. Other than the 1996 aide memoire, there is no overall strategy today to guide the federal government's investment promotion activities  (Development of a new strategy would serve *inter alia* to determine the suitability of pursuing several interesting ideas from the 1996 strategy. These are listed in Annex B.)

IPC has made more progress in coordinating federal investment promotion activities. Over time, a variety of systems have been put in place to link the partners through deputies' councils, interdepartmental and intergovernmental committees, and roundtables, most of which have regularly scheduled meetings, along with less formal arrangements under which parties are invited to each other's planning events. In addition, several elaborate attempts have been made to delineate the roles and responsibilities of parties, including a project in 1999 to map out the investment process, identify the "lead partner" for each step of the process, and list the functions each party would perform in each step.

But these efforts have had only limited success in achieving the objective of an integrated federal operation. The consultative mechanisms have been of some value, but many believe that the time and effort required to sustain them has not generated a commensurate payoff in terms of agreement on priorities and decisions on follow-up action. The effort to define roles and responsibilities has yet to reach a conclusion satisfactory to all the parties.

In summary, the goal of an IPC-led partnership among the federal departments and agencies involved in investment promotion remains elusive.

*Sector branches*

The role of the sector branches in Industry Canada, AAFC and NRCan is to help with the growth of their respective sectors through whatever means are most appropriate, including attracting foreign investment. The branches need to know their sectors well and be adept at designing strategies to develop their sectors.

At Industry Canada, there was support for the creation of IPC in the expectation that it would bring "additional resources and focus to the overall effort". Industry Canada itself was, and still is, in the process of recovering from the heavy personnel losses sustained as a result of Program Review in the early 1990s (which reportedly reduced sector branch personnel from about 700 to about 400). One consequence was a significant loss of staff with expertise in particular industries, especially seasoned officers with intimate knowledge of companies and good contacts with their decision-makers.

This inevitably compromised the ability of sector branches to exercise the kind of sectoral leadership that other departments and missions required to guide their own work. Some branches were given high marks by those interviewed for their performance in developing strategies and work plans, managing their roundtables, being well organized, and having good connections with companies and with the provinces. But there were also concerns that some sectors were "not always fully engaged on the investment file", tended to "do their own thing", did not cooperate much with IPC, and provided "spotty" support to missions.

Industry Canada has taken steps to enhance its relations with companies (e.g. the Company Relations Manager program) and its investment promotion capacities (e.g. the creation of an office for international business development to integrate investment activities related to information and communications technologies). But its connections with other players are still evolving and there is not yet an agreed division of labour on how to conduct investment promotion. In the view of one senior official, the role of the sector branches should be to establish policy and cultivate companies "to the point where they get to be live prospects", then turn the prospects over to IPC who could bring in "heavy hitters" to close deals. But work was still required to work out effective collaboration among the parties.

Among the problems cited were the following:

- There is still "no common strategy, only sectoral analysis, sectoral priorities, and mission priorities". There is no common list of companies.

- Each of the parties has developed its own priorities, rather than deriving them from a common set of priorities emerging out of joint analysis and decision-making involving the sector branches, missions, IPC, and the provinces. As a result, IPC may initiate high-level contacts with a company before its partners have done the preparatory work to "bring the account to maturity".

- There has been too much focus on the players, and not enough on the team. Discussion of "roles" has encouraged thinking about "turf" rather than about "contributing to a common strategy".

At AAFC and NRCan, officials expressed fewer concerns about the absence of an overall strategy to drive parties' activities. Three reasons may be adduced. First, there are already well developed "common" strategies in place in respect of agri-food and mining, the product of extensive consultations with industry and the provinces of relatively recent vintage. Second, AAFC and NRCan have had a more positive experience working with key partners such as IPC and the missions in implementing their strategies – very likely because they <u>have</u> strategies which their partners all accept and are willing to work with them on. And third, AAFC and NRCan have the quality and quantity of in-house resources they need to exercise effective leadership on their respective investment issues, which limits their dependence on others and reduces the incidence of friction. AAFC recently reorganized expressly to enhance its capacity in investment promotion, and both AAFC and NRCan report having very collaborative relations with IPC, missions, and provinces.

*DFAIT*

At DFAIT, the main concern is the impact which IPC's creation has had on the operations of its missions.

There is little argument that DFAIT's own investment promotion operations needed assistance. In 1996, an evaluation of the department's international investment program found "no clear, central direction for this program … Responsibility and accountability in DFAIT for the overall management of the (program) is diffused. There is overlap in HQ activities and a sense in the posts that they are not properly supported." The evaluation also found "no evidence that a real 'Team Canada' approach to investment development has been developed". During the course of the current study, a number of DFAIT officers expressed the view that the department's investment promotion efforts today remain "years behind" the trade promotion program.

In collaborating with Industry Canada to establish IPC, DFAIT sought to address the headquarters dimensions of the problem in order to improve support for the missions. Hence, the decision was taken to divest the department first of some (1997) and then of virtually all (1999) of its investment-related positions at headquarters, in favour of a consolidated operation through IPC. What remained were one or two positions in three geographic bureaux (US, Europe and Asia) to support the "desks" in their mandated responsibility for the overall coordination of foreign operations, and one or two part-time positions in the mission support unit established for the trade program.

Henceforth, the role of DFAIT headquarters would be limited to two functions:

- The first would be to help develop integrated federal government strategies for investment (and trade) promotion in particular countries and regions of the world. Ideally, these strategies would be the product of deliberations in the sector branches, with input from the Trade and Economic Policy branch on global economic issues, and from the missions on local conditions and opportunities.

- The second would be to provide logistical and administrative support to the missions to help them conduct effective investment promotion programs.

At present, DFAIT headquarters units are doing a great deal more – to the point, in one manager's estimation, where there are "almost two parallel programs, a DFAIT program and an IPC program". DFAIT geographic bureaux communicate extensively with IPC and attend the IPC-chaired roundtables, but the inability of the governance framework to produce an agreed interdepartmental plan of action on investment has caused the bureaux and their missions to develop their own investment strategies for individual countries in the context of the department's annual planning process for the International Business Development business line. Since there are 21 missions with investment officers and another 48 with at least some investment responsibilities, it has not been an option for bureaux to leave these resources un-tasked until departments have worked out a common strategy. In the meantime, IPC has continued to pursue its own strategies in those countries targeted by the Deputy Minister Investment Champion Program (DMICP).

*Missions*

Canadian missions have been engaged in investment promotion for years, but the function has usually taken second place to trade promotion and has never been pursued with the same discipline or operational support. Even today, successful investment promotion abroad is as likely to be the result of inspired improvisation as it is of advance planning and systematic execution. Over the last few years, however, there has been a marked evolution in how missions have approached their work.

Missions with substantial investment promotion programs have well articulated strategies and detailed work plans to guide their activities. Strategies typically incorporate input from all sections of a mission (e.g. political/economic, trade, science and technology), as well as from DFAIT headquarters units, sector branches, IPC, and often also provincial governments. But if input is slow to be received or not forthcoming, missions have not been deterred from proceeding. Major missions all now have an investment element in their work plan.

Notable examples of mission strategies include the following:

- In London, the mission has prepared *Canada's Investment Strategy for the United Kingdom*. The strategy notes that in 1999 the UK became the world's largest foreign direct investor, but that Canada receives only 1.7% of UK investment in the NAFTA zone (compared to 1.5% for Mexico). The paper identifies some of the obstacles to attracting UK investment to Canada, and discusses each of the sectors targeted by the mission -- "not (to) prejudge the decision of the Roundtable on priority sectors".

- In Paris, the mission has produced *Investment Strategies for France*. The paper observes that France is the world's fourth largest FDI investor worldwide and the fifth largest source of FDI in Canada. (It notes that Saskatchewan and Nova Scotia received more French investment than Quebec in 1998-99.) The paper discusses challenges to encouraging French firms to invest more in Canada, sets overall objectives, and identifies priority corporate targets.

- In Tokyo, the mission has an *Investment, Technology and Science Work Plan* which it updates every three months and on which it reports every six months. The plan identifies three objectives and the specific sectors to be targeted, and provides an in-depth discussion of how each of the objectives will be met. The biannual reports provide updates on mission activity related to each objective.

- In the United States, each of the missions has developed a *Post Investment Strategy* which identifies the sectors to receive priority attention within the mission's territory (sometimes covering several states) and lists companies to be targeted in each sector.

**SERVICING**

Effective servicing of the needs of prospective investors is a critically important function of investment promotion. No function may be more decisive in a company's calculus in choosing one location over another in which to build or expand operations.

Craig Barrett observed (p. 13), "I would invest in Ireland before Germany or France." Ireland, however, worked to achieve such a reputation. In the 1970s, the Industrial Development Authority adopted a "No tax and no red tape" strategy to encourage foreign investment. IDA told prospective investors, "We will organize the whole thing, give you all the details, see you get the fullest benefit of Ireland's big industrial advantages and incentives". According to a former head of the organization, "IDA took care to ensure it met the needs of every new company locating in Ireland, either by doing so itself or by mediating to resolve any problems that arose including interceding with government departments or local authorities". (*) A Canadian ambassador to Ireland recounts that IDA staff could intervene directly with the Prime Minister when necessary.

(*) The Making of the Celtic Tiger, Ray McSharry and Padraic White, Mercier Press, 2001

In Canada, servicing involves many parties. These range from the missions abroad which serve as a front-line "sales staff" addressing prospective investors' information needs, to IPC and the sector branches which help to build the "business case" and encourage the decision to invest, to other federal departments and agencies responsible for regulatory and other matters, to provincial and municipal authorities in the jurisdictions where a new plant is to be built.

