

***Evaluation of the Program for Export
Market Development - Investment***

(PEMD-I)

Final Report

Evaluation Division
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Executive Summary

Background

The Program for Export Market Development (PEMD) has been operational since 1971. It was established to assist Canadian companies in marketing their products and services internationally. In 1998, PEMD was expanded to include the Program for Export Market Development - Investment (PEMD-I). PEMD-I provides applicants with assistance in attracting and retaining Foreign Direct Investment (FDI). PEMD-I includes not-for-profit, public-private partnerships working at the municipal level.

PEMD-I operates at two levels, where Tier 1 focuses on improving investment readiness (training, database development, promotional material, strategic research, investment prospecting and participation in investment related events) and Tier 2 is aimed at more comprehensive projects that deal with attracting investment to Canada (competitive analysis, market research, preparation of proposals to target companies, and organization of promotional events). Support for Tier 1 projects is limited to \$50,000 per application per year with a maximum number of three applications per year. The maximum level of assistance at the Tier 2 level is \$300,000 per year. The program works on a cost shared basis in that successful applicants will receive support for up to 50 percent of eligible costs.

Objectives of the Evaluation and Methodology

This evaluation study was carried out to assess the management and performance of the program since 1999; to assess the continued rationale and performance of PEMD-I and to identify any necessary changes to the program structure, budget, administration and coordination with a view to enhancing future program performance and results. The study included a review of financial and non-financial information in files both at headquarters and in the regions; a literature review; interviews with key internal and external stakeholders; site visits and a survey of all recipients of PEMD-I funding.

The conclusions and recommendations of the study are presented with respect to the following evaluation issues: rationale and relevance, program effectiveness and program management and delivery.

Rationale and Relevance

The continued rationale and relevance of the program have been confirmed based on the current and anticipated level of demand for program support in response to client needs.

Many community and regional development organizations are now only beginning to realize the benefits of having the proper toolkit for attracting foreign direct investment (FDI). However, many felt that additional work needs to be carried out to fully develop long term strategies. Although it is always difficult to measure the performance of programs like PEMD-I and to prove incrementality, there was evidence that the program had contributed to the development of high quality communication and promotional materials, had contributed towards some positive economic results and had a catalytic effect by encouraging the creation of regional networks and partnerships. The majority of clients stated that without the assistance of the program they would not have been able to carry out their FDI activities or that these would have proceeded at a much slower pace, or not have been of the same high quality. Some also expressed concerns with their ability to continue this work in the future if the program was discontinued.

As the only federal program supporting the attraction, retention and expansion of FDI at the municipal level, the rationale for the program remains clearly aligned with DFAIT's Prosperity Pillar as well as Industry Canada's strategic objective of "improving Canada's position as a preferred location for domestic and foreign investment".

Discontinuing the program after a relatively short four year period could impede the work municipalities and community organizations have undertaken. The attraction of international investment is a long term undertaking that requires a sustained effort. Any discontinuity in that process could be disruptive.

Program Effectiveness

Overall, the study demonstrated evidence of benefits to clients in terms of raising their awareness of the importance of foreign direct investment; the creation of regional networks for FDI promotion; the development of appropriate promotional tools and finally the contribution of the program to the generation of economic benefits to communities across Canada.

Fifty-five percent of the respondents mentioned they had been able to attract new investment opportunities; whereas over fifty percent reported new FDI contacts, enquiries and potential prospects. There were also examples of new jobs created and new investments in different regions across Canada. Although it is difficult to attribute these results solely to the program (as communities received funding from many sources), the respondents felt that the funding and assistance provided had been catalytic and essential to their overall success.

At a more general level, the program resulted in the creation of several regional marketing organizations and fostered collaboration among communities. This ensured the regions presented a coherent and coordinated approach to potential investors and site selectors.

Program Management and Delivery

The study found that program delivery was mixed. The results of the client survey indicated a high degree of satisfaction with the delivery of the program at the regional level. However, some issues were raised with respect to the delivery of Tier 2 projects (high staff turnover, lack of continuity, remoteness from regional reality, timing of decisions, inability to raise the required resources for cost sharing of larger projects, etc.).

Issues were raised with respect to the availability of guidelines, the lack of resources for program promotion and delivery, and the lack of performance information. Central directions from headquarters on guidelines, procedures, interpretation of program terms and conditions have, in the past, been sporadic and variable. This has resulted in some inconsistencies in the application and interpretation of program conditions over time and in different regions. This flexibility was not always negative, since the ITCs have effectively tailored the program to meet regional needs and have developed some best management practices over time. Sharing these best practices and ensuring consistency in the delivery of the program will be important in the future.

Lapsed resources were a major concern of the PEMD-I program in the past years. Several reasons were provided for the lapsing including the fact that no resources had been allocated at the outset for promoting the program in the regions; the need to develop and build linkages with municipalities and local regional development organizations; the low project intake initially as organizations became familiar with the program and its potential benefits to the community; the late in fiscal year approvals which increased the likelihood that clients would not be able to spend the resources during the required time frame; and the lack of multi-year funding.

Considerable dissatisfaction with the current financial information management system was expressed by program management, as well as with current management practices overall. The lack of adequate resources at the regional level to promote and deliver the program was a concern to internal stakeholders. Promoting and delivering the program proved to be more resource intensive than originally anticipated.

Program Management should address the shortcomings identified with program management and delivery issues by ensuring that:

- sound financial management systems and practices are established;
- rules governing the program are clarified, including rules with respect to cost-sharing, multi-year contracting, eligible expenses, in-kind contributions, etc.
- adequate and acceptable performance information practices be put in place to ensure the consistent collection of data on key results;
- these reporting requirements should be based on the nature of the funded projects in order to limit the reporting burden on client communities; and
- adequate resources are provided for the promotion, delivery and management of the program, particularly at the regional level.

Community organizations and other stakeholders generally preferred the Tier 1 option and felt that the funding limits for this level could be expanded, allowing for multi-year or multi-phase financing of projects and the program delivered on a regional basis. The majority (90%) of organizations who obtained Tier 2 funding had also received Tier 1 funding, and a coordinated regional approach to program delivery could result in more program transparency and accountability.

Both internal and external stakeholders mentioned that certain issues could be revisited in terms of program design including allowing for multi-year financing of projects, the expansion of eligible costs to include travel, the recognition of in-kind contributions, allowing for a more flexible cost-sharing approach, etc.

Over the longer term, a more in-depth review of program design is essential. This review of program design related issues and some of the underlying assumptions about the program would enable the program to better serve its client community. This in-depth review should focus on the possibility of developing a single-tier program, reviewing all terms and conditions governing the program including: program eligibility, eligible expenses and cost sharing. This should be done in close consultation with both regional management and the client communities, and other relevant stakeholders.

1.0 Introduction

This section provides some background on the evaluation issues and the methodology used to carry out the study. It will also describe the content of the overall report.

1.1 Background on the Evaluation

The Program for Export Market Development (PEMD) has been operational since 1971. It was established to assist Canadian companies in marketing their products and services internationally. In 1998, PEMD was expanded to include the Program for Export Market Development - Investment (PEMD-I). PEMD-I provides applicants with assistance in attracting and retaining Foreign Direct Investment (FDI). PEMD-I includes not-for-profit, public-private partnerships working at the municipal level.

This evaluation study was carried out to assess the management and performance of the program since 1999; to assess the continued rationale and performance of PEMD-I and to identify any necessary changes to the program structure, budget, administration and coordination with a view to enhancing future program performance and results. The specific objectives of the evaluation are as follows:

- to determine the extent to which the PEMD-I program corresponds to client needs and is congruent with departmental policies and priorities in IBD programming;
- to assess the progress made in the achievement of program objectives and expected results;
- to assess the overall efficiency of processes and systems used to plan, resource, implement, coordinate, administer, control and report on program performance; and
- to consider alternative models of service delivery and provide recommendations on the future orientation of the program.

1.2 Methodology

The approach used for the study respected standard evaluation methodologies and the results are based on multiple lines of evidence, including the following:

- a review of financial and non-financial information in files both at headquarters and in the regions;

- a literature review (Statistics Canada data and other studies) to establish the overall national and international context with respect to foreign direct investment;
- interviews with key stakeholders (program management at headquarters and in the regions, members of adjudication committees and clients (over 90 interviews were conducted in person or by telephone or through focus groups- 5 in Toronto);
- site visits to Halifax, Montreal, Toronto, Edmonton, Vancouver; and
- a survey of all recipients of PEMD-I funding (a total of 105 clients responded to the survey out of 258 potential respondents). Exhibit 1 below shows the overall response rate to the survey. Potential respondents were contacted up to three times to first of all reach them and advise them of the survey. The survey was faxed to them and they were given the choice of faxing it back or be interviewed by telephone. Messages were left up to three times to remind them to complete the survey.

Exhibit 1: Response Rate to Survey of PEMD-I Recipients

Status	Frequency	Percent
Completions	105	40.7%
Going to fax/Never received	49	19.0%
Bad contact information	36	13.9%
Refused	17	6.6%
No contact/busy	51	19.8%
Total	258	100.0%

1.3 Organization of the Report

This report is organized along the following lines:

- **Section 1** introduces the report, briefly describes the objectives of the study and the methodologies used to carry out the evaluation and the organization of the report;
- **Section 2** provides an overview of the program;

- **Section 3** describes the results of the evaluation under Program rationale and relevance;
- **Section 4** covers issues related to program effectiveness;
- **Section 5** describes program usage and addresses questions related to program efficiency and program structure, management and delivery; and,
- **Section 6** presents the overall conclusions and recommendations resulting from the evaluation findings.

2.0 Overview of PEMD-I

2.1 Background and History

The Program for Export Market Development (PEMD) has been operational since 1971. It was established to assist Canadian companies in marketing their products and services internationally. In 1998, PEMD was expanded to include the Program for Export Market Development - Investment (PEMD-I). PEMD-I provides applicants with assistance in attracting and retaining Foreign Direct Investment (FDI). PEMD-I includes not-for-profit, public-private partnerships working at the municipal level.

2.2 Objective of PEMD-I

The objective of PEMD-I is to increase total Canadian employment by attracting, retaining, and expanding Foreign Direct Investment (FDI). PEMD-I supports communities in their efforts to promote investment opportunities in their region and assists them in dealing effectively with FDI. Additionally, PEMD-I seeks to accomplish the following:

- increase awareness among foreign investors of the advantages of expanding into and within Canada;
- encourage and promote the pursuit of excellence in the development of investment programs; and,
- encourage cooperation between all levels of government and the private sector.

2.3 Program Description

2.3.1 Description of Program Delivery

PEMD-I operates at a two tier level, where **Tier 1** focuses on improving investment readiness and **Tier 2** is aimed at more comprehensive projects that deal with attracting investment to Canada. Examples of Tier 1 activities are training, database development, promotional material, strategic research, investment prospecting, and participation in investment related events such as site selectors conferences, trade shows, etc. Tier 2 projects are eligible for support for competitive analysis and market research, preparation of proposals to target companies, and organization of promotional events. Support for Tier 1 projects is limited to \$50,000 per application per year with a maximum number of three applications per year. The maximum level of assistance at the Tier 2 level is \$300,000 per year. The program works on a cost shared basis in that

successful applicants will receive support for up to 50% of eligible costs. Allocation to Tier 1 is \$ 3.4 million per year, while \$ 1.4 million is allocated to Tier 2.

2.3.2 Eligibility

Organizations that are eligible for support under PEMD-I include Canadian municipalities or groups of municipalities, community-based organizations involved in economic development projects, and locally funded economic development agencies operating as a department of a regional or municipal government, or as not-for-profit development corporations.

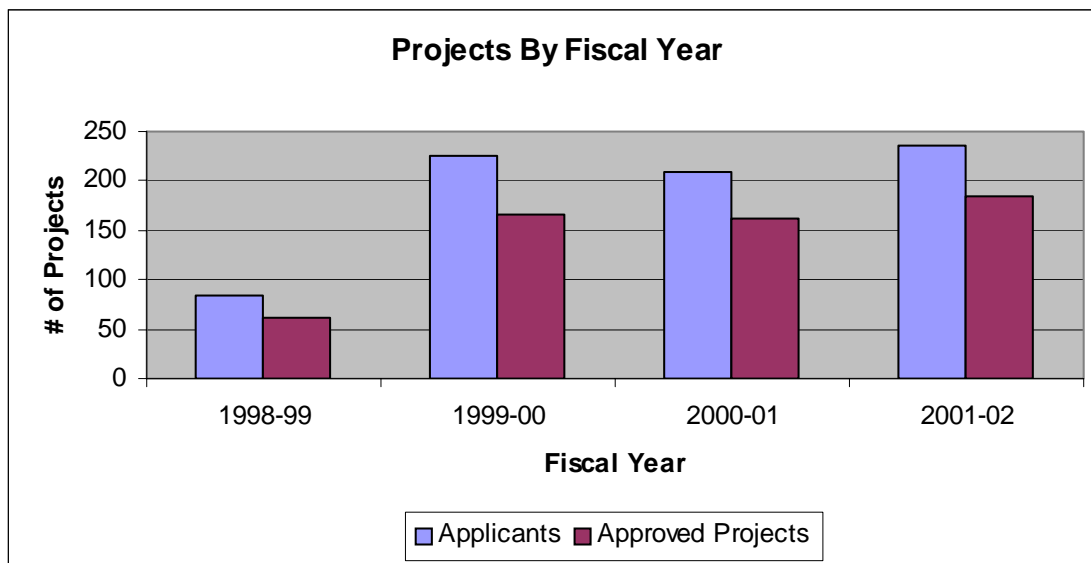
Tier 1 applications are evaluated by 13 provincial- and/or territorially-based committees which normally meet three times a year. Tier 2 applications are evaluated by the PEMD-I Secretariat in Ottawa. Applications are evaluated based on their level of excellence, anticipated benefits, quality of the public-private sector partnership, and catalytic effects (i.e. resources levered by support, incrementality).

