Summative Evaluation

of the

PROGRAM FOR EXPORT MARKET DEVELOPMENT (PEMD)

FINAL REPORT

International Trade Canada
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EXECUTIVE SUMMARY

This report is a summative evaluation of the Program for Export Market Development (PEMD). The program was created in 1971 to support the international business development activities of Canadian businesses and business associations. It has two main components – PEMD (Industry) and PEMD (Trade Associations). This evaluation covers both.

For three decades PEMD has been the lynchpin of the Government of Canada's support to international business development. Its objectives are to contribute to the improvement of Canada's performance in international markets by introducing small and medium size companies to exporting and new markets. PEMD is administered within International Trade Canada's International Business Development (IBD) business line.[1]

PEMD has disbursed about $400 million, and assisted more than 30,000 Canadian companies and industry associations. More than $16 billion in export sales have been associated with PEMD-supported activities.

Findings

Economic evaluation studies have shown both PEMD-TA and PEMD-Industry to be cost effective. In the past three years PEMD-TA has increased its range and benefits while holding its administrative expenses constant. PEMD-Industry, however, is barely cost effective at its small scale. It needs to be expanded and re-engineered to be a viable national program. Some design alternatives are suggested in this study.

PEMD has been among the most successful contribution programs of the Government of Canada. It has lasted 35 years and, over that period, for a relatively small expenditure, it has contributed to Canada's external trade economy in a number of important ways. Unfortunately, over the past eight years, the relevance of PEMD-Industry has been eroded by four developments:

1. A much lower budget than the historical norm (especially in constant dollars).

2. Dispersion of Government of Canada budget for trade promotion to sectoral and special-purpose programs providing contributions to trade associations and businesses for purposes identical to PEMD, compromising the single window concept (although *Team Canada Inc,* as a coordinating mechanism, may have ameliorated this problem to a minor extent).

3. A failure of the Capital Projects Bidding component of PEMD to find a clientele because of the stringent limits on eligible company size that resulted

in a mismatch between eligible Canadian companies' capabilities and those needed for international capital projects.

4. A disconnect between PEMD and the trade commissioners at posts abroad that was exacerbated by having another department (Industry Canada, or, in Quebec, CED) deliver PEMD domestically.

Summary of Key Recommendations

On the basis of recent studies of PEMD, departmental documents, and our interviews with stakeholders, we make the following key recommendations.

PEMD-Industry

1. We recommend that PEMD-Industry be re-established as a single window for federal support to SMEs undertaking international business development, no matter what their sector.

2. We recommend that PEMD-Industry take a more flexible, innovative and integrated view of the projects it supports, rather than being narrowly fixed on traditional mercantile models of international business development. The stove pipes between types of international business development (exports, input sourcing, investment, innovation) should be broken down.

3. The PEMD-Industry budget needs to be reinstated to something closer to its historical budget norms to make it cost-efficient as a national-scale program. If it is, the benefits are likely to outweigh the costs by a substantial margin.

4. PEMD-Industry should be accessible to a reasonably broad range of Canadian SMEs, not only micro-firms. We recommend no limit on firm size for the component of a new PEMD that emphasizes innovation, and no limit on the size of firm for major capital projects (projects over, say, $10 million). For PEMD components that support marketing activities in the USA, we recommend a size limit of $50 million in annual revenues. This is a size limit that has been common among Canada's competitor countries, and seems a reasonable size limit in regard to marketing support in North America. For activities outside the USA we think that there are two alternatives (1) have no limit on company size, but give some extra points for smaller companies; or (2) have a ceiling that is somewhat higher than for the USA, perhaps $75 million to $100 million, since it is logical that it is mainly larger SMEs that have the resources to venture further afield. It is also worth considering whether to have eligibility defined in terms of either revenues or the number of

employees. This would be a more balanced approach to treating manufacturing and service companies equally.

5. We recommend that a re-designed PEMD-Industry have features that actively engage not only the regional offices in Canada but also the posts abroad.