On the front line, the role of the missions includes researching the needs of local companies, preparing directed marketing materials, responding to company information requests, and making corporate connections in Canada. To do this, missions require support, but many missions today are concerned over the uneven and uncertain nature of the support they can expect from Ottawa in aid of their prospecting activities.

*IPC*

At the root of the problem is disagreement between DFAIT and IPC over the scope of the latter's mandate and how much support IPC owes the missions. As a result of decisions taken in 1997 and 1999, DFAIT largely divested itself of headquarters resources able to provide operational support to missions on investment issues – while also expanding the number of investment counsellors abroad and hence the volume of mission-generated investment servicing operations. The department argues that the five FTEs it transferred to IPC in 1997 had been located in the DFAIT unit (TBR) which provided mission support services, and that when IPC took over these positions it also assumed responsibility for mission support. IPC counters that it only assumed responsibility for mission support in 1999, but that when it did so no resources were attached. The net effect, as one senior officer in DFAIT observed, was that "We ended up having an investment function without servicing … though what investors need is attention, care and feeding, (and) a quick response".

The problem has eased since IPC established a five-person servicing unit in the second half of 2000, but it has not been resolved entirely. DFAIT, IPC and the missions have still to achieve an understanding on how they are to work together on servicing issues.

Overall, the level of satisfaction appears to be rising as the IPC servicing unit becomes more experienced in dealing with the missions. Some missions report receiving very good service from IPC, singling out a number of account executives for the quality and timeliness of their assistance. One mission declared itself "one hundred percent satisfied". IPC had "come through in an hour sometimes, they have never missed a deadline". On one occasion when the Prime Minister was due to visit the mission's territory, "we gave them four days for background on 30 companies and their Canadian operations, we got it in two".

But the picture missions present is not uniform. One investment counsellor observed that missions were led to believe IPC would provide them with “desk” assistance on investment issues and serve as a “single window” entrée to the Ottawa bureaucracy. Experience had since cautioned missions to approach IPC with limited expectations. In the experience of another investment counselor, IPC’s capacity to service pre-calls had deteriorated.

One of the missing ingredients is an agreed division of labour. What missions say they want most from IPC are three things: quick answers to questions, IPC to research questions for which answers are not readily available, and connections. What they say they have encountered from IPC is “a lack of understanding of our role, what we do, and how we can help them”, along with an IPC preoccupation with “deputies and high profile cases” – which effectively excludes much of the market being cultivated by investment officers in 21 locations and enterprising trade officers in another 48 locations. Missions report that IPC staff tend to display little interest in the work of the missions, can be slow to provide assistance when asked for it, and sometimes fail to share important information – including the briefing books prepared for deputy ministers prior to their visits to missions. The preliminary results of a 2000 survey of international business development officers tend to confirm these impressions (see Annex E).

Regrettably, when missions do manage to bridge the divide and begin to develop constructive working relations with particular staff members at IPC, the individuals in question often move on to other assignments. Almost every mission interviewed for this study remarked on the staff turnovers at IPC. With reason: the Campaigns section lost seven of fifteen members in 2000. The situation will undoubtedly improve over the next several months as IPC staffing procedures catch up with the rapid growth in personnel, positions are regularized, and competitions are held to staff positions with full-time employees.

In the meantime, missions sometimes see IPC as imposing a burden on <u>them</u>. Planning of deputies’ visits can draw down significant human and financial resources at a mission, engaging mission personnel in laborious preparatory work often exceeding that required for a ministerial visit. At one mission, a DMICP visit required the mission to devote one staff member full-time for six weeks to the visit, along with the periodic involvement of senior officers and analysts. Reflecting the number of people involved in the planning, a conference call before the visit involved the participation of 18 people.

*Sector branches*

Some of the missions consulted for this study report receiving good support from the sector branches, but there is no uniform pattern. Others report that they cooperate with the branches on a case-by-case basis, depending upon whether a mission is confident that branch personnel can be helpful. In the words of one experienced investment counsellor, “Occasionally we go to the sector branches directly, but normally they are very slow and we seldom get what we want; usually they refer you to documents they have already prepared, not to current information.”

Personnel losses in the industry sector branches have been a particular problem. Missions noted the shortage of people who knew companies intimately, could call on senior officers, and could work effectively with missions on promising prospects. While missions hoped the new Company Relations Managers would improve the situation, for the time being branches appeared to be interested in a relatively narrow range of companies and not especially keen to expand their activities into “non-priority” areas – even as the government’s trade agenda expands to include growing industrial giants such as India and China. Missions also thought that the sector branches lacked the resources to research investment prospects or prepare focused studies.

*Provinces*

In contrast to their relations with Ottawa-based organizations, missions appear to have uniformly good relations with provincial governments. The mission in Tokyo, for instance, reports having been “extremely active with Ontario in the automotive sector, as active as with the IC sector branch; on one issue, we were sometimes in nightly contact with Ontario who researched questions for us and gave them to us the next day”. At the mission in Los Angeles, “We deal directly with Investissement Quebec on many issues”.

The best example of a mission’s relations with the provinces may be Paris, where the mission has formal information-sharing arrangements with the provinces, along with some municipalities and many companies, through the “Forum de discussion portant sur les investissements français au Canada”. The mission created the Forum to enhance transparency and trust among parties who are often in competition with each other. Reflecting the principle that “If you want us to be open with you, you must be part of our team”, parties who expect to receive support from the mission must be members of the Forum. Through the Forum, the mission reports it is able to “build loyalty with the provinces, who see us as open and fair”.

But if missions often find dealing with the provinces productive, there are dimensions to the relationship which require them to tread carefully.

First, missions report that they tend to be held in higher regard by provincial authorities than are other federal entities – which requires them to be particularly circumspect if they are not to undermine their standing with any of the parties. In the words of one experienced head of mission, “Posts have a good reputation with economic development officers in the provinces, but Ottawa has a history to overcome. There are jealousies and an absence of trust between the federal and the provincial and municipal levels which causes people not to share leads.” An investment counsellor at a mission in the United States believed that “The provinces don’t have much time for IPC’s leadership on issues, they like IC’s leadership better on technology partnerships and development, and DFAIT’s on foreign companies”. Another officer commented that provincial authorities “don’t see the need to work with IPC”.

Second, missions may have better relations with departments and agencies in a provincial capital than they do with a province's own international office or representative. While missions generally maintain constructive relations with provincial offices abroad, including exchanging market data, sometimes arranging joint calls on prospective investors, and even sharing office space, missions also report that some provincial officials appear to want to have little to do with them. One investment counsellor reported that the provincial representative in his territory rarely deals with the mission, pursuing his own targets and not sharing information.

Provincial officials interviewed for this study confirmed these findings. One provincial official described the missions as "strategically very important, they are there on the ground, acting with clients, building relationships with people over the long term". "We get a lot of useful information from the counsellors and great support in market collaboration." The official had also detected "a significant improvement in the talent invested in the investment portfolio at posts … over the last two to three years". An official from another province commended the missions for generating important leads: "The missions will give us a call, tell us what is going on, especially if a company is looking at us."

But the provinces appear not to value IPC's contribution as highly. "Our relationship with IPC is okay", said one provincial official, "but their focus is not necessarily our focus. We work together on what makes sense and go our separate ways on others." IPC was both "competition and opportunity". Another observed that IPC staff met with provincial officials "every few weeks to talk and share some information … but it is more public relations than anything. Once in a while we work together, but there is no protocol". In cases where a company has a subsidiary in the province or has expressed an interest in investing in the province, "they will send us a lead and we will follow up". But if a company doesn't know where it wants to go in Canada, "the mission will send a report to its head office and from there it goes to IPC. It's a long process, and sometimes we never hear about it." Another provincial official commented that the province worked well with a few of IPC's account executives, but was concerned about IPC staff "going out and making calls in our territory and not telling us about it, despite the fact we have a well developed key account program".

## MARKETING, COMMUNICATIONS AND BRANDING

If missions sometimes "lead by default" as one investment counsellor commented, the tools at their disposal are not great considering the size of the investment promotion program and the potential payoff for the Canadian economy.

On the whole, missions dispose of quite limited budgets to support investment-related activities (newsletters and other promotional materials, websites, events, travel etc.). The mission in London, the "front line" in the campaign to secure a greater share of the largest single pool of foreign investment in the world, has a budget of just $26,000 for investment promotion activities. For all of Asia, the budget is $214,000, split among 15 missions.

Missions acknowledge that the geographic bureaux have been able to come up with money when absolutely necessary. But missions have also taken steps of their own – ranging from asking a mission officer to draw on personal leave travel to perform some official function in Canada, to leveraging funds from the private sector or other government departments in order to organize investment-related events. In 2000 and 2001, the mission in San Jose has organized a conference attended by over 350 companies entirely financed by corporate sponsorships. The "Next Level Conference" brings together more than 300 Canadian SMEs to meet Silicon Valley's leading IT entrepreneurs and venture capitalists.

A related problem is the slow progress in providing posts with high-quality marketing materials. IPC has been producing a steadily improving range of information products, and missions have been supplied with an array of good generic materials (*Invest in Canada* website, slide presentation, industry profiles, KPMG study, etc.). But missions appear to be largely on their own in preparing materials for local consumption. As one DG remarked, "Even in the electronic age, you still need to leave the CEO some really attractive materials; everyone else still does this."

An experienced mission officer decried the absence of "a concise handout we can leave behind, not a 50-page study like the KPMG report". Tokyo reports getting "good mileage" out of the KPMG study, "but we are hearing a lot about Mexico and we are not getting the data to compare our situation with Mexico". The missing element is hard-edged comparative data needed to dramatize Canada's competitive advantage to steely-eyed corporate decision-makers. London has resorted to using studies supplied by well known law firms.