2.4 PEMD-I Activity - Tier 1 Level

The following analysis is a summary of recent PEMD-I activity. All figures in the analysis are taken from data dated before April 1, 2002.

The following exhibit shows the number of applicants and approved projects for a given fiscal year at the Tier 1 level.

Exhibit 2 - Tier Projects by Fiscal Year



The approval rates per fiscal year for projects at the Tier 1 level are outlined in **Exhibit 3**.

Exhibit 3 - Approval Rates - Tier 1 Projects

Approval Rates	
Fiscal Year	Approval Rate (%)
1998-1999	74.7
1999-2000	73.8
2000-2001	77.6
2001-2002	78

The overall percentage breakdown of applicants by province is outlined in **Exhibit 4**. The highest percentage of applicants are in Ontario, followed by Quebec and British Columbia.

Exhibit 4 - Number of Applicants - Tier 1 Level

Applicants per Province	
Province	% of Applicants
Alberta	12.5
British Columbia	17
Manitoba	3.7
New Brunswick	4.5
Newfoundland	1.9
Nova Scotia	4.9
Northwest Territories	0.3
Ontario	32.8
Prince Edward Island	0.8
Quebec	18.4
Saskatchewan	3.1
Yukon	0.1

The financial assistance per province is given in Exhibits **5**, **6**, **7**, and **8** for fiscal years 1998-1999, 1999-2000, and 2001-2002 respectively:

Exhibit 5 - Financial Assistance by Province 1998-1999

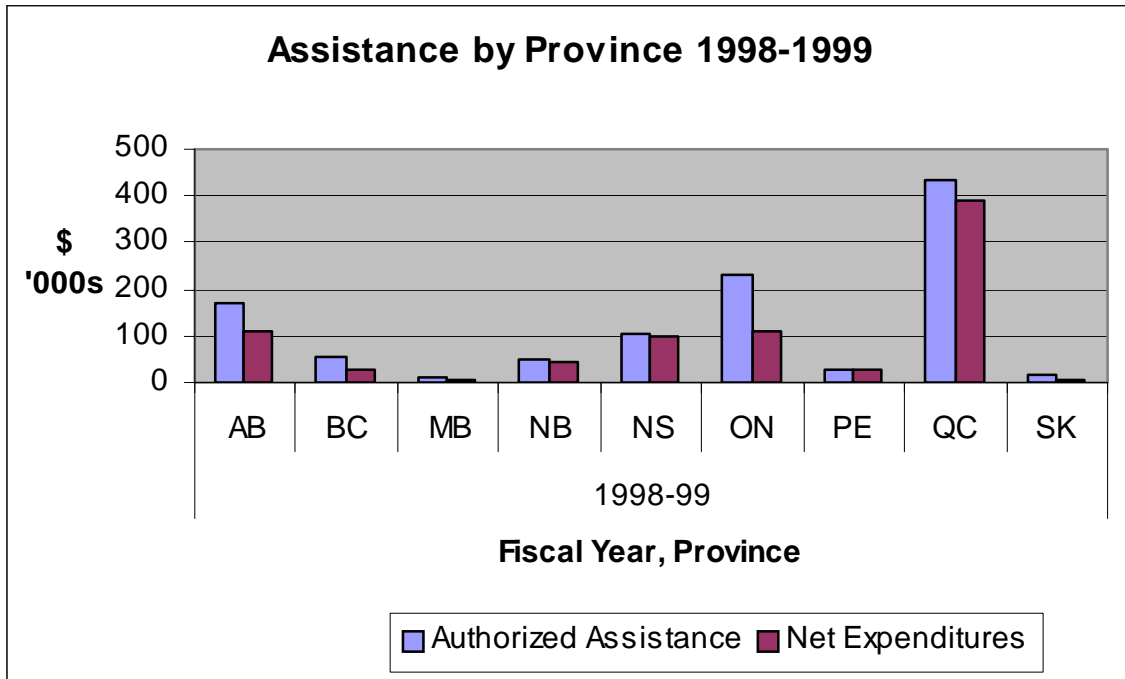


Exhibit 6: Assistance by Province 1999-2000 (Tier 1)

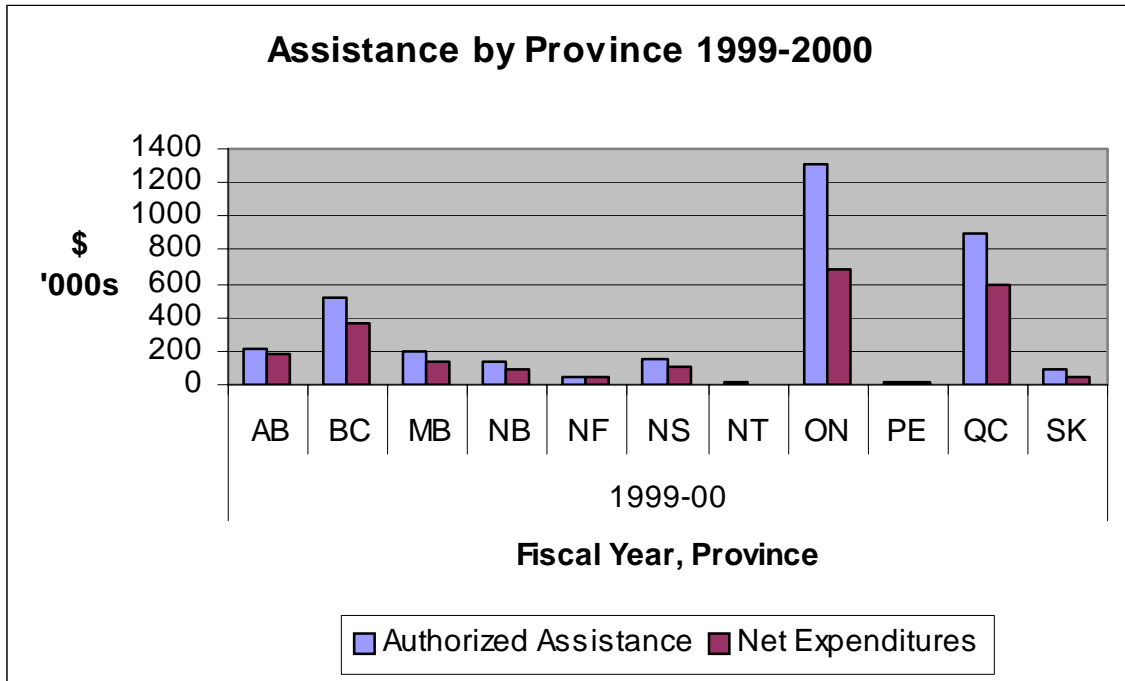


Exhibit 7 - Financial Assistance by Province 2000-2001 (Tier 1)

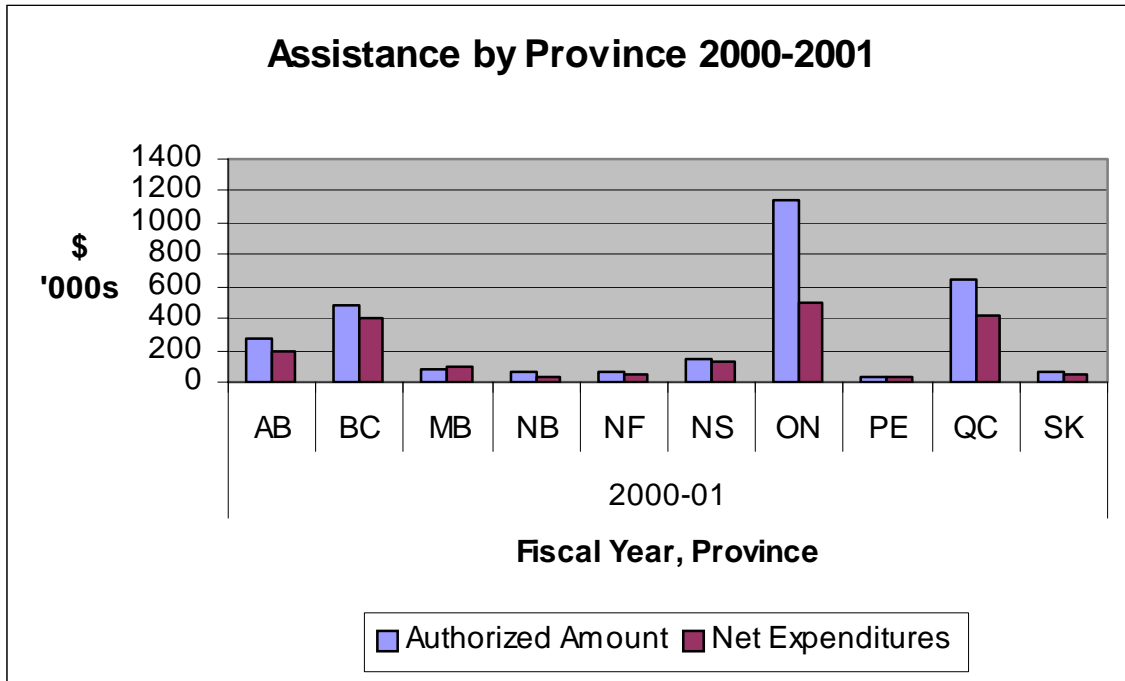
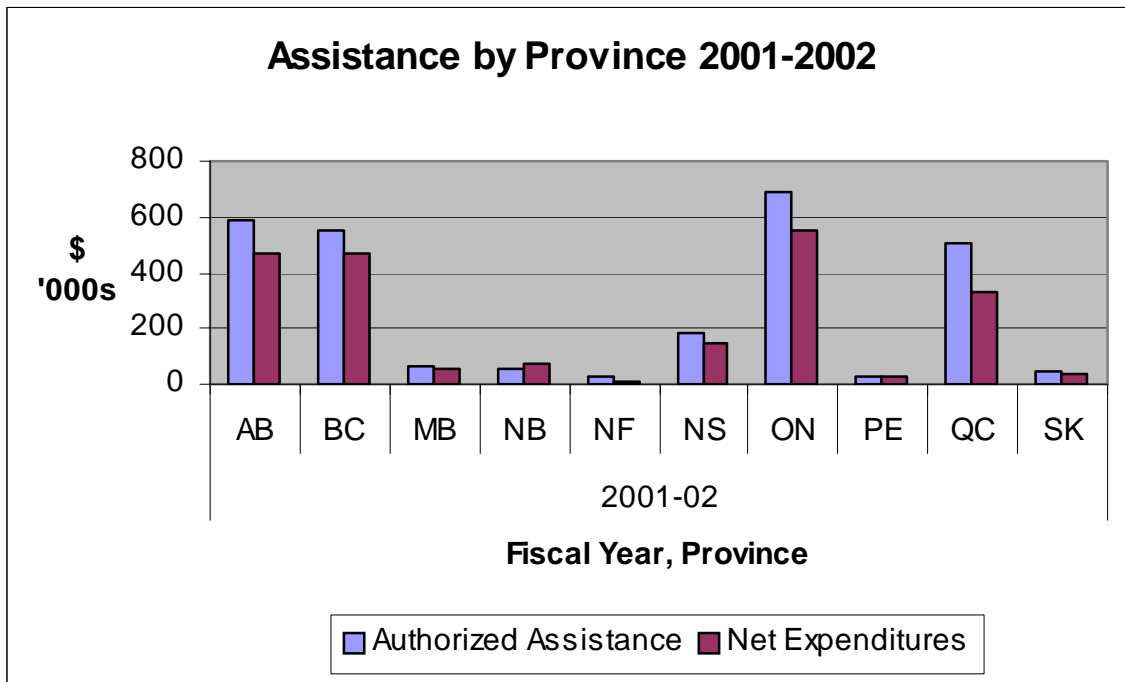
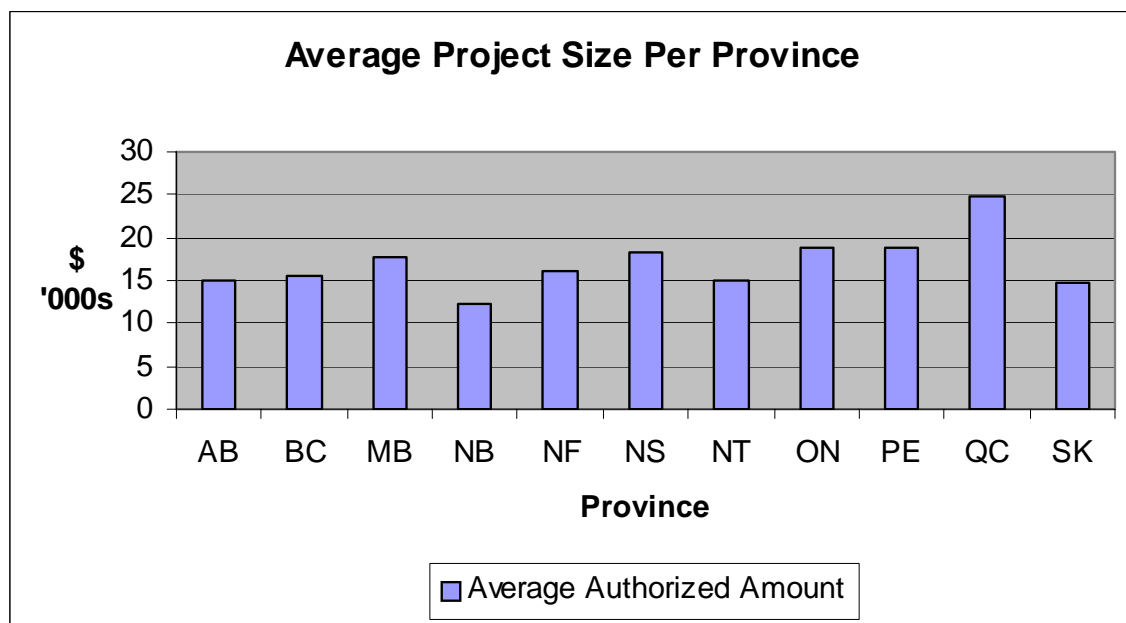


Exhibit 8 - Financial Assistance by Province 2001-2002



The average project size (authorized amount) per province is given in **Exhibit 9**.