6. We recommend that PEMD-Industry follow some of the practices pioneered by PEMD-TA, where they can be adapted to fit a more numerous clientele. These practices include interacting with clients on-line, having explicit criteria and weights for approving applications, and making the application process as competitive and comparative as possible.

7. We recommend that the repayment provisions be discontinued for three reasons: first, a simple calculation of the federal taxes on export sales (that are, on average, twenty times the PEMD contribution) shows that the fiscal return to the federal government is mainly from taxes on incremental sales by the companies, not from repayment of the PEMD contribution; second, repayment is expensive to administer; and, third, the trade policy argument for repayment does not appear compelling in light of the much larger programs of competitor countries that do not require repayment.

PEMD-TA

The re-engineering of PEMD-TA in the past three years has been successful in making the program more effective and efficient, and, at the same time, extending its reach to a much larger number of clients. Therefore we do not have any recommendations for change. We suggest the following:

1. PEMD-TA appears to be fully serving its clientele as presently defined. However there are some associations that are not presently eligible but which might make an excellent contribution if involved. PEMD should undertake a needs analysis to ascertain whether it would be beneficial to extend eligibility to Canadian associations that do not presently fit the PEMD-TA criteria.

2. For the most capable associations PEMD-TA should consider lifting the ceiling on support from $100,000 to, perhaps, $250,000, to facilitate the support of more sophisticated ‘packages’ of international business development. These packages might include such things as hiring a new graduate specialized in international business development; or involving association members directly in promotional projects by the association (under similar terms and conditions to the existing PEMD-Industry, especially the 50% cost sharing by PEMD with small and medium size enterprises).

3. We suggest that PEMD-TA should experiment with funding the most capable associations to operate an on-granting facility. If an association developed an appropriate package in its annual proposal to PEMD-TA, it would receive funds to make competitive grants to members to support their participation in one of the high priority events of the association (a trade fair, for example). The advantage would be greater efficiency and perhaps better targeting of firms. ITCan would need to pay careful attention to the accountability of the associations that were provided such funds.

4. A previous evaluation suggested that the most important aspect of incrementality is an increase in the overall effort of the association in regard to trade promotion. Doing new things is less important, although relevant. We support this conclusion.

1.0 INTRODUCTION

1.1 Purpose of this Paper

This report is a summative evaluation of the Program for Export Market Development (PEMD). Its purpose is to summarize the evidence of the efficiency and effectiveness of the program and to describe options for its design and operations in the future. This report covers findings, lessons learned during the period FY 2000/2001 to FY 2004/2005, and recommendations for improvements.

The specific objectives of the evaluation, as set out in the terms of reference, are to determine the extent to which the PEMD Program is congruent with departmental policies and priorities in international business development strategy and corresponds to the needs of small and medium size Canadian firms and national sectoral trade associations; to assess PEMD's achievement in meeting its objectives and expected results; to assess the cost-effectiveness and efficiency of the management approach and program design for achieving the desired results compared to alternative models of program delivery for achieving the same or similar results; and to determine lessons learned and provide recommendations on the future orientation of the program.

The evaluation addresses standard program evaluation issues related to program relevance, success, and cost effectiveness. Section 5.2 lists the questions and summarizes the evaluators' findings on each.

1.2 Methodology

The evaluation examines the results that have been achieved by PEMD, compared with its expected outcomes, based on the following: evaluation studies of its components during the past three years, a document and literature review, and a small sample of interviews with key stakeholders.

The first of these evaluations of the current components of PEMD was commissioned in 2001 by the Department of Foreign Affairs and Trade (DFAIT). It reviewed the smaller component of the program (PEMD–TA), support to associations for generic trade promotion.[2] In summary, the reach of the program more than doubled without significant additional overhead expense. In the present report we review the findings of that evaluation, what was accepted by the department and what was not, and the results.