Missions also want help developing websites capable of communicating not only a consistent Canadian "brand" image across continents but also information tailored to the particular culture and market within which they operate. While some assistance on websites is available from the informatics bureau in DFAIT, there is a fee. Missions also note the absence of "high-tech ways of conveying a high-tech image", such as high quality videos and computer-generated presentations which can be adapted to local needs.

In contrast, some have noted, federal departments have found $6.0 million to finance a branding pilot project at just two locations (Boston and Dallas) of which $1.0 million a year has come from DFAIT ($800K from the departmental reserve and $200K from the deputy minister's reserve). In addition, the IPC staff directory lists six positions in the Branding Secretariat headed by a director-general level officer. Some or all of those resources, they argue, could better be spent in support of "front-line marketing" at missions.

A number of those interviewed, in Ottawa and abroad, took issue with the approach being adopted on branding. The main arguments were as follows:

- A branding campaign targeted at the United States would be unlikely to change very many minds, if it impacted at all on the consciousness of US business leaders. Most US business leaders already know Canada well – the good, the bad, and the Mounties.

- A campaign whose objective is to convince US business leaders to invest in Canada rather than their own country, on the grounds that Canada is somehow a superior location to do business, is not likely to receive a favourable response from most people.

- If an important element of Canada's investment strategy is to expand Canada's share of European and Asian investment in the NAFTA region, the branding campaign should target Europe and Asia instead. The model could be Ireland's successful campaign to convince US interests to invest in Ireland as the entry point to Europe.

## OVERLAPS AND GAPS

The foregoing suggests there are a number of areas where the activities of the main parties overlap, and where gaps exist between them.

### Overlaps

The main areas of overlap would appear to be the following:

- All the parties conduct a great deal of their own research to identify sector needs and the companies to be targeted in those sectors. While there is some sharing of information, duplication of effort would appear to be unavoidable.

- The preparation of company lists takes place everywhere: at the missions, at DFAIT headquarters, in the sector branches, at IPC, among the company relations managers, at the roundtables and, of course, in the provinces.

- Because lists are not always shared, or shared in a timely fashion, parties will sometimes approach the same target companies independently of each other.

- The DMICP sometimes overlaps with and competes with missions' Corporate Liaison Program.

- As IPC has grown, it has begun to develop expertise in certain fields which duplicates that found in the sector branches and elsewhere. Conversely, the sectoral branches are moving to bolster their in-house capacity for investment promotion, with the potential to duplicate the expertise which resides in IPC.

## Gaps

Among the notable gaps are the following:

*Strategy gaps*

- In the absence of an overall strategy, few of the parties appear to be pursuing with any discipline the task of attracting investment from SMEs – the group of companies producing most of the new jobs.

- Nor is sufficient attention being paid to "staying close" with the multinationals in Canada – the group of companies responsible for the reinvestment which constitutes the great bulk of foreign investment.

- There is broad agreement that the removal of regulatory and other impediments to investment is at least as high a priority as "branding", but there is a gap between how important the matter is and how energetically it has been addressed.

- Deputies' visits to particular countries are frequent enough to raise expectations that the "country champion" will be available when required, but not frequent enough to found an entire country strategy on.

*Collaboration gaps*

- There is a gap between the effort all the parties have devoted to coordinating their actions and the results they have been able to achieve.

- Sectoral branches are not making calls on some of the companies others need information on, and are not always reporting on the calls they do make.

- Some deputies who are "naturals" for the DMICP do not participate in the program.

*Resource gaps*

- On the "front line" where most of the prospecting takes place, missions have few resources on which they can draw to pursue their objectives. There is very little money for local investment promotion activities or for tailoring generic marketing materials for local consumption. Missions lack "high tech ways of conveying a high tech image". The hard data they need to make effective approaches to prospective companies (detailed sectoral data, comparative analysis, company intelligence) is spotty and sometimes not accessible.

- There is a gap between mission needs and IPC's ability to service them.
- At DFAIT headquarters, there is no dedicated mission support unit for investment as there is for trade.
- Sectoral branches are not always able to provide the sectoral and company knowledge other players need. Sectoral branches appear to be under-resourced in conducting research and preparing studies.

# ASSESSMENT

## CONCEPT AND IMPLEMENTATION

The origins of Investment Partnerships Canada are not well documented, but interviews with those associated with its creation emphasize that it was conceived to meet a need that was not being met by existing arrangements. The need was to attract more foreign investment in critical areas of the new economy. In Canada, responsibility for attracting FDI was notionally divided between DFAIT which worked abroad and other departments which worked at home. Responsibility was also diffused within departments. A review of how other countries approached the issue uncovered no single model for attracting foreign investment, but it did disclose that the successful models had one thing in common: investment promotion was a discrete program, not an "add-on to someone else's job". Organizational structures also keyed on providing "a single desk" that could provide comprehensive services.

In the early planning stages, IPC was going to be (a) separate, (b) small, (c) strategic, and (d) virtual. In the event, it evolved into something quite different.

*Separate*

When first conceived, IPC was going to ensure that investment attraction was "someone's full-time job". It would be set up as a separate entity which would incorporate the existing investment units at DFAIT and Industry Canada (but not apparently NRCan or AAFC) and be housed in quarters of its own. Largely for economy reasons, however, DFAIT retained significant investment resources at headquarters (some 25 FTEs mostly located in TBR and BCFD) and, of course, its investment resources abroad. (Industry Canada also held on to the resources it had to perform regulatory review of investments.) In addition, IPC was not housed in separate quarters but accommodated at Industry Canada. In 1999, DFAIT "bit the bullet" and shifted almost all its remaining headquarters resources either to IPC or to missions abroad. Other departments have since expanded their investment offices.

*Small*

At the outset, IPC was also going to be relatively small. It was described in some memoranda as a "swat team". It would have a base budget of 15 FTEs (12 from Industry Canada, 3 from DFAIT) and $2.0 million for operations and maintenance ($1.5 million from IC and $500,000 from DFAIT). But the "lean" IPC grew steadily over time, and now has more than three times as many staff as first envisaged, its O&M budget is almost twice as large, and it has a grants and contributions allocation (for PEMD-I) of $5.0 million.

*Strategic*

At the start, IPC was to be a "strategic investment unit" whose principal function was to lead federal government campaigns to attract and retain key investment in Canada. It would focus on a few MNEs in a few sectors in a few countries. Early files suggest it would target as few as 12 MNEs in six sectors in five "Tier 1" countries. Within a year, however, it had a "stable" of 180-200 MNEs and was organizing deputy minister visits to eight "Tier 2" countries.

*Virtual*

Through its focus on MNEs and its mobilization of deputies, it was hoped IPC could serve as a "virtual agency" to coordinate the federal role in FDI attraction and to build "partnerships" among the three levels of government active in the field. But the 1999 "realignment" accorded IPC some very "real" coordination responsibilities (strategy, "focal point", "single window", marketing, governance ), and produced a governance structure with many "real" committees and roundtables in the hope of securing interdepartmental and inter-governmental cooperation.

**In the meantime …**

As a result of these and other changes, Canada's federal investment promotion system today is characterized by the following features:

- IPC runs an investment attraction and facilitation program which is not fully integrated with those of other departments and agencies, which has grown to keep up with expanding roles and expectations, and which has crowded out resources for other things – including tasks IPC has been asked to assume which were not part of the original concept;

- Sector branches and missions have their own strategies and corporate calls programs, developed with input from a variety of sources, which they pursue with some success;

- Despite parties' considerable efforts to fashion a governance structure to integrate federal (and provincial) programs, there is no strategic framework to guide their operations, they occasionally work at cross purposes, and collectively they make less than optimal use of their resources.

In the meantime, provinces have made remarkable progress in just the last two years in pursuit of their own investment objectives. The largest provinces now have investment promotion agencies with well developed strategies, plans, and performance measures; operations which are every bit as sophisticated as those of the federal government and considerably better integrated; and individual budgets which dwarf that of IPC and may exceed the combined federal total. Ontario has 77 people and a budget of $26.3 million, Quebec has 49 people and a budget of $32.7 million (excluding Investissement Québec's financial services functions).

## ISSUES

If federal departments and agencies are to realize the objective of a focused and integrated foreign investment promotion system, several issues will need to be addressed. Drawing on the *Investment Function Logic Chart* on the following page, the main findings of this study may be categorized as follows:

### *STRATEGY*

#### *Needs*

- *The main guidance document is already five years old, prepared at a time when the world economy and Canada's place in it looked very different than they do today*. The principal analytical document informing federal investment promotion programs today remains the 1996 aide-memoire. An update prepared in 1998 did not revisit the needs of the Canadian economy or particular economic sectors. On the other hand, individual departments and sector branches are continually monitoring economic developments and revising their appreciation of sector needs and wants.