Exhibit 9 - Average Project Size by Province (Tier 1)



2.5 Program Usage - Tier 2 Level

Exhibit 10 provides an overview of the authorized and actual funds spent at the Tier 2 level over the past several years. All figures are based on information provided by Investment Partnership Canada and Industry Canada.

Exhibit 10 - Authorized and Actual Expenditures - PEMD-I Tier 2 Level

Fiscal Year	Number of Projects	Authorized Value of Projects	Actual Expenditures
1999-2000	9	\$1,209,261	\$853,625
2000-2001	12	\$1,368,213	\$996,052
2001-2002	7	\$1,215,140	\$562,323

Exhibit 11 provides an overview of the distribution of projects by province over the period 1999-2000 to 2001-2002. All but two of the organizations funded at the Tier 2 level also received funding at the Tier 1 level.

Exhibit 11 - Projects approved by Province - PEMD-I Tier 2 Level

Province	1999-2000	2000-2001	2001-2002
Nova Scotia	1	1	-
New Brunswick	-	-	1
Québec	2	2	2
Ontario	3	4	2
Manitoba	-	-	1
Saskatchewan	1	-	1
Alberta	1	3	-
BC	1	2	1
Total	9	12	7

3.0 Rationale and Relevance

This section of the report will provide some general background on the role of foreign direct investment in the economic development of communities, examine how PEMD-I responds to government priorities, relates to the needs of municipalities and how it is used by clients to address their needs in the field of FDI attraction.

3.1 Foreign Direct Investment

The World Trade Organization defines Foreign Direct Investment as follows:

Foreign direct investment (FDI) occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset. The management dimension is what distinguishes FDI from portfolio investment in foreign stocks, bonds and other financial instruments¹.

FDI is investment that includes the management of a company by a foreign entity. In Canada, having significant influence over the management of a company usually means owning at least 10% of the voting equity².

Foreign Direct Investment can be a key component of a country's economic development strategy. FDI can enhance employment opportunities and technological development. It can facilitate trade by enhancing export markets and developing trading networks through parent companies and affiliates. So, promoting FDI can also be part of a country's export strategy³.

Appendix A provides a brief overview of recent trends in Foreign Direct Investment in Canada.

The basic principle of attracting Foreign Direct Investment is to provide a favourable investment environment. Many factors contribute to this environment, for example the economic and political climate, location, and level of education of citizens. When

¹ Trade and Foreign Direct Investment. World Trade Organization. October 1996
http://www.southcentre.org/publications/fdi/fdifinaltrans-03.htm#P936_42024.

² Foreign Direct Investment in Atlantic Canada. Atlantic Provinces Economic Council. May 2002.
<http://www.apec-econ.ca/FDIFinalReport.pdf>

³ Hamdani, Khalil A. "The Role of Foreign Direct Investment in Export Strategy". 1999
<http://www.intracen.org/menus/search.htm>

considering investment alternatives firms look primarily for a country, province, or municipality that will provide them with long term profitability and a competitive advantage. The incentives firms look for when considering a country to invest in vary according to firm, but some common themes exist. Business-friendly government policies, low tax rates, and the availability and cost of a skilled workforce are some commonly mentioned incentives for investment. However, short-term incentives, such as tax holidays, will not be as attractive as the longer-term benefits of relatively low tax rates. The basic rule is that short term incentives cannot compensate for an unattractive legislative, regulatory or physical environment⁴. Another factor affecting FDI is the foreign exchange regime. Foreign investors must be able to do as they wish with dividends and repatriation of capital so that they may realise the return on investments that they seek. According to OECD, factors contributing to the increase in FDI internationally are deregulation, de-monopolization, privatization, and the reform of trade and investment regimes⁵.

Other site selection criteria for firms include market size and access to market, proximity to customers/suppliers, available land or buildings, comparable business costs, transportation infrastructure, utilities cost and availability, proximity of required business services, business climate, community receptivity, quality of investor servicing, quality of life, cost of living, quality of schooling for family members, health care services, leisure, cultural and recreational facilities⁶.

Companies who are investing for the purpose of export production must see the host country, province, or municipality as an attractive environment for export production. To be competitive in the international export market, firms must have access to imported and domestically produced inputs at internationally competitive prices. Therefore, high tariffs on imported goods and other taxes on domestically produced goods can be a drawback. Exporters must also have cost-competitive access to capital goods.

As an example of factors that influence a region's attractiveness, a May 2001 report commissioned by Investment Partnerships Canada stated that European Investment Officers tend to feel that Canada has the following concrete advantages:

⁴ Proctor, Andrew. "Attracting Foreign Direct Investment into Export Industries". 1999
<http://www.intracen.org/menus/search.htm>

⁵ Chapin, Paul. "Promoting Foreign Investment - An Organizational Review of Investment Partnerships Canada and Associated Departments and Agencies". May 2001
[http://www.ic.gc.ca/cmb/welcomeic.nsf/vRTF/AuditVerificationPDF3/\\$file/IPC01-e.PDF](http://www.ic.gc.ca/cmb/welcomeic.nsf/vRTF/AuditVerificationPDF3/$file/IPC01-e.PDF)

⁶ Niagara Economic and Tourism Corporation and Bell Canada Inc. *Economic Development Information System Guide 2. Developing a Community Investment Marketing Strategy*

- Highly qualified/less expensive manpower
- Lower energy costs
- More “European” approach to life and business (vs. the United States)
- Lower legal liability risks
- Lower cost of living in general⁷.

A country, province, or municipality that has a favourable regulatory and legislative environment cannot assume that they will therefore be the first choice of foreign investors. A country must market an investment environment just as a firm must market its products. In product marketing, four key elements must be considered: product, price, place, and promotion. Similarly, in investment marketing a similar process must be followed. While creating an attractive investment environment can accomplish the “product” and “price” steps of the marketing process, a country, province, or municipality must go further to position itself in the global market place and to promote its investment advantages. A region must build its image by creating awareness and positive perceptions. It must promote itself by any means necessary (trade and investment shows, mailouts of promotional material, presentations and seminars made to special clients). It must also provide assistance to those firms who have expressed an interest in investing by providing economic or demographic data, visiting clients, and making presentations.

Various documents exist concerning the “best practices” in marketing communities. Many of the findings in these documents are similar and can be generalized to any community in Canada. The following recommendations are common to much of the documentation:

Establish specific target firms or markets. A general consensus is that communities must first establish realistic targets in their search for investors. Target companies can be identified based on their annual percentage growth, their sector, or their sector in which Canada has a competitive advantage⁸. A targeted approach to marketing is cost effective, and can help a country, province, or municipality analyze and promote its competitive advantages.

⁷ Qualitative Research on Elements of the ‘Investing in Canada’ Section of the ‘Doing Business with Canada’ Cluster of the ‘Non-Canadian’ Sub-Portal. Investment Partnerships Canada. May 2001
<http://strategis.ic.gc.ca/scdt/invest/pdf/goldfarb.pdf>

⁸ Qualitative Research on Elements of the ‘Investing in Canada’ Section of the ‘Doing Business with Canada’ Cluster of the ‘Non-Canadian’ Sub-Portal. Investment Partnerships Canada. May 2001
<http://strategis.ic.gc.ca/scdt/invest/pdf/goldfarb.pdf>

Be well equipped to answer questions. A community must be well equipped to answer inquiries from foreign investors. It is important to have data that is readily available. Extensive and well-maintained databases are useful for this purpose. In addition, the implementation and maintenance of a comprehensive website that contains pertinent economic and demographic data is essential. An American study by Whittaker & Associates (2000) reports that 84% of companies use web searches to gather preliminary community information as the initial step in their screening of prospective locations⁹. Companies require up-to-date information quickly, and a website is an efficient way to deliver that information. Once the initial inquiries have been made, it is important to follow up with those interested investors. Inquiries should be carefully documented to facilitate follow up. Providing assistance to foreign investors should be a continuous process.

Communicate with the target firm/market. An important practice is to communicate continuously and effectively with the target firm/market. According to the May 2001 report commissioned by Investment Partnerships Canada, Investment Officers see networking as an effective way to communicate with international investors and to increase Canada's visibility as an excellent investment opportunity¹⁰. In a guide for Developing a Community Investment Marketing Strategy, prepared by the Niagara Economic and Tourism Corporation in partnership with Bell Canada Inc., personal contact is cited as the most effective way to communicate with a potential investor¹¹.

Build partnerships. Another important strategy for attracting investment is to build partnerships within municipal, provincial, and federal governments, as well as the private sector. An effective economic development plan involves cooperation at all levels of government and the private sector.

Monitor and make adjustments. A region must systematically identify and deal with the factors in Canada's investment policies that could be of potential concern to investors¹². Investment marketing should be an ongoing process that is continually monitored, evaluated, and adjusted based on results.

⁹ Niagara Economic and Tourism Corporation and Bell Canada Inc. *Economic Development Information System Guide 2. Developing a Community Investment Marketing Strategy*

¹⁰ Qualitative Research on Elements of the 'Investing in Canada' Section of the 'Doing Business with Canada' Cluster of the 'Non-Canadian' Sub-Portal. Investment Partnerships Canada. May 2001
<http://strategis.ic.gc.ca/scdt/invest/pdf/goldfarb.pdf>

¹¹ Niagara Economic and Tourism Corporation and Bell Canada Inc. *Economic Development Information System Guide 2. Developing a Community Investment Marketing Strategy*

¹² An Overview. Investment Opportunities. <http://www.worldexport.com/edac/pages/overview.html>

Exhibit 12 summarizes some “best practices” in marketing according to two different sources. One is based on a 1999 report on Best Practices in Marketing for Alberta Communities to Attract Business and Investment and the other is based on the guide for Developing a Community Investment Marketing Strategy commissioned by Niagra Economic and Tourism Corporation. It can be noted that the two approaches to marketing are very similar and can be generalized to many communities across Canada.

Exhibit 12 - Best Practices in Marketing

Best Practices in Marketing	
Best Practices in Marketing for Alberta Communities to Attract Business	Developing a Community Investment Marketing Strategy
<ul style="list-style-type: none"> • ensure community preparation and support; • create a Regional Marketing Plan; • ensure business retention and expansion; • create public/private partnerships; • identify market opportunities; • facilitate personal contact with the most appropriate entity; • provide community and regional awareness; • form community and regional alliances; • work closely with appropriate federal and provincial/municipal government departments and agencies; and, • develop a benchmarking and performance monitoring system¹³. 	<ul style="list-style-type: none"> • research the community to identify competitive advantages and opportunities and prepare a Community Profile to provide to investors containing all data of interest; • target specific industry sectors based on the community’s competitive strengths; • select geographic markets where those industry targets are located; • prepare a marketing message geared to the site selection criteria of your target industries (create a brand image based on competitive strengths, opportunities and goals, and research site location criteria); • research and select the most effective marketing techniques to deliver the message; • execute the marketing plan; and • measure your results against the community’s objectives & adjust the plan as necessary¹⁴.