The second component evaluation was a review of PEMD (Industry). This was finalized in early 2004. It included several studies, with workshops and discussion groups to digest their findings and consider their implications. Four working papers were produced

- a review of the evolution of PEMD over the past three decades; a review of client satisfaction; a review of the program's operational efficiency; and a review of programs similar to PEMD, in Canada and in other countries. The review team was advised by a public/private Advisory Committee.[3] Again, in the present report we review the findings of that evaluation, what was accepted by the department and what not, and the results. Finally, this report synthesizes the results of these component evaluations, and other evidence from literature and interviews, to give an overview of the efficiency and effectiveness of PEMD.

1.3 The Program for Export Market Development (PEMD)

The Program for Export Market Development (PEMD) was created in 1971. In three decades, the program has disbursed about $400 million, and assisted more than 30,000 Canadian companies and industry associations. More than $16 billion in export sales have been associated with PEMD-supported activities. Initially PEMD was open to firms of all sizes. However, over time, eligibility was progressively narrowed both in terms of company size and size of contributions. As well, budgets dropped from $35 million in 83/84 to $20 million in 92/93 and to $10.4 million in 2003-04.

In the past decade, PEMD has undergone two cycles of review and reform. The first was after 1993/94. During this period PEMD felt the impact of the Government of Canada's fiscal problems that led to *Program Review*. In 1994, the *International Business Development Review* report, produced by a private sector team, recommended changes to PEMD, among which was restricting eligibility to firms with less than $10 million in annual sales.

The second cycle of review and reform began in 2001-02 and continues with the foundation of the new department, International Trade Canada. Reform presently has several focuses, but among the most important are (1) a reconsideration of the restraints on the PEMD program that have led to its decline in scope and scale, and (2) a reconsideration of the dispersal of resources among various instruments of trade promotion (exports, investment, and science and technology) and among departments of the federal government, and consideration of a more integrated approach to international business development.

1.4 Components of PEMD

In 2004/2005, the PEMD program has two main parts: PEMD (Industry) and PEMD (Trade Associations). This evaluation report covers both. PEMD (Industry) assists very small Canadian companies (with annual sales between $250,000 and $10 million). PEMD-Industry has three sections:

- New to Exporting (NEC) offers repayable contributions up to $7,500 for marketing trips anywhere in the world, and is used most often in the USA. Demand for support under this section has been relatively low.
- Market Development Strategies (MDS) offering contributions from a minimum $5,000 to a maximum $50,000 for international business development anywhere in the world.
- Capital Projects Bidding (CPB) offering a contribution between a minimum $5,000 and maximum $50,000 to assist with specific bids by Canadian firms short-listed for a major project. Demand for support under this section has been negligible because of PEMD's general limitations on the size of eligible firms – the ceiling is too low to include many firms that can be competitive on major international projects.

In the case of PEMD (Industry), contributions are repayable based on the company's exporting success, namely incremental sales in a target market. Repayment is immediate on success in the case of Capital Projects Bidding and is 4% of export sales in the target market the following two years for NEC or three years for MDS. In contrast PEMD (Trade Associations) contributions are not repayable. Companies submit sales reports at the end of the twelve month period in which assistance was received and after each of the subsequent three years, and remit 4% of incremental sales in the target market until the contribution is repaid or the repayment period expires. Repayments are deposited directly to the Consolidated Revenue Fund. PEMD-TA provides financial assistance to Canadian industrial associations to undertake generic export promotion activities in support of businesses in their sector. Annual contributions range from $15,000 to $100,000 and are non-repayable.

1.5 PEMD's Objectives

For three decades PEMD has been the lynchpin of the Government of Canada's support to international business development. Its objectives are to contribute to the improvement of Canada's performance in international markets by introducing small and medium size companies to exporting and new markets. It assists exporters in expanding existing markets and developing new ones. It encourages expansion and diversification of trade, especially in regard to priorities identified by Team Canada.