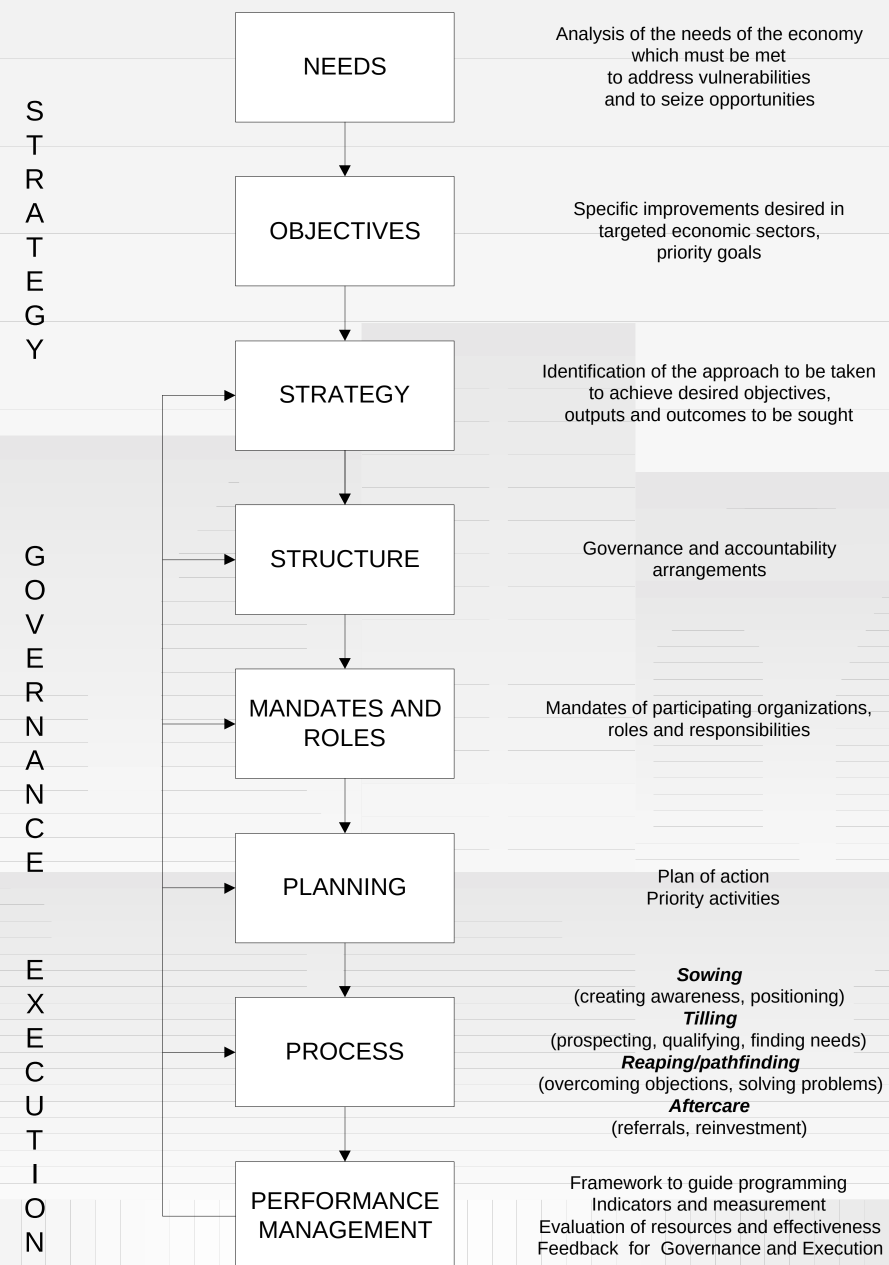
#### *Objectives*

- *The choice of sectors to receive specific attention and the improvements to be sought in each sector have not been reviewed in five years.* It is conceivable that a review could conclude that the priorities established in 1996 remain valid, but they have not been the subject of interdepartmental or inter-governmental scrutiny since they were established.

#### *Strategy*

- *The approach being taken to achieve desired objectives remains formally what it was in 1996, notwithstanding the experience gained over the last five years.* The 1996 strategy laid down an approach to meeting Canada's investment objectives which consisted of five elements: (1) marketing Canada as an investment site to international business executives, (2) targeted and customized servicing of specific MNEs in priority sectors, (3) assisting SMEs to develop international partnerships, (4) systematically addressing investor concerns and improving the investment climate, and (5) creating new partnerships across the three orders of government. Clearly, more progress has been made in some areas than others, and some lessons have been learned from that experience.

# *INVESTMENT FUNCTION LOGIC CHART*




***We wish to acknowledge with gratitude the contribution of Bernard Lemay Ph.D. to the preparation of this chart***

## *GOVERNANCE AND ACCOUNTABILITY*

### *Structure*

- *The governance structure being developed is complex and has yet to produce the coordinated approach anticipated when IPC was established.* The investment promotion function is privileged to have two deputy ministers to co-manage the lead organization and to have five more deputies to serve on an Advisory Board. But it would not appear that this construct has facilitated deputies' ability to manage the investment "network" to the degree they can their own departments. The two lead deputies manage large and complex departments, limiting the time they can devote to IPC and its interactions with other parties. In addition, ADM-level officers in Industry Canada and DFAIT to date have played little or no part in day-to-day decisions related to IPC's operations. The Advisory Board meets too infrequently (twice a year) to be able to exercise more than broad oversight functions.

### *Mandates and Roles*

- *The roles and responsibilities of the various parties are not clear, despite much effort to define and delineate them*. In the absence of an agreed strategy and plan of action, the parties have sought harmony through repeated efforts to find the boundaries between them. But these efforts have not produced the effects desired.

- *IPC has a mandate which has expanded over time, but one which has not been fully accepted by others*. While the original focus of its mandate was very strategic and very narrow, it has since grown to the point where it has been described as trying to do too much. In the process, IPC has entered the traditional domains of others without satisfactory accommodations having been worked out among the parties. It is not a given that IPC is the "lead" agency when no consensus on this exists and other departments are still ultimately accountable for significant investment promotion programs of their own.

- *The accountability structure has placed few obligations on parties to work as a team.* IPC reports directly to deputies and has few active structured relationships with other parties apart from the roundtables. While the Executive Director has maintained links with a broad cross-section of departments and agencies at three levels of government, it was not until August 2000 (when the ADM Investment Council held its first meeting) that horizontal links of any formal character were forged with ADMs in other departments with substantial investment promotion programs.

- *It remains unclear whether IPC is supposed to be (a) a separate entity accountable to the deputy ministers of Industry and International Trade, (b) a joint enterprise of Industry Canada and DFAIT, or (c) actually part of both the departments simultaneously. At times, it has appeared to be all three:*

  -- For much of its history, IPC has considered itself accountable almost entirely to the deputy ministers of Industry and International Trade, to the effective exclusion of accountability arrangements with the two departments themselves or with other federal entities.

  -- At the same time, IPC's budget relies entirely on transfers from Industry Canada and DFAIT, and IPC goes to these two departments for new money and for assistance in recruiting staff.

  -- The Executive Director of IPC is a member of the Executive Committee of Industry Canada, but not of DFAIT – though he attends the weekly Trade Coordination meetings chaired by the deputy minister of International Trade.

  -- On the Government of Canada website, IPC appears on the Industry Canada organization chart as an integral element of the department (one of eight offices reporting to the deputy minister); and in the 1999-2000 Government of Canada telephone directory IPC is listed as one of the branches reporting to the ADM Industry Sector (pp. 286E and 292F). IPC is not included in the DFAIT organization chart, and IPC staff do not appear either in the DFAIT telephone directory or in the Department's SIGNET e-mail system. (IPC will appear for the first time in the forthcoming DFAIT directory.)

  -- IPC continues to be located at 235 Queen Street, where the deputy minister and most Industry Canada offices are to be found.

### *Planning*

- *Federal departments and agencies have never developed a consolidated plan of action to guide their collective efforts in investment promotion.* The 1996 strategy did not contain, and was not followed by, an interdepartmental plan of action (operationalizing intentions, identifying priority activities, and setting target dates) whose execution would furnish data on whether the parties have been playing their roles effectively. The evidence to date suggests that each of the principal parties has its own idea of the weight to be placed on particular kinds of activity. In effect, the federal investment promotion "system" consists of a series of parallel programs which occasionally intersect and sometimes compete.

- *The principal parties also disagree on the weight which should be accorded various activities*. Drawing on the Sussex Circle taxonomy, there are differences of view over:
  Sowing: whether, where and how to engage in "branding";
  Tilling: the relative priority to be given MNEs and SMEs, to particular sectors, and to particular countries and regions of the world;
  Reaping: the kinds of information and services to be provided to prospects, where deputies' greatest value-added lies;
  Aftercare: the nature of the relations which should exist with companies and subsidiaries.

## *EXECUTION*

### *Process and instruments*

General

- *To date, the federal government has devoted more effort to sowing and tilling than it has to reaping and aftercare* (an observation also made in the Sussex Circle study). *One reason is that federal investment promotion lacks "method"*. The model might be conceptual selling – a seamless process which involves defining the "ideal client", qualifying prospects to ensure they meet the criteria, making leveraged approaches, exploring needs and wants, designing solutions in common, and fashioning a relationship to see the project through from beginning to end.

- *In addition, investment promotion has yet to develop the disciplines one would expect of a more mature program such as trade promotion*. Experience is limited, "best practices" have not yet been agreed on, and support systems and technology remain rudimentary. If investment promotion is indeed "the flip side" of trade promotion, *there are no doubt lessons to be learned from the trade program's management and administration* – particularly the mid-1990s reforms launched under the Performance Measurement Initiative (PMI) leading to the Trade Commissioner Service "New Approach to Service Delivery Abroad".

Sowing

- *Little should be expected from current efforts to raise awareness of Canada as a place to invest.* Missions are not well provisioned to do the "micro-marketing" required, and the "branding" initiative is still at the pilot stage. Moreover, there are concerns that branding may be counter-productive in the United States and that its principal targets should be Europe and Asia, with a view to encouraging prospective investors to divert investment intended for the United States to Canada.

- *Unless it is informed by a vision of the kind of country Canada is to be and a strategy to create it, "branding" is unlikely to produce the results desired.* Canada is seen not only as the Canadian Tourism Commission portrays it, but also as having an overly protective regulatory regime and other obstacles to investment. A good deal more attention will have to be paid to investment climate issues.

<u>Tilling</u>

- *The federal government does not have a coherent approach to prospecting.* While considerable effort has been devoted to preparing lists of targeted companies, planning and management procedures have not so far been able to consolidate these into an overall plan. As a result, there is little synergy between the DMICP, corporate call programs at missions, and the programs of the sector branches.