¹³ Best Practices in Marketing for Alberta Communities to Attract Business and Investment. Whyte Reynolds International Inc. March 1999 <http://www.alberta-canada.com/statpub/pdf/bestprac.pdf>

¹⁴ Niagra Economic and Tourism Corporation and Bell Canada Inc. *Economic Development Information System Guide 2. Developing a Community Investment Marketing Strategy*

3.2 Government Priorities

Attracting foreign direct investment remains a priority for the federal government. According to senior management a key strategic objective of Industry Canada remains to improve Canada's position as a preferred location for domestic and foreign investment. This objective is also aligned with the Prosperity Pillar at DFAIT. Within the federal government, the task of promoting and facilitating direct foreign investment is shared by several departments and agencies. Foremost among these are Investment Partnerships Canada, Industry Canada, Agriculture and Agri-Food Canada, Natural Resources Canada and the Department of Foreign Affairs and International Trade.

PEMD-I is the only federal program which directly supports the attraction of FDI at the municipal level. As such, the program's goal, to increase total Canadian employment by enhancing the capability and effectiveness of Canadian communities to attract, retain and expand foreign direct investment through foreign investment promotion initiatives directly supports the federal government Red Book II commitment to the creation of employment.

When the program was created, the majority of municipalities were not investment ready; they lacked the basic information, promotional tools and training for sustained activities to attract FDI.

Investment attraction is a long term process and these initiatives do not produce immediately measurable results. Municipalities and/or regional development organizations often have a very narrow and limited tax base and experience difficulties in sustaining long term economic development strategies. Federal support is often seen as important to "validate" the need for investment attraction in the eyes of local politicians and councils.

3.3 Level of Awareness and Program Take-up

Awareness of the program is slowly growing among Canadian communities and has varied over time and in each different region. Interviewees indicated that the program was not well known among the smaller communities.

In Ontario, for example, there are 448 eligible municipalities of various sizes ranging from regional/county governments to towns and villages. Of these, 80 municipalities and economic development organizations and two industry organizations have applied to the PEMD-I program for assistance since 1998. Because of the limited program outreach, program personnel in Toronto believe that many eligible communities, while

perhaps aware of the existence of a program known as PEMD-I, are unaware of the nature of the program and that they may benefit from it.

Interviewees across Canada also mentioned that the name of the program itself was confusing to clients since it appeared to be closely linked to the Program for Export Market Development (PEMD).

It should be noted that no funds were made available to actively promote the program until 2002. A survey of recipients of PEMD-I financial support (a total of 105 respondents) indicated that 29% had heard about the program through the International Trade Centres, another 30% had heard about it through EDAC, and 7% through Team Canada. Over 47% said that they had heard about it through word of mouth (industry contacts, economic development associations, consultants, provincial ministries, presentations by federal officials, other trainees in EDAC courses, etc.).

3.4 Client Needs

Respondents to the survey indicated that they had applied to the program¹⁵ for the following reasons:

- 74% wanted to create new or better marketing materials;
- 50 % were interested in developing their FDI potential;
- 44% said they wanted to undertake market research;
- 37% wanted to undertake community assets research;
- 36% said they wanted to participate in foreign trade shows or missions
- 30% wanted to initiate an FDI program;
- 27% wanted to enter new FDI potential markets;
- 22% wanted training in FDI attraction; and
- 18% said they wanted to strengthen an existing FDI program.

The program has served both to raise the level of interest in communities and to provide financial assistance in the form of cost sharing to communities interested in undertaking FDI related initiatives. Clients served by the program and included in both the interviews and survey included:

¹⁵ Multiple responses were allowed, therefore the totals will not add to 100%.

- municipalities;
- regional municipal organizations;
- regional economic development organizations;
- associations of municipalities; and
- private sector partners.

In addition to asking clients why they applied for PEMD-I assistance, they were also asked to describe what they had done with program assistance. The responses were as follows:

• Create/Upgrade Promotional Materials	61%
• Investment Prospecting	41%
• Develop Competitive Profile	41%
• Strategic Research	39%
• Participate in Event(s)	35%
• Develop Data Bases	33%
• Undertake Competitive Analysis	21%
• Undertake Promotional Event	16%
• Prepare FDI Proposal	5%

Again it must be noted that the responses total more than 100% because of multiple responses from many clients.

Support for the preparation and/or upgrading of promotional materials was of primary importance to many of the community organizations. Well over half of the clients surveyed received assistance for the preparation or upgrading of promotional materials. Just over a third of the clients received assistance for preparing a competitiveness profile or for undertaking strategic research.

These results support the assertion made by program personnel that the majority of municipalities were not investment ready at the outset of the program and that PEMD-I has provided assistance to move municipalities along the investment readiness continuum (see Exhibit 13). Specifically municipalities that may have lacked basic information on their community, undertook the research needed to identify strengths and weaknesses (i.e., community competitive analysis, an investment oriented economic development strategy, knowledge of resident companies and infrastructure). But most of all, communities required assistance to develop tools, web sites and promotional materials for sustained activities to attract FDI.

Many of the stakeholders interviewed and survey respondents indicated that they “needed to develop tools that would allow them to interact at the international level...to develop sector-specific files, e.g. energy, petro-chemicals, plastics, biotechnology, etc.... to set up web-sites, CDs, attend trade shows...to become ready to respond to enquiries from potential investors, etc.”

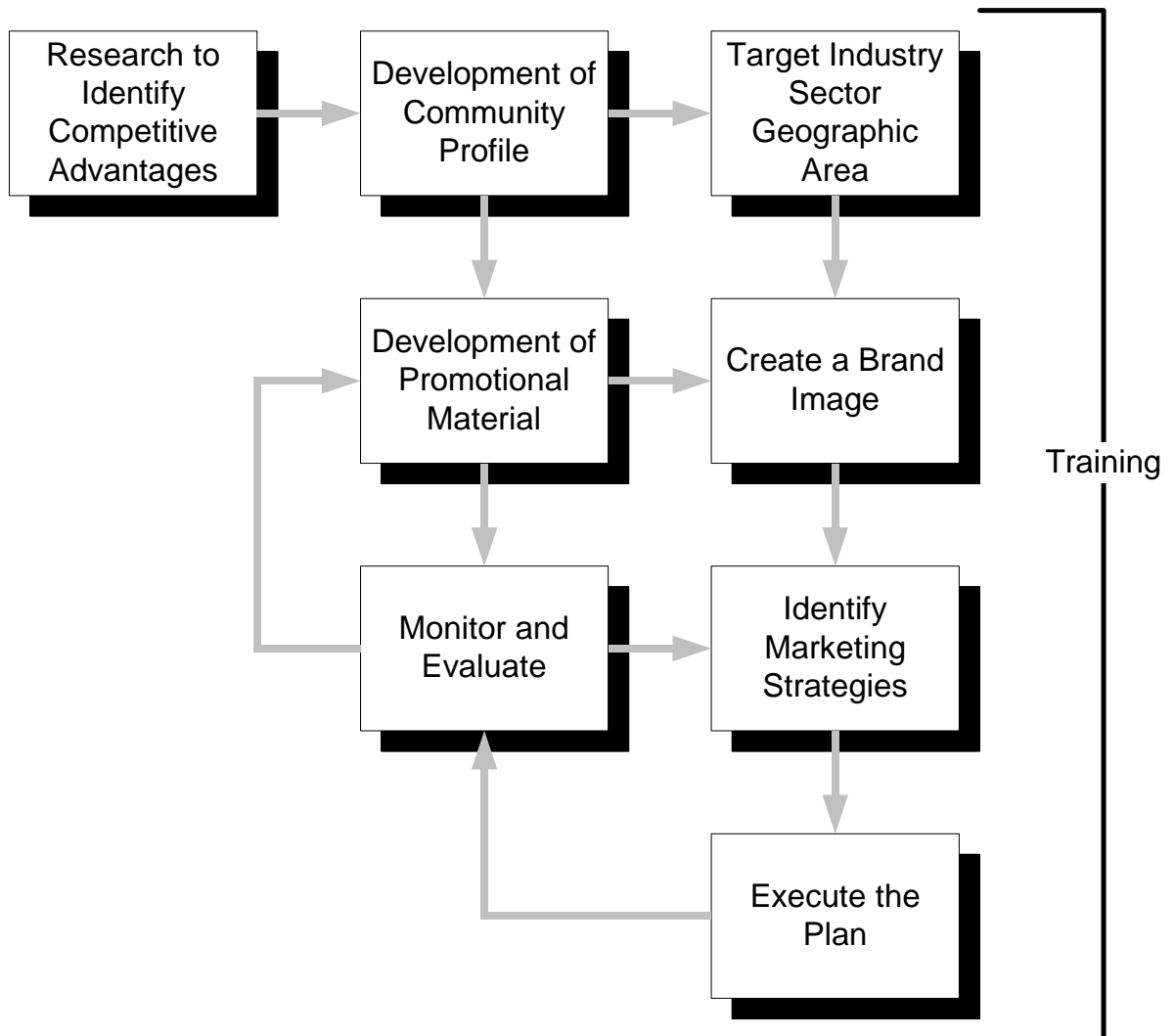
Based on the literature review and training materials related to investment readiness and investment attraction practices, one can refer to the following as providing a brief outline of what is meant by the investment readiness continuum. It involved the following steps:

- First, **laying the groundwork**, that is undertaking the necessary research to identify the community’s strengths and weaknesses, identifying and developing the necessary alliances and partnerships and developing a good understanding and profile of the community.
- Second, **developing the toolkit**, that is developing the necessary promotional materials (brochures, CDs, websites, exhibits, etc.) and thereby creating a brand image of the community and its place in Canada.
- Third, **articulating the marketing strategy**, that is identifying target industry sectors and the geographic areas to contact. This step also involves developing a good marketing approach, e.g. attendance at site selector conferences and workshops, trade promotion tours and shows, etc.
- Fourth, **executing the plan**, that is actually carrying the marketing strategy, maintaining the contacts over time, etc.
- Fifth, it is important to constantly **monitor, evaluate, and adjust** both the promotional tools and the marketing strategy to measure success and make corrections as necessary.

Exhibit 13 on the following page represents this continuum as a schematic model.

Exhibit 13 - Investment Readiness Continuum

Investment Readiness Continuum



3.5 Continued Need for the Program

Respondents to the survey (105) were asked about the importance of the assistance received from PEMD-I to their FDI related projects and initiatives. Fifty-three percent said they would not have undertaken the project without the support of the program; while 39 percent felt the projects would not have proceeded as planned (would have taken longer, or been of lesser quality). Only 2 percent of the respondents said their project would have proceeded as planned, while 6 percent did not know.

Clients were also asked what would happen if PEMD-I funding ceases in the future. Nine percent felt they would be able to maintain their structure and programs; while 42 percent said they would maintain some activities but proceed at a much slower pace. Forty percent felt they would not be able to sustain their efforts, while 9 percent said they did not know what would happen.

Interviews with clients also pointed out the continued need for the program. Financial constraints were particularly important for a number of communities and the money from the program allowed them to justify their development budgets and activities to sometimes sceptical municipal councils. The availability of funds from the federal government allowed them to leverage funds from other sources more readily. The funds helped them to convince other partners of the importance of having good communication tools to ensure the proper marketing of their region. Foreign investment happens at the community level and PEMD-I was an important tool according to the community organizations surveyed to help them get organized and focussed on FDI related activities.

4.0 Program Effectiveness

This section of the report will examine the extent to which the program has attained its objectives; provide an overview of some of the results and benefits as reported by clients; and examine the extent to which the demand for the program is expected to increase or decrease in future years and examine some of the factors contributing to successful projects at the community level.

4.1 Attainment of Objectives

PEMD-I is directed at not-for-profit, mixed public-private organizations operating at the municipal level. It helps these organizations to attract, retain and expand foreign direct investment in their respective communities.

The program reaches the following communities: municipalities, regional economic development organizations, regional associations, and private sector partners. Over 250 community organizations across Canada have been provided with project support since the program's inception in 1999. There is evidence that the program has helped to attract FDI, has encouraged communities to work together in collaborative projects and overall all has improved their investment readiness.

4.2 Reported Client Benefits

Attracting foreign direct investment requires a long term commitment and it is difficult to ascertain the exact contribution of the program to the successes reported by client. Most clients indicated that the program played an important role in starting and sustaining their FDI activities and a majority stated quite clearly that these initiatives would not have taken place or would have been delayed without this assistance.

Results from the survey, interviews and document review provide evidence of the benefits resulting from PEMD-I funding. There is evidence that the program has assisted municipalities in developing the needed tools for FDI attraction. The respondents also identified some preliminary results from their FDI initiatives. There is also evidence of higher level of sophistication in responding to site selectors.

4.2.1 Improvement in the Organizational Capacity of Communities

Responses to the survey indicate that the program has assisted municipalities in developing the infrastructure and the tools needed to develop or strengthen their FDI strategies. PEMD-I recipients were asked to rate their organizational capacity with

respect to carrying out FDI activities prior to obtaining FDI funding and in comparison to their current structure and capabilities. **Exhibit 14** summarizes their responses.