1.6 Governance and Administration

The Assistant Deputy Minister, International Business Development (IBD) and Chief Trade Commissioner at International Trade Canada are responsible for PEMD.[4] Funding for the program is included in Parliament's Vote 1 and Vote 10 provisions for International Trade Canada. Responsibility for operational program delivery has been delegated to the Director of the PEMD and eServices Division (TCE). PEMD-Industry is delivered by ITCan's Regional Offices[5], formerly known as International Trade Centres (ITCs), which until December 2003 had been part of Industry Canada. In Quebec, the regional offices of Canada Economic Development (CED) assist with the delivery of PEMD (Industry)[6]. There are about 25 points of delivery across Canada. While regional offices are the first point of contact with businesses, the commercial sections of Canadian missions abroad may assist applicant companies by providing advice and guidance, and also advise the regional office on the applicant company's proposed activities.

1.7 Resources

In 2005-06, the budget for PEMD-TA will be about $3.4 million, including $200,000 for O&M and salaries (about 6% 'overhead'). This is projected to rise to about $5 million in 2009/10. PEMD-Industry has temporarily suspended making new commitments. In 2005/06 the program will expend less than $1 million to honour commitments already made. The longer-term budget will depend on when full operations resume and in what form.

2.0 CONTEXT

2.1 Canadian Industry and Trade, 1993-2004

It the past decade Canadian exports have expanded greatly, and have become more concentrated on the United States. Since 1990 the share of Canadian exports that go to the USA has increased rapidly, from less than 75% to more than 87% in 2003 US markets are overwhelmingly the main destination of Canada's exports. However Canada's share of US markets has hovered just below 20% for more than a decade, while the shares of Mexico (6.9% in 1993 to 11.6% in 2002) and China (5.4% in 1993 to 10.8% in 2002) have increased dramatically. Canada's trade in the 1990s was a success story, with a consistent and substantial merchandise surplus (including commodities) that offset smaller deficits in services and investment income and transfers.[7]

2.2 Types of Support to International Business Development

In 2003 DFAIT commissioned a study to gather information about programs similar to PEMD (Industry) in Canada and abroad. While no exact replicas of PEMD were found there are many programs that are similar in part (objectives and/or instruments).[8] In summary, not all Canadian trade promotion programs are focused single-mindedly on trade. Some are more concerned with regional equity, or minorities, than with maximizing trade. Some foreign competitors have much larger and more aggressive programs than PEMD. There is a wide variety of thinking about how best to provide incentives for international business development.

2.3 Trends in Government Support of Canadian IBD Initiatives

During the 1990s the total expenditures of the federal government on international business development increased while PEMD was shrinking.[9] Despite the overall increase, Government of Canada support for international business development lost focus. The single window that PEMD once provided was fragmented. Other federal government departments established contributions programs for SMEs in their industry sectors to pursue international business opportunities, creating inequities and economic inefficiencies through unequal access across sectors and regions. By 2003-03, the Government of Canada was spending about three times as much on supporting international business development for various special groups as it was through PEMD.[10]

At the same time the PEMD budget was reduced and eligibility was restricted to micro companies, precluding many small and medium enterprises. The budget squeeze has made PEMD inaccessible to some of the most dynamic export sectors in Canadian business - that is SMEs with turnover between $10 million per annum and $50 million per annum.[11] The changes in eligibility rules effectively made the 'Capital Projects Bidding' component of PEMD (Industry) irrelevant. There is not a good fit between micro companies with less than $10 million in sales and major projects opportunities overseas. Second, the distinction between NEC and MDS was not sufficiently clear and tended to break down in practice. Third, trade commissioners at Posts, who are the major resource the federal government offers businesses, became disconnected from PEMD because they had little responsibility or authority in regard to the program in their own markets. They could advise on applications, if time allowed, but often had no significant contact with the company.

Although most PEMD contributions were for business development in the United States, the design of the program was the same in all markets, some of which operates very differently from North America. A PEMD component tailored to the US regional markets, and to the ways that trade commissioners and Canadian businesses persons operate in those markets (which are different from, say, operating in Indonesia), may be more effective than a one-size-fits-all approach.[12]

In the late 1990s, DFAIT Trade Commissioner Service considered some radical changes that would have resulted in a more commercial organization closer in kind to trade promotion agencies in the United Kingdom, Australia and New Zealand. These agencies are less integrated with the diplomatic services, are staffed with people with private sector experience, and in most cases charge modest fees for their services (highly-subsidized). However this would have been stepping outside the Canadian tradition and would have required a major investment. In 1997 it was decided instead to constitute a virtual organization, *Team Canada Inc*, to coordinate the federal, provincial and territorial departments and agencies interested in international business development.