- *The Deputy Minister Investment Champion Program (DMICP) marshals a resource no other country does for investment promotion, but the experience of four years suggests adjustments are due in how the resource is deployed.* Deputy ministers provide a major impetus to the government's program to attract foreign investment, and their willingness to travel abroad to meet with presidents and CEOs of major corporations underscores the government's commitment and has strong symbolic value abroad. These meetings, in turn, have contributed to generating some $5 billion worth of new foreign investment in Canada.

- DMICP issues for the future include:

  <u>*The choice of deputies to participate in the program*</u>

  Certain deputies would seem natural for the program, i.e. those whose portfolios incorporate a significant investment component (International Trade, Industry, AAFC and NRCan). At present, the latter two are not members of the group – though both deputies are active in investment promotion. Given the breadth of the industry sectors for which the deputy minister of Industry is responsible, there is an argument for sharing with others the burden of building relationships with key companies in particular sectors. Candidates might be selected for their sector expertise, personal experience, networks, and interests. The deputy minister of Finance would also seem a natural because of portfolio responsibilities on macro-economic and fiscal policy.

  It is for consideration whether deputies whose portfolios present "impediments" to foreign investment (e.g. Customs and Revenue, Immigration, Health, Environment) should not also be associated with the program in some formal way, perhaps as members of the Advisory Board.

*The country/sector focus of deputies' efforts*

To date, the DMICP has been structured around countries so that deputies could build relationships with groups of companies in the same business milieu, and sustain these "country champion" relationships even after moving on to other responsibilities. Knowledge of a country and language proficiency have also been considerations.

But there is a case for structuring the program around sectors. A deputy addressing issues within the individual's portfolio clearly has very high credibility on those issues, bringing both substantive knowledge and an ability to "talk the language of the industry". (Deputies report that having sector representatives accompany them lends significant weight to their interventions with corporate executives.) A sector deputy engaged on sector issues can also mobilize the relevant departmental and sector branch resources in a way no other deputy (or IPC) could.

Such a shift, of course, would imply changes in how IPC is organized (currently around countries not sectors); for how IPC, the missions and the sector branches would deal with each other; and for how the sector branches would approach their role in foreign investment promotion.

*Planning of visits abroad*

The principal considerations informing the planning of a visit abroad are the deputy's availability and the countries to be visited. In most cases, these constraints do not prevent worthwhile programs from being developed which take advantage of the deputy's availability to advance existing files, open new ones, or promote awareness of Canada in particular locales. But there is a question whether such an approach makes optimal use of the few days a year a deputy is able to devote to the program. Having risen to the senior-most ranks, deputies are capable of many things. But what they can do better than heads of mission or others is bring the weight of government to bear in influencing the final calculus of a major investment decision.

This would argue for a less programmatic and more strategic approach -- not planning visits at all, but positioning deputies to be available to intervene as and when required to affect corporate decisions. Not planning any visits, however, also has downsides. Visits help to develop deputies' skills in dealing with corporate decision-makers, expose them first-hand to investment climate issues and impediments, and provide occasions for effective marketing.

*Management of investment climate/impediment issues*

An important benefit of the DMICP has been the creation of a constituency of deputies in Ottawa who are sensitive to investment climate issues and prepared to work to resolve impediments to investment. It is a matter of concern, however, that more progress has not been made in pursuit of the 1996 objective of “systematically determining those factors in Canada’s investment climate of concern to investors or which represent a comparative disadvantage vis-à-vis competing jurisdictions, and addressing them through the Deputy Ministers Committee on International Business Development”.

Considerable data has been collected on the issue and advances have been made on certain issues (spousal and temporary work permits, R&D, etc.) But a long list of regulatory problems remains, and Canada’s regulatory regime remains slow and cumbersome, the cost of which appears not to have been calculated. While the situation with respect to corporate taxes has improved, personal income tax rates still gall foreign executives.

Reaping and pathfinding

- The federal government’s limited focus on reaping contrasts with the heavy emphasis other countries and other jurisdictions place on working with prospective investors to “find a path” through the many obstacles inhibiting a positive investment decision. Ontario and Quebec both have units dedicated to “reaping”, and Investissement Québec has teams of prospectors and project managers working in tandem.

Aftercare

- *Re-investment has long been the major source of foreign investment, but the federal government has placed little emphasis on it*. Ontario has a “Key Investment Account Program” and Investissement Québec has a Subsidiaries Development division. The Company Relations Manager program is still in its infancy.

## Performance Management

- *A performance management framework has not yet been developed to guide the federal government's investment promotion program and assess its progress.* The program is complex and requires the involvement of many parties in its implementation. A management and accountability framework incorporating the elements recommended by the Treasury Board Secretariat (governance structure, result-based logic model, performance measurement strategy, evaluation regime, and reporting arrangements) would help to bring focus and cohesion to the activities of the parties – and undoubtedly improve results. (An interdepartmental committee under IPC auspices has been working on developing a framework for IPC since April 2000.)

- *No indicators have been established against which to measure whether the federal government is getting better at investment promotion.* Neither in 1996 nor since has the federal government established specific and measurable goals against which success in any of the five elements of the strategy could be assessed (e.g. measures to gauge growth in investor confidence, increases in investment in particular economic sectors or regions of the country, incidence of re-investment etc.). Nor has any of the parties yet identified the expected outputs and outcomes of their activities, whose monitoring would provide evidence in the short to medium-term that the strategy selected is en route to accomplishing its goals.

- *This makes it very difficult to assess whether departments and agencies are adequately funded.* Since the investment promotion program has neither (a) articulated any specific and measurable results to be achieved, nor (b) developed a performance management framework to provide systematic feedback on what works and what does not, it is difficult to make a case based on experience that the program needs more money. But it does seem that the federal government spends proportionally less than some of the countries it is competing with – and less than some of the provinces do. Moreover, IPC and every other agency involved has worthwhile things it could do with more money -- from enhancing missions' marketing activities through to building an effective "pathfinding" service for prospective investors.

- *In the absence of a performance management framework, it is difficult to evaluate the efficiency and effectiveness of the program*. At least three consequences flow from this. First, there is no systematic data available on which to base an analysis of what works and what does not, and to learn lessons from experience. Second, there is little opportunity to provide informed feedback on the advisability of the strategy employed, the plan of action developed, the tasking of parties, and the execution of the plan. Third, there are no objective grounds on which to base resourcing decisions.

# LOOKING FOWARD

## FINDINGS

The following recapitulates the findings from the foregoing analysis:

***Strategy***

- *The main guidance document is already five years old, prepared at a time when the world economy and Canada's place in it looked very different than they do today.*
- *The choice of sectors to receive specific attention and the improvements to be sought in each sector have not been reviewed in five years.*
- *The approach being taken to achieve desired objectives remains formally what it was in 1996, notwithstanding the experience gained over the last five years.*

***Governance and accountability***

- *The governance structure being developed is complex and has yet to produce the coordinated approach anticipated when IPC was established.*
- *The roles and responsibilities of the various parties are not clear, despite much effort to define and delineate them.*
- *IPC has a mandate which has expanded over time, but one which has not been fully accepted by others.*
- *The accountability structure has placed few obligations on parties to work as a team.*
- *It remains unclear whether IPC is supposed to be (a) a separate entity accountable to the deputy ministers of Industry and International Trade, (b) a joint enterprise of Industry Canada and DFAIT, or (c) actually part of both departments simultaneously. At times, it has appeared to be all three.*

***Planning and priorities***

- *Federal departments and agencies have never developed a consolidated plan of action to guide their efforts in investment promotion.*
- *The principal parties also disagree on the weight to be accorded various activities, for example prospecting for MNEs vs. SMEs.*

### *Process and instruments*

- *To date, the federal government has devoted more effort to sowing and tilling than it has to reaping and aftercare. One result is that federal investment promotion lacks "method".*

- *In addition, investment promotion has yet to develop the disciplines one would expect of a more mature program such as trade promotion. There are no doubt lessons to be learned from the trade program's management an administration.*

- *Little should be expected from current efforts to raise awareness of Canada as a place to invest.*

- *Unless it is informed by a vision of the kind of country Canada is to be and a strategy to create it, "branding" in unlikely to produce the results desired.*

- *The federal government does not have a coherent approach to prospecting.*

- *The deputies program marshals a resource no other country does for investment promotion, but the experience of four years suggests adjustments are due in how the resource is deployed. Issues include the choice of deputies to participate in the program, the country/sector focus of deputies' efforts, the planning of visits abroad, and management of investment impediments and investment climate issues.*

- *The federal government's limited focus on reaping contrasts with the heavy emphasis other countries and other jurisdictions place on working with prospective investors to "find a path" through the many obstacles inhibiting a positive investment decision.*

- *Re-investment has long been the major source of foreign investment, but the federal government has placed little emphasis on it.*

### *Performance Management*

- *A performance management framework has not yet been developed to guide the federal government's investment promotion program and assess its progress.*

- *No indicators have been established against which to measure whether the federal government is getting better at investment promotion.*

- *This makes it very difficult to assess whether departments and agencies are adequately funded – though the experience of other jurisdictions suggests that the resources devoted to investment attraction and facilitation may not be commensurate with the results expected.*

- *In the absence of a performance management framework, it is difficult to evaluate the efficiency and effectiveness of the program*.

## CONCLUSIONS

The analysis and findings of the study indicate that the federal investment promotion function:

- has no "fatal flaw" in its design,
- is complex and will only work if people are genuinely interested in cooperating,
- has made some progress in recent years,
- lacks strategic direction for the future,
- requires a "game plan" which all members of the team will subscribe to,
- requires more purposeful direction and tighter accountability arrangements,
- needs to reassess some of its methods, particularly the deputies program, and the relative weight it assigns sowing, tilling, reaping and aftercare, and
- should develop a performance framework so that true resource needs can be determined.