These answers reflect their own self-assessment, which even if overstated, indicate that in all areas they felt that there had been a general improvement in the organizational capacity of their communities. For example, less than one percent of the respondents now felt that they had no trained staff whereas 15.2 percent had indicated having no capacity prior to PEMD-I funding. Whereas 39.0% of the communities felt they had no organization for FDI prior to receiving funding, only 4.8 percent now felt that way. The level of those reporting some capacity also grew from 41 percent to 55.2 percent, while those reporting full capacity grew from 3.8 percent to 24.8 percent.

Similar decreases in the communities stating they had no capacity are evident in all areas of related FDI activities: general publicity material, FDI related promotional material, research to identify community attractiveness, the development of both general and specific FDI databases, the ability to carry out market research to target specific target areas or sectors or to do strategic research for FDI, to prepare proposals and to develop FDI promotion plans and strategies.

Exhibit 14 - Organizational Capabilities of PEMD-I Recipients (105 Responses)

ORGANIZATIONAL CAPABILITIES	PRIOR TO FUNDING				CURRENTLY			
	No Capacity	Some Capacity	Full Capacity	N/A	No Capacity	Some Capacity	Full Capacity	N/A
Trained Staff	15.2%	55.2%	15.2%	14.3%	1.0%	46.7%	39.0%	13.3 %
Organization for FDI	39.0%	41.0%	3.8%	16.2%	4.8%	55.2%	24.8%	15.2 %
General Publicity Material	33.3%	50.5%	8.6%	7.6%	2.9%	41.9%	46.7%	8.6%
FDI Related Publicity Material	51.4%	41.0%	1.0%	6.7%	9.5%	48.6%	34.3%	7.6%
Research - Community Attractiveness	30.5%	53.3%	7.6%	8.9%	2.9%	50.5%	37.1%	9.5%
Database General	40.0%	43.8%	5.7%	10.5%	4.8%	61.0%	25.7%	8.6%
Database FDI specific	49.5	38.1%	2.9%	9.5%	7.6%	59.0%	24.8%	8.6%
Market Research / Target Areas or Sectors	47.6%	39.0%	2.9%	10.5%	12.4%	56.2%	22.9%	8.6%

Strategic Market Research for FDI	52.4%	34.3%	1.9%	11.4%	18.1%	56.2%	16.2%	9.5%
Proposal Preparation	30.5%	41.9%	14.3%	13.3%	6.7%	45.7%	36.2%	11.4 %
FDI Promotion Plan and Strategy	50.5%	34.3%	4.8%	10.5%	11.4%	47.6%	29.5%	11.4 %

4.2.2 Project Benefits

Respondents were asked what were the actual benefits they received from the PEMD-I funding. **Exhibit 15** summarizes their answers. Please note that these included multiple responses on the part of many clients.

Exhibit 15: Actual Project Benefits as Reported by Clients*

BENEFITS	%
Better or more trained personnel	39
Increase of organizational capacity	47.6
Improvement to marketing and promotion materials	81.9
Better inventories of community attractions	52.4
Better market research capability	46.7
Better targeting of potential investors	58.1
Improvement in FDI marketing strategy	58.1

* The answers will not add up to 100% as multiple responses were allowed - responses from 105 clients.

The major benefit to the communities was in the creation or improvement of marketing and promotional material with close to 82 percent reporting this benefit. Other benefits include: the better targeting of potential investors and the improvement in FDI marketing strategies which were reported by almost 60 percent of the respondents. Fifty-two percent of the respondents reported the creation of better inventories of community attractions, while close to 48 percent of respondents mentioned an increase in the organizational and market research capabilities. Almost forty percent reported better or more trained personnel. The interviews with external and internal stakeholders indicated mixed reactions to the training provided from excellent to too general and not quite

appropriate. Some suggested that training options should be broadened to include courses other than those sponsored by EDAC.

4.2.3 Reported Impacts

Respondents were also asked whether any impacts had been achieved as a result of PEMD-I funding. Respondents identified the following impacts:

- 57 percent said that the program had allowed their participation in other investment attraction opportunities (trade shows, site selector conferences, etc.);
- 50 percent said that the program had led to new FDI enquiries;
- 58 percent felt that the program had led to new FDI contacts and prospects;
- 34 percent said the program had led to new FDI investors;
- 31 percent said that new jobs had been created as a result of their projects;
- 26 percent said that jobs had been retained in their region thanks to the project;
- 26 percent identified other impacts.

These other impacts include the following: the development of a business concept for renewable energy production, the development of broad collaborative arrangements in their field, the development of relationships between companies in their region leading to investments from South Korean businesses, the identification of market opportunities in foreign countries, the development of high quality promotional material, and obtaining the recognition of site selectors for their region (e.g. now short listed), and the welcoming of in-coming delegations.

The following provides a few of the more compelling examples of the benefits and impacts as reported by various clients in the course of interviews or through the survey. It should be noted that many of these are the cumulative results of numerous projects accorded to different community organizations. These results therefore cannot be solely attributed to the PEMD-I program as organizations involved in the promotion of economic development for their region also receive funding from various other levels of government (municipal, provincial) as well as from the private sector in some cases. The examples are presented on a regional basis.

Atlantic Provinces

Lunenburg Queens Regional Development Agency

The client reported that the program had been beneficial for this rural community; it had allowed the organization to attend various trade shows and FDI related activities. They had seen a 30 percent increase in enquiries, had established international contacts which eventually resulted in the attraction of approximately 3 million dollars of foreign direct investment which led to the creation of approximately 200 jobs. These investments also created additional markets for local firms and helped to retain jobs in the community.

Target Nova Scotia

This is a good example of the importance of a coordinated and coherent approach to describing a province to site selectors. This investment promotion initiative focussed on assembling data that is useful to site selectors, using the province's unique competitive advantage in geomatics. This led to the development of a single database for the province. PEMD-I provided significant funding support. A pilot project was launched in Yarmouth and Cape Breton. The results have been impressive and now all contributors have the same tool to work with, a tool that makes information free, up-to-date and immediately available. The information reaches a wider audience and site selectors get a consistent message about Nova Scotia.

The Cape Breton County Economic Development Authority, states that this site was a very useful tool in the recruitment process of the last three call centres for the region (Spiegel Group, Upsource, and Stream) which has created a number of jobs in the region. The material was also useful during the course of their Retirement Cape Breton Program, which attracted 340 returnees covering 178 households. A economic assessment¹⁶ of that program estimated that the program resulted in very positive returns for the Cape Breton economy.

¹⁶ *The Final Economic Evaluation of the Retirement Cape Breton Program*, A report prepared by Bill Steele, Senior Economist on behalf of CBCEDA, August 1999.

Québec

Association des parcs de recherche et technopoles du Québec

The association received funding to create promotional material highlighting seven research and technology parks accredited according to international standards. This bilingual document has been distributed to all 450 participants from 42 countries during the 19th Congress of the International Association of Science Parks. This led to the signing of agreements with a number of international organizations from France, Belgium, Portugal and Taiwan. These agreements created permanent linkages between these parks. This will encourage communication, transnational investments and exchanges between researchers and students.

Montreal International

Various projects helped this organization to develop internationally recognized promotional material. One of their priorities was to raise the city's visibility as a prerequisite for attracting foreign investors and international organizations. Montreal International has received international prizes for the quality of its promotional tools, which were developed in part thanks to PEMD-I funding. They received a prize for publicity design in the international "Creativity 29" contest, a prize from the Association des professionnels en développement économique du Québec for the quality of documents with both an national and international focus. They also received two other prizes for the quality and the originality of their web site. This certainly serves to increase their visibility internationally and contributes to their FDI initiatives.

Although the results obtained by the organization in terms of attracting FDI to the Greater Montreal Region cannot be solely attributed to PEMD-I, they feel the program has definitely contributed to the overall success of the organization. Over the past few years, approximately \$1 billion in new investment has flowed into the region.

Ontario

Corporation of the City of North Bay

The respondent reported that as a result of the PEMD-I funding, they were able to maintain 400 jobs. Although the value of the investment is confidential, the corporation felt that the project had allowed them to attend international aerospace shows and to identify potential aerospace clients who could make use of the surplus DND facilities and assets available in North Bay.

Greater Toronto Marketing

PEMD-I funding had allowed them to participate in a number of investment attraction opportunities involving site selectors, trade shows, conferences, in-coming delegations, etc. As a result of their activities, they felt that there was an increased awareness and branding of both the GTMA and Canada, the development of a broad international contact network and the development of public-private partnerships locally. According to the organization, they have established over 560 new international contacts and have been able to attract 28 new FDI investors which led to the creation of 1,700 jobs. Although these results cannot be distinguished from other activities carried out by the GTMA, the organization feels that the PEMD-I had made a very important contribution to their overall success.

London Economic Development Corporation

According to the respondent the program was important in ensuring the development of their organization's FDI attraction programs and organizational capabilities. It allowed them to participate in a number of investment attraction opportunities, including Biotech Partnering events, welcoming delegations from Taiwan and attending investment seminars and prospecting missions to Europe. They estimate the total value of new FDI at \$139.5 million which led to the creation of 1,570 jobs in the region. The program helped to increase awareness nationally and internationally of London advantages.

Prairie Provinces

Municipality of Crownest Past, Alberta

The organization received funding to create and improve its marketing materials, to strengthen its FDI program and to participate in foreign trade shows and missions. They have attracted five new tourism businesses and are working with three additional entrepreneurs. Their projects have led to 6 new serious FDI enquiries and at least 8 new prospects. The organization has been able to attract investments of \$3.2 million, which has led to the creation of at least seven jobs and to retain 3 jobs for the region. They felt that PEMD-I had allowed them to successfully market the advantages of their community internationally.

Project Germany - Edmonton

Project Germany (a partnership involving more than 45 public and private sector entities) developed a six-step strategy aimed at attracting German investment to the

Alberta Capital Region. The project commenced in March 1999 with a start-up phase where efforts were focussed on developing operating methods, marketing information and establish working relations with industry associations in Germany. As the project progressed the operational emphasis has shifted from “awareness creation” to “follow-up, orienting visitors, forming partnerships and assisting with business case development. The project lead to the development of 300 qualified leads and succeeded in attracting five new investors with a total estimated investment of over \$50 million. These investments will generate additional taxes, new jobs, wages and after-tax corporate profits¹⁷.

British Columbia

Salmon Arm Economic Development Corporation - BC

This community organization used the program to undertake community assets research, market research, database development and to participate in various events. They established a three year targeting plan which lead to 2 new foreign investors, for approximately \$1.5 million in investment value. This has lead to the creation of 12 jobs and the retention of an unknown number of additional jobs in the community. The respondent also reported increased activity on the web site (from 800 to 1700 monthly hits) primarily to access demographics, studies and community information.

Other community organizations throughout Canada also reported successes and qualitative or quantitative benefits. These include, for example: Community Development Corporation of Nicola Valley (@\$10 million investment, @20 jobs created and 20 jobs retained); Regional District of Central Okanagan (@10.5 million investment, @35 new jobs created); Timmins Economic Development Corporation (2 solid development leads with the potential to create 50-80 seasonal jobs); Société de développement économique de Cowansville (negotiations ongoing with 4 potential investors); Ville d'Anjou (additional investments of \$5 to 10 million); Niagara Economic and Tourism Corporation (new call centre in Welland - 700 jobs, new engine testing company in Niagara Falls - 60 jobs); etc. Although many respondents felt it was too early to tell how many investors they would be able to attract; they mentioned an increase in the number of enquiries and commented on their new ability to market their region both nationally and internationally.

¹⁷ ***Project Germany Pilot Project - Evaluation of Results***, prepared for the Project Germany Management Committee, December 4, 2001

4.3 Factors Contributing to Success

Key stakeholders were asked what factors contributed to the success of FDI projects within community organizations. Positive factors included the following:

- the availability of trained personnel;
- the ability to network and to establish collaborative arrangement with other economic development and community organizations;
- political support at the municipal level; and
- the availability of adequate resources (which was not readily available for many community organizations).

Unrealistic time lines to deliver a project and rapid staff turnover within community organizations were cited as drawbacks to effective project delivery.

4.4 Unintended impacts

Probably the most significant unintended positive impact of the program was the creation of regional marketing associations or alliances that encouraged cooperation among groups of smaller municipalities. By working together and developing common promotional tools (websites, marketing documents, etc.), these organizations were able to produce higher quality products, to think more strategically and to present a more sophisticated and high quality image of their region to potential investors.

The program should nevertheless be careful not to create long term dependency, e.g. the use of funds to cover regular operating costs.

5.0 Program Efficiency

This section will address issues related to program delivery and management. The management processes used to solicit, assess and select projects, to monitor project progress, to collect and record information on projects and to assess project impacts and effects were reviewed as part of the evaluation study.

5.1 Management Processes

PEMD-I provides applicants with assistance in attracting and retaining Foreign Direct Investment (FDI). Organizations that are eligible for support under PEMD-I include Canadian municipalities or groups of municipalities, community-based organizations involved in economic development projects, and locally funded economic development agencies operating as a department of a regional or municipal government, or as not-for-profit development corporations.

PEMD-I has defined two tiers of projects. Tier 1 projects cover more modest investment activities such as training, database development, strategic research, and investment prospecting. Tier 2 covers larger projects that deal with attracting investment such as competitive analysis and market research, preparation of proposals for target companies, and organization of promotional events.