The Trade Commissioner Service also defined its core services at Posts more precisely to emphasize higher-value activities. The TCS upgraded its electronic capabilities to improve information flow and to make trade commissioners more mobile. For example, the Virtual Trade Commissioner distributes customized information to companies. Trade commissioners gather and distribute information on line to improve the speed and specificity of trade leads and contacts. The TCS now has about 140 offices abroad.

In 2003 DFAIT, Industry Canada and Agriculture and Agri-Food Canada implemented an Enhanced Representation Initiative (ERI) in the United States that significantly increased resources 'on the ground' in this key market. Sixty new staff positions were created and twenty honorary consuls.[13] The priorities of the Initiative were to increase Canada's trade promotion activities in the newer centres of economic power by establishing new Consulates and to be responsive and targeted in the approach to smaller, yet still important, centres elsewhere in the U.S.

With the exception of Quebec, Provincial programs in support of trade promotion were few and small – for example, British Columbia's *Forestry Innovation Initiative* ($12 million, a modest part of which is similar to PEMD), Manitoba's *Trade Assistance Programs for Shows* ($170,000), Nova Scotia's *Prospector Program* ($100,000). *IMPACT-PME* in Quebec had an annual budget of about $5 million.

In summary:

- Overall, government support to Canadian firms' international business development has become dispersed in the past decade, and its focus on increasing total trade has been diluted.
- Different companies in various sectors located in different parts of Canada currently have different levels of support for international business development. There is no single-window and no level-playing-field for all Canadian firms seeking support for international business development.
- In PEMD over the past three years, budget support shifted to generic promotion by associations relative to direct support to companies.

2.4 Other Countries' Programs

Several competitor countries have programs with budgets much larger than PEMD. Austrade's *Export Market Development Grants* (EMDG) program is ten times the size of PEMD. The United States is greatly expanding its agricultural "Market Access Program" from $US100 million in FY 2002 to $US200 million in FY 2006. In Europe, there are many programs to assist new exporters, such as the Spanish *PIPE* program, and a large number of programs to support participation in trade fairs and exhibitions. Among lesser-developed countries, Brazil has the largest program at about $C100 million per annum. Overall trends are difficult to discern because programs change so frequently in response to political decisions. PEMD's longevity is unusual, although its fairly frequent changes in design are typical. Some of these programs are quite different from the Canadian Trade Commissioner Service, especially in their governance and their stance on fee-for-service.

In summary:

- PEMD is small compared to some competitor nations' programs.
- PEMD is unique in requiring repayment.

- PEMD is unusual in limiting its assistance to micro businesses.
- Other national programs tend to take a broader view of business internationalization and business development, rather than just exports.
- Other programs are often better linked with trade commissioner services.
- Other programs are often better integrated with partner organizations and tend to ask more of those partners.

2.5 Changing Nature of International Business Development

International business development has become more sophisticated and integrated over the past decade and PEMD needs to adjust to this new reality. Companies think in terms of internationalization that includes many aspects of business integrated together, including innovation, sourcing, financing, production and marketing.[14]

In summary:

- The old mercantilist idea that international business development was a marginal matter of selling a company's surplus abroad at low prices, especially when there was a downturn at home, is less relevant. Many more companies must operate internationally to be competitive. New business models of creating value for Canadians in international business have emerged to challenge the traditional idea of exports.

- The Internet, cheap telephone communications and cheaper air travel have changed international business development. However personal contact remains key to new business.