## FOLLOW UP

Some areas for follow-up which flow from these findings include the following:

1. *A high priority should be placed on developing a new federal strategy for attracting and retaining international business investment.* The strategy need not be an elaborate document intended to have a long shelf life. But it should identify priority sectors for economic growth, the likeliest sources of new investment, and the approach to be taken to securing the levels of investment desired.

2. *As part of the federal government's annual business planning process, parties should begin to develop an annual plan of action for investment promotion*, which sets out agreed targets, divides the labour, and ensures all parties understand what part they are to play in achieving targets.

3. *A performance management framework should be put in place* which draws on the new strategy and the next annual plan of action to specify outputs and outcomes, identify means for tracking and reporting progress, and provide for regular audit and evaluation.

4. *There should be a review of governance and accountability arrangements*, with a view to enhancing deputies' ability to provide informed and timely guidance, clarifying horizontal and vertical accountabilities, and imposing greater discipline on interdepartmental consultative mechanisms.

5. *The Deputy Minister Investment Champion Program should be reoriented* with a view to accentuating deputies' value-added, providing for more timely and targeted use of deputies' time, and broadening "ownership" of the program.

6. *Investment promotion "method" should be reviewed* to ensure a more client-centered and integrated approach to parties' dealings with prospective investors.

7. *Marketing, communications and branding programs should be more closely aligned with strategic objectives and operational needs*.

# ANNEX A
# PROFILES OF THE PROVINCES

## ONTARIO

In Ontario, the Ministry of Economic Development and Trade has an Investment Division whose objective is "to market Ontario to the world as a preferred location for North American investment". It carries out its mandate by "providing investment services to new and existing investors; by developing and executing investment marketing campaigns; and by administering business immigration programs and providing establishment services to attract and help settle business immigrants".

The division, which is led by an assistant deputy minister, is comprised of two branches:

- The *Investment Marketing and Sales Branch* develops image and investment marketing strategies for the province and generates leads through corporate call programs by in-market sales representatives and marketing staff who travel to target markets. The branch has an *Investment Marketing* section (8 people), an *International Investment Sales* section (6 people), and a *US Investment Sales* section (8 people).

- The *Investment Branch* provides investment and business services to prospective investors and to multinational enterprises located in Ontario, and assists with business immigration issues. The branch has an *International Investment Services* section to provide "comprehensive investor assistance services for international investors (which) include timely, client-specific information on Ontario's business climate, regulations, costs, markets, labour (skills availability and cost), infrastructure, lifestyle, and government programs and services" (5 people). An *Ontario Investment Services* section provides similar services to support retention and expansion of existing investment in Ontario (8 people). The branch's *Key Investment Account Program* is a dedicated "client outreach and servicing program for over 400 of the province's largest multinational corporations" (9 people). The *Business Immigration* section assists business immigrants in both personal and business establishment and works with corporations on such issues as "the transfer of senior executives or skilled personnel into the province from abroad" (7 people).

The division maintains a website with the most comprehensive and best organized investor-oriented information of any public sector website in Canada (2ontario.com/welcome/index). The site carries detailed economic studies and data on both Canada and Ontario. Ontario data is divided into two sections. The *Overview* section covers market profile, labour force, education, transportation, utilities, international trade, and quality of life. The *Business Climate* section covers economic indicators, investment policies and regulations, taxes, financial systems, government, legal infrastructure, and research and development.

Ontario recently recruited three investment development officers in the United States, and within the next year expects to have ten around the world (six in the US, three in Europe, and one in Asia).

In FY 1999/00, the province's investment marketing program, titled "Market Ontario", had a staff complement of 77 people and a budget of $26.3 million. In the ministry's business plan for that year, performance measures for the program set three specific targets: (a) awareness of Ontario to rank in the top third of key competitive jurisdictions in North America, (b) a total of 26 business investments resulting in $259 million in investment and 3,250 jobs created or maintained, and (c) a total of 650 business immigrants resulting in $75 million in investment and 2,500 jobs created or maintained.

## QUEBEC

Investissement Québec is a government corporation established in 1998/99 "to promote investment growth in Quebec by positioning Quebec as a hub of creativity and productivity that allows companies to be competitive in the context of globalization". To fulfill its mission, the organization (a) works with partners to promote Quebec as an investment location, (b) coordinates government action "in providing hosting and support services for investment projects and acts as the main interface for businesses in this regard", and (c) offers "advice, financial tools and fiscal measures that encourage the establishment and development of businesses, especially those whose growth is dependent on innovation and exports". In the budget speech which announced its creation, Investissement Québec was mandated to generate $6.3 billion in local and foreign investment over the following five years.

Investissement Québec was formed by merging the staff and financial portfolios of the Direction générale des investissements étrangers of the ministère de l'Industrie et du Commerce and the Société de développement industriel du Québec.

Principal responsibility for foreign investment promotion rests with the Vice President for Investment Promotion and Prospecting, who supervises the operations of three "front-line" divisions: *Subsidiaries Development*, *Americas*, and *Overseas*. Staff within each division are divided into (a) *prospectors* whose function is to generate leads and (b) *project managers* whose function is to do preparatory and follow-up work. Most prospectors are based in Montreal but they are constantly on the road.

- *Subsidiaries Development* has eight people working on existing foreign companies in Quebec,
- *Americas* has twelve people (seven prospectors and five project managers), and
- *Overseas* has ten people (four prospectors at an office in Paris and six project managers in Montreal).

In total, there are 49 people working on investment promotion activities, with an operational budget of $32.7 million.

Among the resources available to these divisions are:

- The Competitive Intelligence Office was set up "to seek out new investments, consolidate those already made in Quebec, and establish strategies by helping to identify emerging technologies on which Investissement Québec must focus". The office's resources comprise a team of professionals who analyze information and coordinate the work of a group of "internal and external monitors, using the VigiPro monitoring technology developed by the Centre de recherche industrielle du Québec". Among other things, the office "analyzes trends in direct foreign investment (and) keeps track of competitors".

- The Horace Data Bank and Internet Window provides a comprehensive source of information for investors and Quebec public sector economic agents responsible for investment promotion and economic development. The service brings together 13 Quebec government departments and agencies, and is provided through the Institut de la statistique du Québec, which gathers, processes and validates data and manages the information systems related to the project.

- Multimédia-Québec is a marketing tool developed by the Société générale de financement which provides quality presentations about the Quebec economy. This tool, which fits into a laptop, contains videos and about 350 electronic slides, in French and English, including animation and narration. The tool is available to partner organizations; Québec City economic agents have incorporated videos and slides describing the advantages of the city.

- Prospect-Québec Extranet provides a means for all Quebec agents responsible for prospecting for foreign investment to access strategic information provided by sectoral departments such as the ministère de l'Industrie et du Commerce, and to share information on their promotional activities.

The divisions also work in close cooperation with the Strategic Development division and the Communications and Marketing division, and have fiscal and financial tools at their disposal. (As of March 31, 1999, Investissement Québec had a financial portfolio of $1.6 billion, with net income of $24 million.)

## ALBERTA

Alberta's International Marketing Strategy (AIMS) reflects Alberta's heavy reliance on trade and investment for its economic growth. More than 2000 Alberta businesses export goods and services to more than 150 countries, and the province consistently records the highest investment per capita among provinces of Canada, with a total of $31.3 billion in investment in 1999. AIMS focuses on the regions and sectors that offer the greatest possibilities for new or expanded business opportunities, and its investment promotion efforts target companies which already hold substantial investment positions in Alberta, are world leaders in FDI, offer special expertise, or express an investment interest in Alberta's targeted industry sectors.

The government believes it has an important role to play in developing and promoting Alberta abroad, but sees that role more as identifying opportunities, facilitating partnerships, and providing support to the private sector at key points, rather than engaging directly in investment activities. The Department of Alberta Economic Development, specifically the International Markets Division, leads these efforts, but other departments also have specific mandates to facilitate international investment (and trade). The objective is "to get accurate information to our clients, Alberta businesses, within the appropriate time so that it is of enough value to assist Alberta's industry in making investment decisions in response to market opportunities".

In keeping with this philosophy, the province has created a "strategic economic planning framework" to involve the private sector including: the Alberta Economic Development Authority (AEDA) which has 10 committees with over 80 volunteers to act as a high level policy advisory group to the government; the Economic Developers of Alberta Association (EDA), Business Link in Edmonton, and the Calgary Business Information Centre.

While Alberta has something of a reputation among provinces for "going it alone", it makes a point of noting (in a way no other province does) that investment attraction and retention require "careful cooperation among the federal, provincial and local governments if they are to be successful". Effectiveness relies on "our collective ability to sustain our relationships as a group of different but like-minded stakeholders".

Unlike Ontario or Quebec, Alberta has an extensive network of international offices whose mandates are to:

- Generate market intelligence and provide market data and/or business information for trade and investment strategies,
- Facilitate networks, contacts, and market access for Alberta businesses, and identify strategic alliances and foreign joint ventures for trade and investment, and
- Encourage the immigration of experienced business persons.

Alberta has three offices in China (an officer located in the embassy in Beijing, the office of the co-director of the Alberta Petroleum Centre in Beijing, and an office in Harbin), one office in Tokyo (with a permanent staff of 13 plus contractors), and offices in Hong Kong, Taipei, Seoul (located at the embassy), and Portland, Oregon.

In the FY 2000/01 estimates, the budget of the department of Alberta Economic Development was $51.2 million, of which $29.1 million was for marketing and business development and $5.1 for ministry support services.