Support for Tier 1 projects is limited to \$50,000 per application per year with a maximum of three applications per year. The maximum level of assistance at the Tier 2 level is \$300,000 per year. The program works on a cost shared basis in that successful applicants will receive support for up to 50% of the eligible costs. The budget for PEMD-I is \$ 5 million per fiscal year, where \$ 3.4 million is allocated to Tier 1 projects and \$ 1.4 million is allocated to Tier 2 projects.

Tier 1 applications are assessed and evaluated at the International Trade Centre (ITC) level. They are approved by locally based committees. Although they may be subject to preliminary vetting by the ITC which may propose amendments and enhancements, Tier 2 applications are evaluated by the PEMD-I Secretariat in Ottawa.

Tier I projects are monitored and administered, including the vetting and authorization of payments, at the ITC level. Tier II projects are monitored and administered by the PEMD-I Secretariat in Ottawa.

Files on Tier I projects are maintained at the ITCs and data on projects are entered into the Contribution Management Information System (CMIS) and the Program Information Reporting System (PIRS) departmental systems. Files on Tier II projects are

maintained at the PEMD-I Secretariat in Ottawa. Data on Tier II projects are manually maintained on an independent system that does not communicate readily with CMIS and PERS.

The Tier 2 Secretariat in Ottawa is part of the operations of IPC. The Secretariat for PEMD-I is partially funded by a block contribution from DFAIT of \$200,000. Since IPC does not maintain time sheets, the only way to determine the operating costs of PEMD-I would be to do a detailed analysis of operational costs and time spent administering the program. These data are not readily available. At the regional level, PEMD-I administration is part of the general overhead of the ITCs. Similar conditions apply and no data is available to accurately determine the costs related to the administration of PEMD-I.

The PEMD-I program was designed to be flexible in the approach to Tier I projects and the various requirements and conditions of different regions of Canada. This flexibility was amply demonstrated in the course of the visits to ITCs in various parts of the country.

In the absence of a clear set of guidelines and operating principles from headquarters, each ITC has evolved its own operating procedures and interpretations of such things as eligibility criteria and project definition, time restrictions, conditions, etc.

A publication entitled '*Guiding Principles for the Management of PEMD-I, Oct 2000*' is still in draft form and is not readily available to personnel in the ITCs. '*Guidelines for Applicants, March 2002*', is not available to applicants.

The study found that although some of the methods, procedures, guides, forms, etc. developed by individual ITCs appear to represent good practices in various aspects of program delivery, these are not shared. For example, Ontario has developed a standard format for the preparation and presentation of proposals to the local committee and a check-list of analyses that should be undertaken. Quebec has developed procedures for handling and processing applications and administering the program. However, these best practices, when offered to headquarters for comment and promulgation, generally have not received the attention they deserve.

As a result of the need to interpret program processes and definitions individually, there was found to be a lack of consistency in the application of the program at the ITCs. For example, the interpretation of 'in-kind' contributions and their eligibility for inclusion in funded project costs varied not only over time since the program inception, but among the various ITC's as well.

Another example of inconsistent interpretation of the program was the application of the 50/30/0 rule for the percentage of eligible cost funded for subsequent phases of the same overall project.

5.2 Financial Management

The budget for PEMD-I is \$ 5 million per fiscal year, where \$ 3.4 million is allocated to Tier 1 projects and \$ 1.4 million is allocated to Tier 2 projects.

Project take-up at the national level for Tier 2 type projects and at the regional level for Tier 1 projects has, until now, been insufficient to absorb the available funds. **Exhibit 16 and 17** provide an overall picture with respect to fund usage at both these levels. As can be clearly seen, not all the allocated funds were disbursed in any given year, nor have the authorized funds all been claimed. These numbers are based on the databases provided by Industry Canada and Investment Partnership Canada.

Exhibit 16: Funds by Fiscal Year - Tier 1 Projects

Funds by Fiscal Year				
Fiscal Year	Available Budget (\$)	Authorized Projects (\$)	Amount (\$) Used	Lapse*
1998-1999	\$1,750,000	\$1,099,824	\$816,553	\$933,447 (53%)
1999-2000	\$3,500,000	\$3,615,625	\$2,268,122	\$1,231,878 (35%)
2000-2001	\$3,500,000	\$3,017,771	\$1,899,881	\$1,600,119 (46%)
2001-2002	\$3,500,000	\$2,748,632	\$2,187,463	\$1,312,537 (37%)

* Available funds minus used funds

Exhibit 17: Funds by Fiscal Year - Tier 2 Projects

Funds by Fiscal Year				
Fiscal Year	Available Budget (\$)	Authorized Projects (\$)	Amount (\$) Used	Lapse*
1999-2000	\$1,500,000	\$1,209,261	\$853,626	\$646,374 (43%)
2000-2001	\$1,500,000	\$1,368,213	\$996,052	\$503,948 (34%)
2001-2002	\$1,500,000	\$1,215,140	\$562,323	\$937,677 (62%)

* Available funds minus spend funds.

Key stakeholders have indicated that lapsed funds are a major concern of the PEMD-I program. Several reasons were provided for the lapsing:

- no funds were allocated to market the program and promotion was done essentially by word of mouth;
- there was a need to develop linkages with municipalities and local regional development organizations;
- there was low project intake initially as municipalities and organizations slowly began to understand the potential value of the program to support their regional economic development activities;
- late in the fiscal year project approval increased the risk that the clients would not be able to spend the funds during the government fiscal year (e.g. unrealistic time lines for completion of projects; and
- the lack of multi-year funding of projects also increases the chance that the funds would not be fully spent (although projects are extended and the money eventually spent, this creates artificial lapses on a yearly basis).

However, in many cases, in order to meet client needs, contracts are being extended beyond one fiscal year. So, funds authorized in one fiscal year may not be spent until the following year. This is creating an artificial lapse, since the funds are being spent at some point. However, if they aren't spent in the year they are authorized they can be considered as having lapsed according to the current financial system.

In addition to the insufficient demand, not all of the individual planned projects were able to spend all the authorized funds in the year they were approved. Clients often felt that there were unrealistic time lines for the completion of projects. Another problem frequently mentioned was the fact that most community organizations operate on a calendar year budget while the government operates on a April to March budget.

In the current fiscal year, the acceptance of multi-year liabilities (guidelines call for project completion within one fiscal year with a possible extension on request) in one region has led to the temporary suspension of funding for new projects until financial liabilities and cash flows have been clarified. It should be noted that all of the management of these budgets must be done manually as the current information systems do not permit automatic multi-year carry-overs.

Expected Future Demand

During the course of interviews with ITC personnel and with program management at headquarters, the question of future program take-up level and how program needs would change over the next several years was discussed.

Based on both client and management feedback, the consensus seems to be that demand for PEMD-I support will increase slowly over the next five years. Some of the reasons given for this increase are;

- increased awareness of the program by a wider client base,
- increased understanding of the program by current users,
- increasingly sophisticated/targeted promotion and outreach activities,
- need to update research/web sites, and
- need to train new staff to replace retiring EDOs.

It is anticipated that, with modest and well-targeted promotion, the yearly demand for PEMD-I would increase more quickly. This would enable more vigorous competition for projects and result in higher quality, more innovative proposals.

5.3 Financial Information Systems

The information systems used to support PEMD-I are regarded by the ITC's as cumbersome, inflexible and not suitable for program management. According to ITC managers and personnel interviewed, there are a number of known problems with the CMIS and PIRS systems that hamper their efficiency as management tools.

Among the specific shortcomings mentioned were:

- inability to register forward commitments beyond the fiscal year end;
- inflexible and inappropriate data entry fields;
- impossibility to allow analysis of the program by type of project funded, etc;
- lack of performance data capability;
- difficulty of undertaking non-standard report requests, and
- lack of automatic follow-up report production capability.

In addition, ITC personnel complained of a lack of system training/orientation. As well, they noted that Tier II project data were not entered into the system and hence that information was not available to them. Tier II projects are listed in a separate headquarters financial information system maintained by the Secretariat. Since the majority of Tier 2 clients (90%) have received funding from both levels, it is difficult to obtain a complete project history for clients.

The general consensus among ITC personnel was that the management information systems available to them were inadequate.

5.4 Program Resources

When the program was established in 1998, no resources were made available to the regions for program O&M. It was assumed that the resources available at the ITC's for the promotion of investment would be sufficient as the PEMD-I program was small and its delivery would, it was presumed, not be resource intensive.

However, the amount of time required to promote the program, to coach and mentor clients, to monitor their progress and to follow-up on projects, was more intensive than expected and the ITC personnel interviewed pointed out difficulties in the administration of the program with the present resources.

Another issue raised by the ITC's was that they originally had no single source to turn to at headquarters for advice on interpreting program rules. Frequent turnover of staff at headquarters meant that the advice received kept changing and the interpretation of rules and criteria was constantly evolving.

As a result, the ITC's made the Tier I level of the program work as best they could under the circumstances. Each ITC had to manage according to their own interpretation of the rules and to develop their own procedures. Yet client satisfaction with the delivery of the program at the regional level across Canada remains quite high.

The results of the survey showed that:

- 83 percent were satisfied with ITC assistance;
- 75 percent were satisfied with the information received from ITC's, the help provided with the application form, etc.;
- 80 percent were satisfied with the timeliness of decisions;
- 74 percent were satisfied with the reporting requirements; and
- 63 percent were satisfied with the level of funding provided and 61 percent with the eligible expense categories.

Interviews with clients also indicated a very high degree of satisfaction with the regional delivery of the program and the quality of support provided by ITCs. With limited resources they were able to deliver the program to their client communities. However, some issues were raised with respect to the delivery of Tier 2 projects (high staff turnover, lack of continuity, remoteness from regional reality, timing of decisions).

5.5 Program Criteria

According to respondents, the eligibility criteria for the program are generally regarded as appropriate. Organizations that are eligible for support under PEMD-I include Canadian municipalities or groups of municipalities, community-based organizations involved in economic development projects, and locally funded economic development agencies operating as a department of a regional or municipal government, or as not-for-profit development corporations.

In addition, most community representatives interviewed felt that the level of cost sharing was appropriate. It was generally agreed that, although the need for raising at least half of eligible costs represented a hardship for some smaller community organizations, some level of cost sharing was necessary to ensure commitment on behalf of the project proponents. A few clients suggested that the rules about cost sharing should be more flexible to address the needs of smaller communities.

Although one or two of the larger community groupings or regional municipality representatives complained about the 'lack of stable funding', most of the clients interviewed felt that the rules related to declining support for similar projects was well founded and would ensure that no dependency relationships developed as a result of the program. However, a number of them also felt that there should be clearer guidelines to ensure that this rule is applied equitably and fairly. For example, attendance at fairs, trade shows, conferences of site selectors, etc. needs to be carried

out over a number of years if promotion efforts are to succeed. Continued support for this kind of activity may be needed over a few years until impacts can be seen.

As a general rule, most organizations were aware that some of their project costs would not be eligible for reimbursement; although there were examples of confusion and changing rules with respect to certain expenditures. Many of the clients pointed out that, in fact if the total costs of the projects they undertook were taken into account, their total contribution to the projects was well over 50 percent. The lack of recognition of in-kind support, which can be critical for some community organizations, were also a concern to a number of clients.

Payment Controls

Requests for payment are vetted by program personnel to ensure the eligibility of costs included in the claim. According to the clients interviewed, program personnel assess their claims quite carefully. The payment controls in place appear to be adequate. However, there was a level of discretion in the interpretation of the criteria for eligible expenditures over time.

5.6 Tier 1 vs Tier 2

A number of community organizations and stakeholders expressed some strong opinions about the two tier levels of the PEMD-I program.

Generally, organizations were somewhat reluctant to propose projects at the Tier 2 level. Since the outset of the program, only seventeen municipalities or regional authorities have applied for Tier 2 funding, some of them several times. All but two of the organizations receiving financial support at the Tier 2 level had also received support at the Tier 1 level. On the other hand, over two hundred and fifty clients have submitted applications at the Tier 1 level.

Among the reasons given for the preference for Tier I funding were the following:

- There was a preference for dealing with 'local' personnel at the ITC rather than with a perceived 'disconnected group' at headquarters in Ottawa. Local ITC personnel in many cases provided advice and assistance in preparing proposals at both the Tier 1 and Tier 2 levels.
- Proposal preparation at the Tier 2 level was viewed as a more difficult and lengthy process, with a perception that more stringent project selection criteria would be applied at the Tier 2 level. Decision making was not seen as very

timely at the Tier 2 level, with frequent delays in the holding of Committee meetings.

- The need to generate private sector interest and financial involvement in any Tier 2 project was considered a drawback by some respondents. This was particularly the case since 'in-kind' contributions from private sector firms (e.g. consulting services, airline tickets, etc.) were not counted as contributions.
- Some communities indicated that they could only afford one or two smaller projects per year and would find it difficult to raise the amount of matching funds required for a Tier 2 project. Only large communities, with well developed revenue bases, could afford to carry out a Tier 2 project.
- Some smaller and medium size clients stated that it would be difficult for them to get a single large project done within a single fiscal year. The inability to continue a project over two or three years meant that the needed resources could not be utilized within the constrained time allowed.
- Many community organizations indicated that Tier 2 initiatives are easily divisible into a series of more manageable and affordable Tier 1 projects that can be approved locally and can be carried out within a shorter time line. This was their preferred option.