2.6 Rationale for Government Risk Sharing for International Business Development

Canadian small and medium enterprises naturally look to the federal government for support internationally and to share risk. To illustrate, 44% of SMEs that sought risk financing in 2000 approached government or Crown corporations, compared with the next largest source (banks and credit unions) at 16%.[15] Without this support SMEs might be more risk averse internationally than they should be.[16]

It is also relevant that the federal government can do some things more economically than the private sector because of its network of embassies and posts around the world, and its in-depth understanding of the political economy of other countries.[17]

International business development, when it succeeds, is a good deal for both Canada and the Government of Canada. Over a long period of time, evaluation studies have shown that PEMD has consistently resulted in incremental export sales about twenty times the size of the government's contribution, on average[18]. The successful companies have repaid the contribution and taxes on incremental export sales as well.[19]

International business development supports small and medium sized enterprises (SMEs), contributes to the Canada-USA economic relationship, facilitates innovation and promotes international trade. Not only does international trade contribute to Canadian income (about 40% of our gross domestic product is export sales), but also being engaged in international business is important to remaining competitive. Statistics Canada has described the positive effects of international trade on Canadian productivity and efficiency, on the adoption of new technologies and management techniques, and on innovation. (Baldwin Report[20]).

2.7 Future Directions of International Business Development

In 2001-02, DFAIT commissioned an environmental scan to identify, as far as possible, how the context of trade promotion might change in the following decade.[21] **The study team began by defining seven areas where significant changes would be highly relevant to the Canadian Trade Commission Service [TCS]. These were:**

- The composition and direction of international trade
- Competitive factors in international business development
- Composition, capabilities and needs of Canadian businesses
- Regulatory and policy environment for international trade
- **Role and instruments of the federal government in regard to private business**
- Technology and tools of international business development and trade
- **Emerging business models**

Two of the areas (those highlighted) are particularly relevant to PEMD.[22] The options for the future were listed.[23] **These included :**

A) Status quo.

B) Consolidating and accelerating trade support efforts, for example through a major restructuring of the policies and machinery of federal government in regard to support of the private sector and international trade in particular.

(Author's note: This path has been followed with the creation of a new department of trade.)

C) Stronger and quicker devolution of programs to the city/regions [in particular for border-in international trade services].

One other trend that is relevant to PEMD is the emergence of new business models that are unlike the traditional models such as the vertically integrated corporation and the conglomerate enterprise.[24]

2.8 Principles to Guide a New PEMD

In 2003, the Advisory Committee to the PEMD (Industry) review[25] suggested the following principles be adopted, based on discussion of the Review's findings.

- Small and medium enterprises are a good focus but PEMD has become too limited to micro companies. The ceiling on the size of eligible company should be increased to $25 million, $35 million (which is the *Austrade* limit) or $50 million. Alternatively different company size limits might be set for manufacturing and services companies. In the past the export returns from Capital Projects Bidding have been the best of all PEMD sections. However demand is now negligible since PEMD is restricted to micro companies that simply cannot operate in the major projects market. Given the good potential of capital projects, it would be wise to loosen the constraints on company size to something more realistic.
- A one-size-fits-all programming approach is not good enough. In particular, US markets are different from overseas markets and given the importance of the USA trade connection, part of PEMD should be designed specifically to fit business development in the USA. Similarly overseas markets need customized treatment as well. Posts abroad should have more responsibility and authority in regard to PEMD-supported projects in their territory.
- 50/50 risk sharing is important to ensuring the commitment of the company to the activity supported.
- Requiring a plan and a discussion of results at the application stage is a benefit to the company as well as important to the adjudication process.
- PEMD has to operate at a certain size (critical mass) to justify the investment in administration by the Government of Canada.
- PEMD should continue its due diligence on PEMD applications, although simplifying wherever possible. Simplification can be achieved by having a list of items that are not eligible (rather than checking every invoice for eligibility), by

replacing repayment with sharpened focus on taxability, and by requiring packages of activities in proposals linked to expected results.