## BRITISH COLUMBIA

In British Columbia, responsibility for investment issues resides with the Ministry of Employment and Investment, specifically the B.C. Trade and Investment Office. The Office, which operates under the direction of an assistant deputy minister, is responsible both for promoting export trade for BC-based firms and facilitating private sector investment projects and opportunities, along with the administration of various provincial funds and enterprises.

The Office consists of:

- An *Investment Facilitation Branch* which assists investors and prospective investors with all levels of government and regulations which might influence their investment decisions, provides analytical support, supports promotional activities that highlight the advantages of investing in the province (including a website with Japanese and Chinese versions), and participates in national initiatives to attract FDI;

- An *International Services Branch* which provides assistance and administration for international trade events including incoming and outgoing missions, trade shows, and other special events;

- A *Strategic Industries Branch* which assists BC-based firms in strategic and emerging industries to expand their operations through strengthening networks and building alliances that attract investment and increase exports;

- A *Strategic Business Unit – Asia Pacific* which provides business connections and assistance to investors from the Asia-Pacific region wishing to do business in British Columbia and to exporters wishing to enter the Asia-Pacific market; and

- A *Japan Trade Unit* focused on maintaining and enhancing BC business relations with Japan, the province’s largest trading partner in Asia.

The Office has a staff complement of 60 people, not including contract personnel, 15 of whom are sector specialists with a capacity to deal with both the trade and investment dimensions of issues. The Office also manages offices in Tokyo, Taipei and London, at a cost of about $2 million per annum.

### *OTHER PROVINCES*

Other provinces have more modest investment attraction operations, each with its own structure and mode of operation. But they tend to share certain features:

- A determination to accentuate their distinctive competitive advantages, without explicit comparison with other jurisdictions (New Brunswick is the "customer contact center" capital of Canada, Nova Scotia has a "smart workforce" and world class transportation links, Newfoundland has among the lowest costs, etc.);

- Third-party testimonials to support their business case arguments (e.g. Manitoba cites a Moody's study, New Brunswick a Gartner Group analysis, Newfoundland a KPMG Canada study, Nova Scotia the decisions of Cisco Systems, Pratt & Whitney, Michelin, and Newbridge Networks to locate in the province);

- A willingness to provide prospective investors with easy access to managers and business development officers, including providing their names, telephone numbers and e-mail addresses (Newfoundland provides toll free numbers for inquiries from anywhere in North America and from ten countries overseas);

- Websites which link to federal institutions.

# ANNEX B
# IDEAS FROM THE 1996 STRATEGY

1. "A cadre of internationally recognized Canadian CEOs will deliver speeches and testimonials to their international counterparts, demonstrating their confidence in Canada and the advantages of Canada as an investment site".

2. "Strengthened analysis, personal, customized servicing and introductions to investment opportunities in Canada are important parts of the strategy".

3. "A similar focused service will support managers of existing Canadian subsidiaries in retentions, expansions, and winning of new mandates for Canadians operations".

4. "The strategy will also assist individual Canadian SMEs to find the international investment partners and technology they seek. Most proactive support will focus on SMEs in the strategic technology sectors … identified as critical to Canada's future competitiveness".

5. "To ensure that investor concerns and factors in Canada's investment climate which represent a comparative disadvantage are systematically addressed, Industry Canada and DFAIT will provide an Annual Report to the Deputy Ministers Committee on International Business Development which will report on Canadian performance in attracting investment, challenges faced, and changes to Canadian policies, regulations and practices which would increase Canada's competitiveness as an investment site. The private sector will be consulted as appropriate."

6. "Senior government officials will be designated as 'Investment Account Executives' or primary contacts for investment clients in Canada. Canadian ambassadors will perform a similar role internationally."

7. "A new private sector advisory mechanism will be established to offer advice on all aspects of the strategy".

# ANNEX C
# DOCUMENTARY SOURCES

Three studies are key to an appreciation of the federal government's investment promotion activities:

- Evaluation of the Department of Foreign Affairs Investment Development Program, Office of the Inspector General, DFAIT, October 1996
- Resourcing the federal effort in investment promotion: Investment Partnerships Canada in light of international practices, Harry Swain and Tim Garrard, Sussex Circle, May 2000
- Strategy Considerations for Economic Development Branding, Ticknor & Associates, March 2000

Other studies of interest include:

- "Recent Trends in Foreign Direct Investment", Financial Market Trends, No. 76, OECD, June 2000
- The Competitive Alternatives: A Comparison of Business Costs in North America, Europe and Japan, G-7 Edition, KPMG
- A Primer on Foreign Direct Investment, Denis Gauthier, Director General, Micro-Economic Policy Analysis Branch, Industry Canada
- Foreign Investment Barriers, Canadian Chamber of Commerce, March, 2000
- Best Practices in Marketing for Alberta Communities to Attract Business and Investment, Whyte Reynolds International Inc., March 1999

Among the books and articles consulted, the following stand out:

- A Future Perfect: The Challenge and Hidden Promise of Globalization, John Micklethwait and Adrian Wooldridge, The Economist, Crown Publishers, 2000
- The Lexus and the Olive Tree: Understanding Globalization, in particular Chapter 7 ("The Electronic Herd") and Chapter 11 ("Buy Taiwan, Hold Italy, Sell France"), Thomas L. Friedman, New York Times, Random House, 2000
- The Making of the Celtic Tiger, Ray McSharry and Padraic White, Mercier Press, February 2001

- "A Model for Developing Foreign Investment Programs', Bernard Lemay and Christopher Bryant, Economic Development Review, Spring 2000

- "The Industrial Development Process: An Overall View", R.J. McLoughlin, Administration, Vol. 20., pp. 27-36

- "The Multilateral Agreement on Investment: A Charter of Rights for Global Investors or Just Another Agreement?", Elizabeth Smythe, in Canada Among Nations, 1998

# ANNEX D
# ACRONYMS

AAFC – Agriculture and Agri-Food Canada
DFAIT – Department of Foreign Affairs and International Trade
DMICP – Deputy Minister Investment Champion Program
EBD – Services, Investment and Intellectual Property bureau
EBI – Investment Trade Policy division
EDAC – Economic Developers Association of Canada
FDI – Foreign direct investment
FTE – full-time equivalent (one person)
GGD – Africa bureau
GMD – Middle East and North Africa bureau
IBOC – International Business Opportunities Centre
IC – Industry Canada
ICT – Information Communications and Technologies branch (IC)
IPC – Investment Partnerships Canada
LGD – Latin America and Caribbean bureau
MMS – Minerals and Metals Sector, Natural Resources Canada
MNE – multinational enterprise
NRCan – Natural Resources Canada
PCMA – Regional Planning and Coordination Unit: Trade and Investment
PEMD-I – Program for Export Market Development – Investment
PND – North Asia and Pacific bureau
PSD – South and Southeast Asia bureau
RBD – Central, East and South Europe bureau
REN – Northern Europe division
RENB – European Business Development section
RWD – European Union, North and West Europe bureau
SME – small to medium-sized enterprise
TBD – Trade Commissioner Service Planning and Policy bureau
TBR – Science and Technology division
TBX – Policy and Strategic Planning division
TCD – Trade Commissioner Service Overseas Program and Services
TCE – Export Development division
TCM – Market Support division
TCS – Trade Commissioner Service Overseas Operations Division
TCT – Team Canada Trade Missions division
TCW – Trade Commissioner Marketing division
TBF – Export Financing division
TBL – Team Canada Inc.
TSME – Export Services to Small and Medium-Sized Enterprises
URD – United States bureau
URT -- United States Business Development division

# ANNEX E
# TRADE COMMISSIONER SERVICE EMPLOYEE SURVEY INVESTMENT

Following are preliminary data on how the investment function is viewed by employees of the Trade Commissioner Service, based on the 2000 TCS Employee Survey. The survey distributed 1338 questionnaires and received 862 returns, a response rate of 64%.

*Time allocation on investment development:*

Time spent by employees on investment development <u>initiated by the mission, HQ divisions, or IPC</u>:

- 1-20% of time (45.3%)
- Zero time (36.3%)
- Did not know (13%)

Time spent by employees on investment development <u>in response to inquiries or requests from Canada or the host market</u>:

- 1-20% of time (42.6%)
- Zero time (42%)
- Did not know (13%)

*Satisfaction with support from Ottawa*

Average level of satisfaction with "the level of support and cooperation" from Ottawa-based organizations, on a scale of 1 (not at all) to 10 (completely):

- Agriculture and Agri-Food Canada (7.2)
- Export Development Corporation (6.8)
- Canadian Commercial Corporation (6.6)
- Natural Resources Canada (6.5)
- Industry associations (6.5)
- International Trade Centers (6.4)
- Industry Canada (6.4)
- Municipalities (6.1)
- Trade Team Canada sector teams (6.0)
- Investment Partnerships Canada (5.9)
- Regional development agencies (5.5)

*Level of satisfaction with Investment Partnerships Canada*

Satisfaction with the level of support and cooperation from Investment Partnerships Canada, on a scale of 1 (not at all) to 10 (completely):

- Level 8 (6.9%)
- Level 7 (7.8%)
- Level 6 (5.9%)
- Level 5 (5.5%)
- Don’t know, don’t use them (60.4%)

*Knowledge and contacts*

Response to the question whether employees had the required knowledge and contacts to perform effectively all of their investment promotion tasks:

- Strongly agree (11.9%)
- Somewhat agree (23.1%)
- Neither agree nor disagree (18.5%)
- Moderately disagree (14.2%)
- Strongly disagree (5.7%)
- Does not apply to me (26.6%)

# PROMOTING FOREIGN INVESTMENT

## MANAGEMENT RESPONSE TO A REPORT ENTITLED *AN ORGANIZATIONAL REVIEW OF INVESTMENT PARTNERSHIPS CANADA AND ASSOCIATED DEPARTMENTS AND AGENCIES*

**AUGUST 2001**

## Background

This review was undertaken at the request of the Deputy Minister of Industry Canada and the Deputy Minister for International Trade. Performance Systems Canada Inc. was engaged to undertake the review on behalf of the Audit and Evaluation Branches of Industry Canada and the Department of Foreign Affairs and International Trade.