Overall, many stakeholders believe that the size of project approved at the Tier 1 level could easily be increased. This flexibility would allow more substantial projects to be approved within the Tier 1 parameters. This would also allow for more transparency and accountability, since the majority of community organizations who received Tier 2 funding had also received Tier 1 funding.

5.7 Performance Information

Two additional design issues were addressed in the course of the evaluation. These are the gathering of information and data with which to assess and measure program results and impacts on an ongoing basis and the payment control processes used.

Although a Performance Measurement Framework for the program was developed in March 2001, the 'balanced score-card' approach employed for the framework is limited.¹⁸ It did not include a logic model for the program or program indicators. It focuses on issues related to client satisfaction, innovation and learning, internal processes and financial management. A logic model was developed for planning

¹⁸ *Program for Export Market Development-Investment (PEMD-I), Investment Partnership Canada, Performance Measurement Framework*, March 2001

purposes only during the course of the study. It is included for information purposes only in **Appendix B**.

Although the program terms and conditions and the contribution agreement signed by participants require that they produce a final report which covers the results of their projects, such reports are not consistently requested or provided. End-of-project reports were limited to outputs (e.g. promotional material, website references, research studies, marketing materials, etc. produced as a result of the PEMD-I project). Although it may be too early to talk about results and impacts, the report should, when possible provide information on the level of current or potential distribution of these outputs . The impacts of some of the more successful projects are provided only occasionally.

Program personnel indicated, quite rightly, that there is no time or budget for the level of follow-up required to ensure that files are complete in terms of data which could be used to assess impacts and effects.

Another issue raised by stakeholders was the need to tailor reporting requirements to the nature of the project being funded. Since individual projects are often components or phases of a larger initiative, it would make more sense to report on the overall initiative over the long term, not the individual components. This would lessen the reporting burden on organizations. Longer term impacts in the area of FDI attraction will often be the result of multiple initiatives and activities carried out over a time continuum. A few stakeholders mentioned the disconnect between the requirement to have a long term plan or strategy in place, and the short term nature (one-year projects) of the PEMD-I program.

6.0 Conclusions & Recommendations

This section will present the conclusions of the study with respect to the following evaluation issues: rationale and relevance, program effectiveness and program efficiency. This will be followed by the presentation of recommendations with respect to the program overall.

6.1 Findings and Conclusions

6.1.1 Rationale & Relevance

Based on the overall evaluation results, the rationale of the PEMD-I program remains appropriate and the program continues to be relevant in meeting client needs.

The objective of PEMD-I is to increase Canadian employment by attracting, retaining, and expanding Foreign Direct Investment (FDI). PEMD-I sets out to accomplish this by supporting communities in the development and use of promotional materials, community competitiveness analyses, development of data bases, etc, for responding to inquiries from international investors and site selectors looking at investment opportunities in their region.

This objective supports Federal government priorities as set out in Red Book II. As the only federal government program supporting the attraction, retention and expansion of FDI at the municipal level, the rationale for the program clearly is aligned with DFAIT's Prosperity Pillar as well as Industry Canada's strategic objective of "improving Canada's position as a preferred location for domestic and foreign investment".

PEMD-I was intended to provide communities with assistance to develop the tools and processes which they would need to attract foreign direct investment. When the program was initiated, other than the large population centres, most Canadian communities were not prepared to respond to the information and data needs of international site selectors.

Clients indicated very strong support for the program and how it was responding to their ongoing needs. This positive reaction generally included a high level of satisfaction for program personnel and the assistance provided. (Section 5.4)

The majority of clients stated that without the assistance of the program they would not have been able to carry out their FDI activities or that these would have proceeded at a much slower pace, or not have been of the same high quality. Some also expressed

concerns with their ability to continue this work in the future if the program was discontinued. (Section 3.5)

Stakeholders, clients and program managers alike, indicated that, with the slowdown in the economy, competition among possible venues for international investment is strong and investment potential more limited. A more business like approach by provincial governments, municipal reform and amalgamation in some provinces, as well as the creation of stronger regional development networks point to a continued need for the program. (Section 5.2)

Accordingly, based on the overall evaluation results, the rationale of the PEMD-I program remains appropriate and the program continues to be relevant in meeting client needs.

6.1.2 Program Effectiveness

Overall the study demonstrated evidence of benefits to clients in terms of raising their awareness of the importance of foreign direct investment, the creation of regional networks for FDI promotion, the development of appropriate promotional tools and finally the contribution of the program to the generation of some economic benefits to communities across Canada.

As noted above, many community organizations are still in the process of developing the tools necessary to begin the process of attracting foreign investors to their regions. The survey results, interviews and document review, however identified a number of specific results. Fifty-seven percent of the respondents mentioned they had been able to attract new investment opportunities; whereas over fifty percent reported new FDI contacts, enquiries and potential prospects. There were also examples of new jobs created and new investments in different regions across Canada. Although it is difficult to attribute these results solely to the PEMD-I program (as communities received funding from many sources and decisions by foreign investors are based on many factors which are beyond the direct influence of the program); the respondents felt that the funding and assistance provided had been catalytic and essential to their overall success.

The program served to raise the level of interest of communities in stimulating economic activity through FDI attraction. It also helped in the creation of networks of collaborating communities for the development of the kind of tools needed to sustain FDI related activities. There is also evidence that the program contributed to the development of marketing strategies, market studies, community competitive analysis, databases,

websites, promotional material, etc. that are all important aspects in the investment readiness continuum. (see Sections 4.1 and 4.2)

At a more general level, the program resulted in the creation of several regional marketing organizations and fostered collaboration among communities. This ensured the regions presented a coordinated approach to potential investors and site selectors. Such cooperative efforts are apparent in different regions across Canada such as the province wide effort in Nova Scotia, the regional organization created and fostered in Southwestern Ontario and Niagara and several regional municipal development efforts in the West such as Linx BC.

Overall, the study concludes that the program has:

- raised FDI community awareness;
- raised the abilities of community organizations to plan and think strategically;
- helped in the creation of regional networks for FDI promotion;
- ensured that promotional tools were in place and used by community organizations;
- helped community organizations to become more “investment ready” than at the onset of the program; and
- produced some evidence of results, which although they cannot be solely attributed to PEMD-I funding, can be considered significant.

6.1.3 Program Efficiency

The study identified a number of shortcomings with respect to program management, promotion and delivery.

PEMD-I has defined two tiers of projects. Support for Tier 1 projects is limited to \$50,000 per application with a maximum of three applications per year. The maximum level of assistance at the Tier 2 level is \$300,000 per year. The program work on a cost shared basis in that successful applicants will receive support for up to 50% of eligible costs. Tier 1 applications are assessed at the International Trade Centre (ITC) level and approved by locally based committees. Although they may be subject to preliminary vetting by the ITC, which may propose amendments and enhancements, Tier 2 applications are evaluated by the PEMD-I Secretariat in Ottawa.

Organizations that are eligible for support under PEMD-I include Canadian municipalities or groups of municipalities, community-based organizations involved in economic development projects, and locally funded economic development agencies

operating as a department of a regional or municipal government, or as a not-for-profit development corporations.

Client Satisfaction with Program Delivery

The results of the client survey indicated a high degree of satisfaction with the delivery of the program at the regional level. (Section 5.1)

However, some issues were raised with respect to the delivery of Tier 2 projects (high staff turnover, lack of continuity, remoteness from regional reality, timing of decisions, inability to raise the required resources for cost sharing of larger projects, etc.).

Community organizations and other stakeholders generally preferred the Tier 1 projects and felt that the funding limits for this level could be expanded, allowing for multi-year or multi-phase funding and the program delivered on a regional basis. They believed that more substantial projects should be possible within the Tier 1 parameters. Most organizations who obtained Tier 2 funding also had received Tier 1 funding, and a coordinated regional approach to program delivery could result in more program transparency and accountability.

Both internal and external stakeholders mentioned that certain issues could be revisited in terms of program design including allowing for multi-year financing of projects, the expansion of eligible costs to include travel, the recognition of in-kind contributions, allowing for a more flexible cost-sharing approach for smaller municipalities, etc.

Program Management Issues

The study found that program delivery was mixed. However, the efficiency of program operations results from the individual efforts of ITCs across Canada who, in the absence of clear guidance from the centre, needed to respond as best as possible to the needs of their client communities.

Issues were raised with respect to the availability of guidelines; the lack of resources for program promotion and delivery; and performance information. These are discussed briefly below.

(A) Availability of Guidelines

Program personnel at the ITC's indicated that central direction from headquarters on guidelines, procedures, interpretation of program terms and conditions have, in the past, been sporadic and variable. This can be partly explained by the high turnover rate of

staff at headquarters over the life of the program; although other factors, such as lack of training, etc. may have played a part. This has resulted in some inconsistencies in the application and interpretation of guidelines, in the treatment of eligible expenses, the recognition of in-kind contributions, multi-year contracting or phasing of projects, etc.

This flexibility was not always negative, since the ITCs have effectively tailored the program in their regions to meet the specific needs of their clientele and they have each developed their own best practices in order to administer the program. Sharing these best practices and ensuring consistency in the delivery of the program will be important in the future.

(B) *Resources for Program Promotion and Delivery*

No resources were allocated for the promotion and delivery (advice, support to clients) and management of the program at the regional level. However, delivery of the program at the regional level has proven to be more resource intensive than originally expected. Although most ITCs have made it work in their regions, this has been done effectively by diverting resources from other activities such as trade promotion. This situation cannot continue over the longer term.

(C) *Performance Information*

Although terms and conditions require that clients produced a final report which describes the results of their projects, such reports do not appear to be consistently requested or provided. End-of-project reports were generally limited to outputs (e.g. promotional material, website references, research studies, etc.). Although it may be too early to talk about results and impacts, the report should, when possible, provide information on the level of current or potential distribution of these outputs.

Few resources are available at the program management level to carry-out the follow-up that would be needed to ensure such data is collected. Reporting requirements should also be tailored to be the nature of the project funded. Since individual projects are very often separate components or phases of a larger initiative, it would make more sense to report on the larger initiative over the long term than on individual components. This would lessen the reporting burden on organizations and possibly produce better and more complete performance information.

Financial Management

Key stakeholders have indicated that lapsed funds are a major concern of the PEMD-I program. Several reasons were provided for the lapsing, including the following:

- no funds were allocated to promote the program at the onset;
- the need to develop linkages with municipalities and other local organizations working to strengthen regional economic development;
- low project intake initially as organizations became familiar with the potential benefits of the program to their community;
- late in fiscal year approvals which increased the likelihood that clients would not be able to spend the funds within the required time frame (e.g. unrealistic time frames); and,
- the lack of multi-year funding (although projects are extended and the money eventually spent, this creates artificial lapses on a yearly basis).

However, in the current fiscal year, the acceptance of multi-year liabilities (guidelines call for project completion within one fiscal year) in one region has led to the temporary suspension of the program across Canada until financial liabilities and cash flows have been clarified. It should be noted that all management of the budgets on a multi-year basis must be done manually.

Requests for payments are vetted by program personnel to ensure the eligibility of costs included in the claim. According to the clients interviewed, program personnel assess their claims quite carefully. Although no audit was done, the payment controls in place appear to be adequate. However, there was a level of discretion in the interpretation of the criteria for eligible expenses over time and in different regions.

Considerable dissatisfaction with the current financial information management system was expressed by management. The problems include the lack of an integrated Tier 1 and 2 data base; inability to register forward commitments beyond the fiscal year end; inflexible and inappropriate data entry fields; poor reporting potential; lack of capacity to include performance and results based information on projects; and inability to produce follow-up reports.

Overall, the study concludes that there is a need:

- for sufficient resources at the regional level to promote, deliver and manage the program as well as to provide counseling, advice and support to local community organizations;

- to develop, implement and disseminate program standards and to clarify rules and regulations to ensure program stability and consistency across the regions;
- to strengthen the financial management of the program;
- to develop adequate financial and performance information systems; and
- the need to consistently collect data and report on key results.

6.2 Recommendations

The following recommendations address key evaluation issues related to the continued rationale for the program, program management and delivery, and program design.

6.2.1 Continued Relevance of the Program

RECOMMENDATION 1: *Senior management should consider continuing the program, provided that the issues raised below with respect to program management, delivery and program design are adequately addressed.*

The evaluation study determined that there exists a continued need and rationale for the PEMD-I program. Many community and regional development organizations are now only beginning to realize the benefits of having the proper toolkit for attracting foreign direct investment (FDI). Many felt that additional work still needs to be carried out to fully develop long term strategies to attract foreign investors. Although it is always difficult to measure the performance of programs like PEMD-I and to prove incrementality, there was evidence that the program had contributed to the development of high quality communication and promotional materials, had some positive economic results and had a catalytic effect, encouraging the creation of regional networks and partnerships.