- A broader concept of internationalization should underpin the program. It should not be so narrowly focused on exports as to miss the growing importance of other aspects of international value-added. There should be less emphasis on narrowly defined marketing activities and more flexibility to support innovative approaches to international business development. Fewer artificial lines might be drawn between marketing as traditionally understood and other international business development activities. A more targeted effort could be made to better serve the 'new economy' of knowledge-based companies.
- Efficiency could be improved by simplifications in a spirit similar to that which revitalized PEMD (TA). For example, if reconnaissance contributions were for fixed amounts depending on the company's location in Canada and the destination market, allowing the submission and checking of receipts to be kept to a minimum. There would be considerable economies if small contributions were taxable but repayment on success was not required (except for large contributions towards a major project bid which would be immediately repayable on success). This would eliminate the extensive record keeping, tracking and auditing that are typical of PEMD at present. Lifetime limits per company could ensure that only the highest priority marketing efforts were supported.

Efficiency might also be improved if applications were consolidated. Under the revitalization proposals there would be a 'call for applications' three times each year, and ITCan and its partners could mount a significant marketing campaign to promote PEMD at the same time. It is thought that three competitions would be adequate to service the business community since most marketing activities can be planned a few months ahead.

The Internet offers opportunities for responding more quickly as well as more efficiently to applications. Applications fully on-line could expedite both application and adjudication. These could be facilitated by published criteria (and weights) by which applications would be judged. Simplicity could be further enhanced by encouraging 'packaged' applications (fixed-price results-based proposals) by having a ceiling and a floor to the allowable contribution. Applicants could be encouraged to target their request for support to standard levels of effort. This would help the adjudicators compare applications.

3.0 PEMD-INDUSTRY

3.1 Introduction to PEMD - Industry

Approximately two thirds of the support by PEMD (Industry) has gone to companies undertaking marketing activities in the United States. This percentage has been stable during the past two fiscal years. (See Table 3.1.1 A and B)

Table 3.1.1(A) PEMD Industry Contributions, by Program Section and by Market, (% USA and the Rest of the World), 2002-2003

Section	Market			
	USA	Rest of World	All Markets	% USA
New to Exporting (NEC)	$373,355	$557,242	$930,597	40%
Market Development Strategies (MDS)	$4,022,599	$1,490,384	$5,512,983	73%
Capital Project Bidding (CPB)	$21,074	$197,473	$218,547	10%
Total, all Sections	$4,417,028	$2,245,099	$6,662,127	66%

Table 3.1.1(B) PEMD Industry Contributions, by Program Section and by Market, (% USA and the Rest of the World), 2003-2004

Section	Market			
	USA	Rest of World	All Markets	% USA
New to Exporting	$335,567.73	$600,088.53	$935,656.26	36%
Market Development Strategies	$4,941,969.28	$1,836,046.14	$6,778,015.42	73%
Capital Project Bidding	$34,617.49	$345,733.97	$380,351.46	9.1%
Total, all Sections	$5.312M	$2.782M	$8.094M	66%

Most PEMD (Industry) funding goes to the Market Development Strategies sub-program, with a little to New to Exporting, and almost none to Capital Projects Bidding. (Table 3.1.2 A and B)

Table 3.1.2(A) PEMD Industry Contributions, by Market and by Section (%), 2002-2003

Section	Market			
	USA	Rest of World	All Markets	% PEMD SECTION
New to Exporting	$373,355	$557,242	$930,597	14%
Market Development Strategies	$4,022,599	$1,490,384	$5,512,983	83%
Capital Project Bidding	$21,074	$197,473	$218,547	3%
Total, all Sections	$4,417,028	$2,245,099	$6,662,127	100%

Table 3.1.2(B) PEMD Industry Contributions, by Market and by Section (%), 2003-2004

Section	Market			
	USA	**Rest of World**	**All Markets**	**% PEMD SECTION**
New to Exporting	$335,567.73	$600,088.53	$935,656.26	12%
Market Development Strategies	$4,941,969.28	$1,836,046.14	$6,778,015.42	83%
Capital Project Bidding	$34,617.49	$345,733.97	$380,351.46	5%
Total, all Sections	$5.312M	$2.782M	$8.094M	100%

3.2 Operational Efficiency

In 2003 DFAIT (now ITCan) commissioned a study of PEMD (Industry) operational processes, including the regional International Trade Centres (ITCs), with a view towards simplification and improving the client's experience.[26] The study concluded that PEMD processes are extensive and time consuming. With down-sizing, the administrative costs have became out-of-proportion to the truncated program. In 2002-03, it cost about $2.7 million to deliver the program and contributions to businesses totalled about $6.7 million (See Table 3.1.1 above). Repayment management and related auditing was found to be expensive.