The objectives of the review were to:

- profile the government’s investment promotion system;
- explore how departments and agencies work together through Investment Partnerships Canada;
- identify areas of potential improvement; and
- suggest an agenda for the future.

The organization and mandate of Investment Partnerships Canada have changed significantly since its inception five years ago. Given this, the two Deputy Ministers believed that it was timely to look at the strengths and weaknesses of the Partnership and to suggest improvements to the organization.

Management welcomes the report's conclusions. We recognize that this new type of approach involving federal, provincial and municipal governments is evolving and that changes are needed to make it both more effective and responsive to Canada's investment objectives and foreign investors' needs.

Success on the investment front requires the strong commitment of all players. The key ingredients for cooperation are there -- we have support at the highest levels of government, all partners have reaffirmed their commitment and we are working on a common strategic direction. We see this as an opportunity to reinvigorate the partnership and move forward to strengthen Canada's ability to attract and retain investment.

## <u>Overall Management Response to the Review</u>

The Review demonstrates commitment by the participating organizations to working together in a more coherent and integrated manner and has been helpful in making recommendations to advance this integration process. Some observations contained in the Review were not accepted by all parties. Nevertheless, all partners are committed to addressing each of the recommendations within the time frames set out in the detailed Management Response below, in order to enhance the delivery of the Government's investment agenda. As the Review confirms, investment promotion is complex with many groups pursuing differing objectives....and the process is getting more complex with the passage of time. The management of Investment Partnerships Canada (IPC) and the core departments that comprise the Investment Partnership accept and embrace the "areas for follow up" that are set out in the Review. For purposes of simplicity, the term *Investment Partnership* refers collectively to IPC and the core federal departments that are engaged as partners in investment promotion and attraction. These core departments consist of Industry Canada, the Department of Foreign Affairs and International Trade (DFAIT), Agriculture and Agri-Food Canada and Natural Resources Canada.

## <u>Management Response to the Recommended Areas for Follow-up</u>

**1. Recommendation:** ***A high priority should be placed on developing a new federal strategy for attracting and retaining international business development.***

**Management Response:** ***Agreed.***

The Review calls for the development of an updated federal strategy. A revised federal strategy will be developed by the end of 2001 and is to be reviewed annually thereafter. It is agreed that there is a clear ongoing need for a coherent and comprehensive federal strategy that sets out the specific actions that all investment partners must undertake collectively to achieve the government's objectives. In this regard, the Investment Partnership has developed and is pursuing a very explicit and agreed strategy and policy agenda that would serve to make Canada a more attractive place to invest. This agenda is also an important element of our branding campaign (see paragraph 7). A recently concluded review of priority markets has been approved by the Deputy Ministers that comprise the IPC Advisory Board. The formal designation of priority markets and sectors within this strategy is to be made conditional on the commitment of adequate resources by the partners. By setting these priorities, the Investment Partnership would be in a position to develop sectoral strategies and identify the signature public events and specific firms that are to be targeted in priority geographic regions of the world. This agenda is being shared with the provinces and territories via the Federal-Provincial-Territorial Senior Officials' Working Group. As the Review points out, arriving at a consensus on all these points at this level of detail is an ongoing challenge that is inherent in the partnership model.

**2. Recommendation:** ***As part of the federal government's annual business planning process, parties should begin to develop an annual plan of action for investment promotion.***

**Management Response:** ***Agreed.***

To allow for implementation commencing in fiscal year 2002-2003, the Investment Partnership, under IPC leadership, will initiate an annual planning process that will require the development of action plans for each of the previously approved priority sectors and regions of the world. This will integrate and build on the existing planning processes within the member organizations of the Investment Partnership. These action plans are to be developed in consultation with the relevant partners within the Investment Partnership and will identify specific activities, define roles and responsibilities, allocate resources and measure performance.

**3. Recommendation:** ***A performance management framework should be put in place.***

**Management Response:** ***Agreed.***

A preliminary investment performance management framework has been developed over the past 12 months and will continue to build on existing performance management processes in partner agencies. A pilot of the first phase of this system has been launched within IPC. When fully operational, this system is to be extended to the operations of the various partners of the Investment Partnership to measure the effectiveness of their investment activities. The performance management framework would also provide the basis for performance and accountability accords that IPC will establish with its partners. The continuing work associated with this initiative includes: (1) implementing the data gathering strategy within IPC and evaluating its future applicability to the activities of the other members of the Investment Partnership; and (2) developing a measurement framework that would define the activities, outputs and results. This performance management framework would proceed concurrently with the development of the annual planning process described in item 2 above. Continuous dialogue within the Investment Partnership is essential to the development of this measurement framework as an integral part of a federal strategy.

**4. Recommendation:** ***There should be a review of governance and accountability arrangements.***

**Management Response:** ***Agreed.***

Governance and accountability arrangements are critically important to the success of the Investment Partnership and are especially challenging in such a complex line of business which engages so many partners and players. Adding to the challenge is the underlying dynamic of a partnership, i.e., horizontal management of partners in an environment where the partners do not work for each other but all work toward a common objective...the essence of teamwork! To meet the challenge, a governance structure has been implemented which engages those responsible within the Investment Partnership. Within this context, the role, membership and operation of the IPC Deputy Ministers Advisory Board is in the process of being reviewed and broadened. This review is to include greater participation by Deputy Ministers whose portfolios contain sectoral and policy responsibilities and to also include representative Heads of Missions within DFAIT, i.e., Ambassadors and Consuls General, who are responsible for implementing investment strategies in priority regional and national markets around the world. Similarly, the memberships of the Directors General Investment Committee and the Assistant Deputy Ministers Investment Council are being reassessed to ensure increased effectiveness across government and enhanced support for the decision making role of the Deputy Ministers Advisory Board. This reassessment will reinforce the accountability of all members of the Investment Partnership. The proposed changes in the governance structure are to be completed by the end of 2001.

**5. Recommendation:** ***The Deputy Ministers Investment Champion Program should be reoriented.***

**Management Response:** ***Agreed.***

One of the unique aspects of the Investment Partnership strategy is the direct involvement of a select group of Deputy Ministers in promoting investment. The Deputy Ministers Investment Champion Program is being reoriented to make the role of Deputy Ministers more strategic and to more broadly engage the Investment Partnership in the development and delivery of this program. Similarly, the roles of Deputy Ministers in addressing issues relating to policy and regulatory impediments to investment, and issues relating to specific industrial sectors as well as the branding of Canada as a location for investment are in the process of being redefined. The reorientation of the Deputy Ministers Investment Champion Program is to be completed by the end of 2001 in parallel with the planned changes to the governance and accountability structure outlined in item 4 above.

**6. Recommendation:** ***Investment "method"* should be reviewed to ensure a more client-centered and integrated approach to parties' dealings with prospective investors.***

**Management Response:** ***Agreed.***

Embedded in the Investment Partnership strategy will be a clear tactical plan which sets out the method to promote investment, particularly in priority regions around the world and in priority industrial sectors. The promotion strategy works at two levels: (1) increasing awareness of Canada by potential investors; and (2) increasing the propensity of investors to invest in Canada. The revised investment "method" that is to be implemented will result in a more coordinated effort among all members of the Investment Partnership to provide, within available resources, a high level of service to investors throughout the investment cycle, from targeting to promotion, through investment decision and aftercare. The integration of the roles of different partners throughout this cycle at appropriate times will be coordinated by IPC. The role of Senior Account Executives, within IPC, who support Deputy Minister Investment Champions would be expanded in line with this revised investment method. This revised investment method is to be implemented in conjunction with the revised annual planning process set out in item 2 above.

*The Review defines investment “method” as *conceptual selling - a seamless process which involves defining the “ideal client”, qualifying prospects to ensure they meet the criteria, making leveraged approaches, exploring needs and wants, designing solutions in common, and fashioning a relationship to see the project through from beginning to end.*

**7. Recommendation: *Marketing, communication and branding programs should be more closely aligned with strategic objectives and operational plans.***

**Management Response: *Agreed.***

Marketing, communications and branding are situated at the core of the investment promotion program. This line of business provides the tools and the tactics required to support and leverage investment promotion efforts. Marketing and promotional materials have been developed for use by all investment partners (e.g., high quality print materials, Invest in Canada website, etc.), though more needs to be done. The Investment Partnership continues to develop more refined and targeted marketing materials that support our strategic and operational objectives. The Partnership is committed to developing and updating a wide variety of marketing and promotional materials, which are to be integrated across the Partnership, including the provinces, territories and municipalities. Branding pilots in Boston and Dallas are being used to define the attributes and marketing methodology that can be applied to a variety of markets, forming the core of a successful Canadian brand. The branding pilots will be completed in March 2002, but the research results, messages and elements of a marketing methodology are already being applied in other markets. Increasingly, this branding research is being developed and incorporated into investment strategies, such as Team Canada missions and the Deputy Ministers Investment Champion Program. Another aspect of the challenge going forward is the management of the investment branding strategy, both domestically and internationally, in the context of other federal, provincial and municipal branding initiatives. A working group from across the Investment Partnership has been formed to work toward aligning the partnership’s marketing, communication and branding programs with its strategic objectives and operational plans. The work of the working group is planned for completion by the end of fiscal year 2001 - 2002.

**<u>Management Accountability</u>**

Leadership in implementing these recommendations is to be provided by IPC, in cooperation with partner organizations, and is to be overseen by the IPC Deputy Ministers Advisory Board.

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