Discontinuing the program after a relatively short four year period could impede the work municipalities and community organizations have undertaken. The attraction of international investment is a long term prospect and requires a sustained effort. Any discontinuity in that process could be disruptive.

MANAGEMENT RESPONSE:

IPC and DFAIT management recognize that a long term effort is required to establish solid investment attraction opportunities for municipalities. Based on results reported by the evaluation, IPC and DFAIT management supports continuation of the Program for Export Market Development - Investment.

IPC and DFAIT are committed to address the program management, design and delivery issues raised by the evaluation.

6.2.2 Program Management and Delivery

RECOMMENDATION 2: *Managers directly responsible for PEMD-I should address the shortcomings identified with the on-going management and delivery of the program by ensuring that:*

- *sound financial management systems and practices are established;*
- *rules governing the program be clarified, including rules with respect to cost sharing, multi-year contracting, eligible expenses, in-kind contributions, etc.*
- *adequate and acceptable performance information practices be put in place to ensure the consistent collection of data on key results;*
- *these reporting requirements should be based on the nature of the funded projects in order to limit the reporting burden on client communities; and*
- *adequate resources are provided for the promotion, delivery and management of the program, particularly at the regional level.*

A number of shortcomings were identified with respect to program management, promotion and delivery. Lack of sufficient funds to ensure adequate program promotion, management and delivery in the regional offices was a key concern raised by internal stakeholders.

Of critical importance is the clarification of the rules governing the program, including rules with respect to program eligibility, multi-year contracting, eligible expenses, in-kind contributions, etc. This will ensure that the program has a more rigorous management regime and is delivered consistently across Canada. A good starting point for addressing some of the concerns would be to assemble some of the best practices from the ITC's and assemble them into formally approved guidelines for the management of the PEMD-I program.

Another area of program administration which should be addressed is the financial management information systems. Several ITC's have developed stand-alone systems

to overcome the perceived difficulties (including the inability to carry forward commitments from one year to the next) with existing departmental systems.

If the program is to continue on a stable, longer term basis, the ability to point out and attribute results should be an integral part of the management reporting system. This means clarifying financial and non-financial reporting requirements and ensuring that performance information is gathered consistently and regularly.

MANAGEMENT RESPONSE:

IPC and DFAIT management agree with recommendation 2.

To address concerns regarding program management and delivery, IPC engaged International Trade Centres to provide suggestions and direction for program enhancements.

The discussions with ITCs assisted with implementing the following elements prior to April 1, 2003:

- Sharing of best practices among ITCs to develop improved and standardized program management and delivery, including updated program handbooks for managers and clients, and sound financial management practices.
- A review and clarification of the rules governing the program. Issues surrounding multi-year contracting were addressed, with particular attention paid to clarifying eligible expenses and in-kind contributions.
- Improve the collection of project reports from clients. IPC will work with ITCs to ensure appropriate final project reports are prepared by all clients and delivered to program managers in a timely manner. The reports provide necessary performance measurements for PEMD-I. In conjunction with ITCs, IPC will develop a project reporting template to be supplied to all approved PEMD-I clients.

IPC is currently exploring how re-sourcing of PEMD-I can be altered to provide adequate resources for the promotion, delivery and management of the program. Identified options will be discussed with senior management from Industry Canada's Operations Sector and ITCs.

6.2.3 Program Design

RECOMMENDATION 3: *An in-depth review of fundamental issues related to the design and delivery of PEMD-I should be undertaken in order to ensure that the program will be responsive to the needs of its client community. This review should focus on the possibility of developing a single-tier program and reviewing the terms and conditions governing the program including: program eligibility, eligible expenses and cost sharing. This review is likely to require several months to complete given the volume and complexity of the issues to be addressed, as well as the need to engage senior management within DFAIT and IPC, regional program management, client communities and other stakeholders.*

The list below provides an overview of the key issues raised by internal and external stakeholders with respect to program design:

Single Tier Program: Consideration could be given to eliminating Tier 2 projects while increasing the size of Tier 1 type projects in order to give the program more flexibility at the regional level and to address community needs.

Client groups were strongly supportive and in favor of local staff administration of proposals and negotiations and local decision making provided that clear expectations and guidance are established for the program as a whole. Furthermore, if a decision were made to eliminate Tier 2, the argument could be made that a strengthened decision making process and committee at the regional level would be most appropriate to program administration. Since community organizations who received Tier 2 funding in the past, also received Tier 1 funding, this could enhance transparency and accountability for program delivery.

Terms and Conditions: A number of suggestions were made by different stakeholders with respect to areas of the PEMD-I program which could be addressed if the program were redesigned¹⁹. Those that were most often mentioned were the following:

- **Multi-year projects** - Most stakeholders believe that the restriction of the duration of a project to the end of the federal government fiscal year end is too

¹⁹ Please note that these are not firm recommendations but simply a number of areas for potential improvement that could be considered for review should the program redesign option be retained.

stringent. They felt that the rule should be based on more realistic project time lines. There is also evidence that many projects are actually components of a larger, longer term initiative, which is being carried out in different phases. Multi-year or multi-phase funding, coupled with adequate reporting requirements, may facilitate more rigorous project management. For some stakeholders, there appears to be a disconnect between the requirements for a long term strategy and the short term approach to funding presently used.

- **Program eligibility** - Clients in a number of cases expressed interest in widening the eligibility criteria to include other organizational entities as for example a not-for-profit corporation partnered with several municipalities or a training institution other than EDAC.
- **Eligible expenses** - This area was frequently mentioned by clients who believed that the eligibility of certain costs such as 'in-kind' contributions, travel costs, and others should be reassessed.
- **Cost Sharing** - This was frequently mentioned by smaller communities who felt that more flexible cost sharing regime could be beneficial to them. For example, total project costs could be considered in calculating the cost-sharing ratio, not just the eligible costs. In-kind contributions also need to be clarified.

ITC personnel generally regard the current level of resources allocated for program operations as inadequate. Program delivery has been ensured through the reallocation or diversion of human resources from other activities. Were the program redesigned to accommodate a single tier and regional administration, possibly some of the resources currently devoted to Tier 2 could be redirected into the regional administration of the program. The deployment of additional resources to accommodate regional administration needs to be balanced against what may be perceived as high program overhead costs.

Although a minor issue, many stakeholders felt that the name of the program, PEMD-I did not provide any information on the actual nature of the program – attracting foreign direct investment – and its client base – municipalities and regional economic development communities – and was often confused with the Program for Export Market Development (PEMD). This is not conducive to an effective promotion of the Program and there was general agreement that the name should be changed.

MANAGEMENT RESPONSE:

IPC and DFAIT management agree with recommendation 3 and recognize that a sustained effort is required to produce lasting investment attraction impacts within communities. Drawing from the PEMD-I experience of the past five years and key

observations from the evaluation, an in-depth review will be conducted to determine how existing resources can be maximized to meet the varied and evolving investment attraction needs of client communities across the country.

IPC and DFAIT management will maintain ongoing discussions with International Trade Centres and open discussions to client communities and regional economic development authorities.

A fundamental review of the program's design will provide an opportunity to either re-direct the focus of PEMD-I, or identify new ways to focus existing resources on increasingly strategic elements of investment attraction promotion.

The in-depth review will explore:

- The program's two tier structure,
- The terms and conditions governing PEMD-I; eligible expenses, and cost sharing,
- Re-focusing PEMD-I projects towards activities such as the identification of community strengths, identifying geographic and sectoral targets, and the development of strategic investment attraction marketing strategies, and
- Other program design elements that warrant examination.
- Alternative mechanisms to support investment attraction promotion at the community level.

Appendix A

Recent Trends in FDI

APPENDIX A: Recent Trends in Foreign Direct Investment in Canada

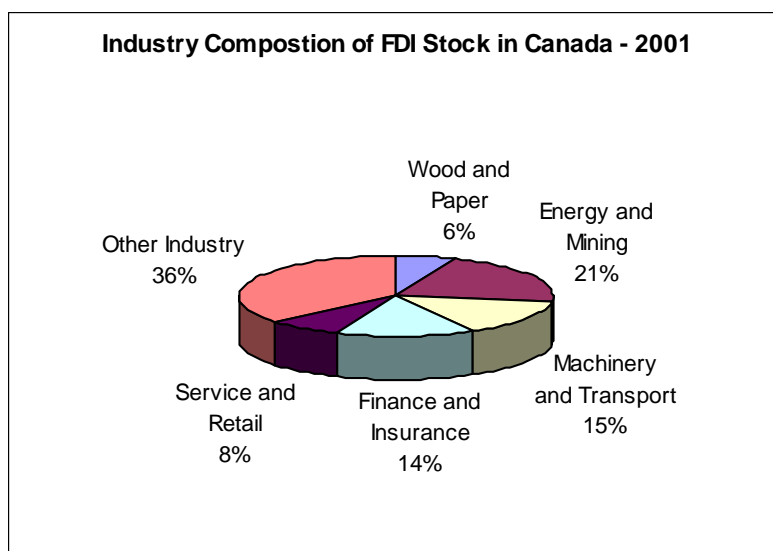
In recent years there have been dramatic increases in FDI inflows and outflows in Canada. In fact, according to data from Statistics Canada, stock of FDI in Canada has more than doubled over that last ten years²⁰. Trends in FDI are examined twice a year by Export Development Canada (EDC) and presented in the “Foreign Direct Investment Monitor”. The latest “FDI Monitor”, produced in the Spring of 2002, reports that Canada’s intake of FDI increased by 165% in 2000. FDI inflows fell by 57% in 2001, but remained well above long-term historical averages. FDI outflows also fell in 2001 by 22% but were still the second highest year on record.

In terms of Canada’s share of global FDI, Canada attracted 3.6% of worldwide FDI inflows during 2001. During the past 12 years, Canada was the destination of 3% of the world’s FDI. According to the “FDI Monitor” Canada supplied 5.1% of global FDI outflows in 2001. Over the past few years, Canada’s share of global FDI outflows has surpassed its share of FDI inflows. Canada’s share of outflows average 3.3% per year (versus 3% for inflows).

The most popular destination sector for FDI in Canada in 2001 was the oil and gas sector, accounting for \$Cdn 24.7 billion in investments. FDI in the technology sector in Canada declined in 2001. The largest recipient of Canadian FDI was the finance and insurance industry, accounting for 38% of total outflows. This was followed by energy and minerals at 18%, services/retail at 9%, and forestry with an 8% share. **Exhibit 18** shows the industry composition of FDI stock in Canada in 2001.

²⁰ Foreign Direct Investment in Atlantic Canada. Atlantic Province Economic Council. May 2002
<http://www.apec-econ.ca/FDIFinalReport.pdf>

Exhibit 18



Source: Statistics Canada - Canada's International Investment Position, 2001

The United States has historically been Canada's largest investor, however in 2000 France held the number one spot largely due to Vivendi's purchase of Seagram and Alcatel's takeover of Newbridge. In addition, in 2001 the United States remained the number one destination for Canadian FDI accounting for 68% of Canada's FDI abroad²¹.

The Competitive Alternatives International Report produced by KPMG reviews the cost of doing business in selected cities throughout the G7 countries, Austria and the Netherlands. The project is designed, among other things, to assist economic developers in providing information to potential investors. The report provides profiles of 86 selected cities detailing information on the location, demographics, and major industries of those cities. The Canadian cities profiled are Calgary, Edmonton, Halifax, Kelowna, Kitchener-Waterloo-Cambridge, Moncton, Montreal, Ottawa, Quebec City, Saskatoon, Toronto, Vancouver, and Winnipeg. The profiles provide a sample of major emerging industries, including new high technology and knowledge based industries, that have developed in recent years or are currently developing. In the 13 Canadian cities profiled, the most frequently cited major emerging industry was the information and communications technology industry. Other major emerging industries are outlined in **Exhibit 19**.

²¹ Foreign Direct Investment Monitor. Export Development Canada. June 2002
http://www.edc.ca/docs/ereports/monitors/fdi/FDIFullSpring2002_e.pdf.

Exhibit 19

Major Emerging Industries	
Industry	Cities
Information and communications technology	Calgary, Kitchener-Waterloo-Cambridge, Moncton, Quebec City, Saskatoon, Toronto, Vancouver, Winnipeg
Biotechnology	Edmonton, Halifax, Kitchener-Waterloo-Cambridge, Quebec City, Saskatoon, and Vancouver
Agriculture or agri-food products/services	Edmonton, Quebec City, Winnipeg
Software design and development	Halifax, Kelowna, Ottawa
Engineering/environmental technologies	Calgary, Kelowna, Vancouver
Telecommunications equipment/services	Calgary, Montreal
Pharmaceuticals	Montreal, Toronto
Aerospace	Kelowna, Montreal
Shared services/call centres	Halifax, Moncton
High tech manufacturing	Kitchener-Waterloo-Cambridge, Moncton
Health /education	Winnipeg
Transportation services	Edmonton
Electronic equipment/components	Ottawa
Medical technology/products	Ottawa

Appendix B

Program Logic Model - PEMD-I

**APPENDIX B:
Program Logic Model - PEMD-1**