It was suggested that efficiency could be improved by better management information systems, including electronic service delivery, conversion of forms for clients into an electronic format, and simplification of application, contracting and reporting procedures.

In summary:

- PEMD is relatively expensive to administer at its present scale.
- Administering repayment is the most costly part of program delivery.
- PEMD processes are well defined, documented and understood and not overly difficult for the client, but involve many steps.
- Processes could be simplified. Contract conditions need simplification, especially in regard to amendment.
- Better electronic service delivery could reduce costs incurred by the department, by ITCs (regional offices) and by clients.
- The program is delivered inconsistently across Canada.
- There is limited integration between PEMD and the Trade Commissioner Service.

3.3 Client Satisfaction[27]

DFAIT (now ITCan) has conducted an annual survey[28] to measure PEMD client satisfaction. Each year about 80% of clients indicate that they are satisfied or very satisfied. This is a very good satisfaction score, compared with most government programs.

However it does mean that one in five ‘client’ are less than satisfied with the service they receive. It would be interesting to know whether the dissatisfaction is correlated with unsuccessful projects. One area in which dissatisfaction was expressed was communications and the PEMD website. Most other reservations expressed involved, first, the eligibility criteria, which business people would like to see expanded, and, second, the (limited) degree to which clients receive international business advice along with the financial assistance. Particularly in overseas markets, clients would like to get more advice and assistance on site, which would require more integration between PEMD and the services of the trade commissioners at Posts.

Table 3.3.1 Client Satisfaction

	2003-04 Score	2002-03 Score	2001-02 Score	2000-01 Score	Maximum
Customer Satisfaction and Value Index	79.2	79.7	79.9	79.7	100
Customer Satisfaction	7.8	8.0	7.8	7.8	10
Service Quality	7.7	7.8	7.8	7.8	10
Satisfaction with website, communications	6.8	7.0	6.8	7.2	10
Future Use Intentions	8.1	8.3	8.2	8.1	10
Value and Worth	8.4	8.2	8.6	8.2	10

Source: ITCan, PEMD Client Surveys, 2001 to 2004, Phase 5 Consultants

In summary:

- Client satisfaction is high and most clients think PEMD is effective.
- Clients are increasingly receptive to accessing the PEMD website for information and able to cope with electronic access and e-service delivery. However generally clients think communications could be improved.
- PEMD financial support needs to be better integrated with the advice of trade commissioners at Posts.
- There should be more substantive follow-up by PEMD staff/ITCs to enhance the value of service to clients.

3.4 Impact on Trade

PEMD has been evaluated several times. There have been certain strands in the findings that have been constant. Exports reported tend to average about 20 times the PEMD contribution. In total there have been approximately $1.6 billion in exports sales associated with PEMD-supported marketing initiatives.

Most activity was in the United States (45% by number of contributions and 51% by dollar value of contributions). Activity overseas was spread among regions– East and South Asia (15%), Europe (13%), and Latin America (11%). The most active national markets were the USA, Japan, China, Mexico, Germany and the U.K. About half of PEMD contributions have been to the manufacturing sector, and about one in five have been to professional, scientific and technical services companies. About one third of the dollar value of all PEMD contributions is typically repaid.

PEMD compiles information about sales associated with the projects it supports from three sources:

- Official sales reports that are required as the basis for repayments to PEMD
- Self-reported sales activity from annual surveys of clients (See Table 3.3.2)
- Special surveys in evaluation studies

Information from these sources has consistently shown substantial impacts and positive perceptions by clients of those impacts.

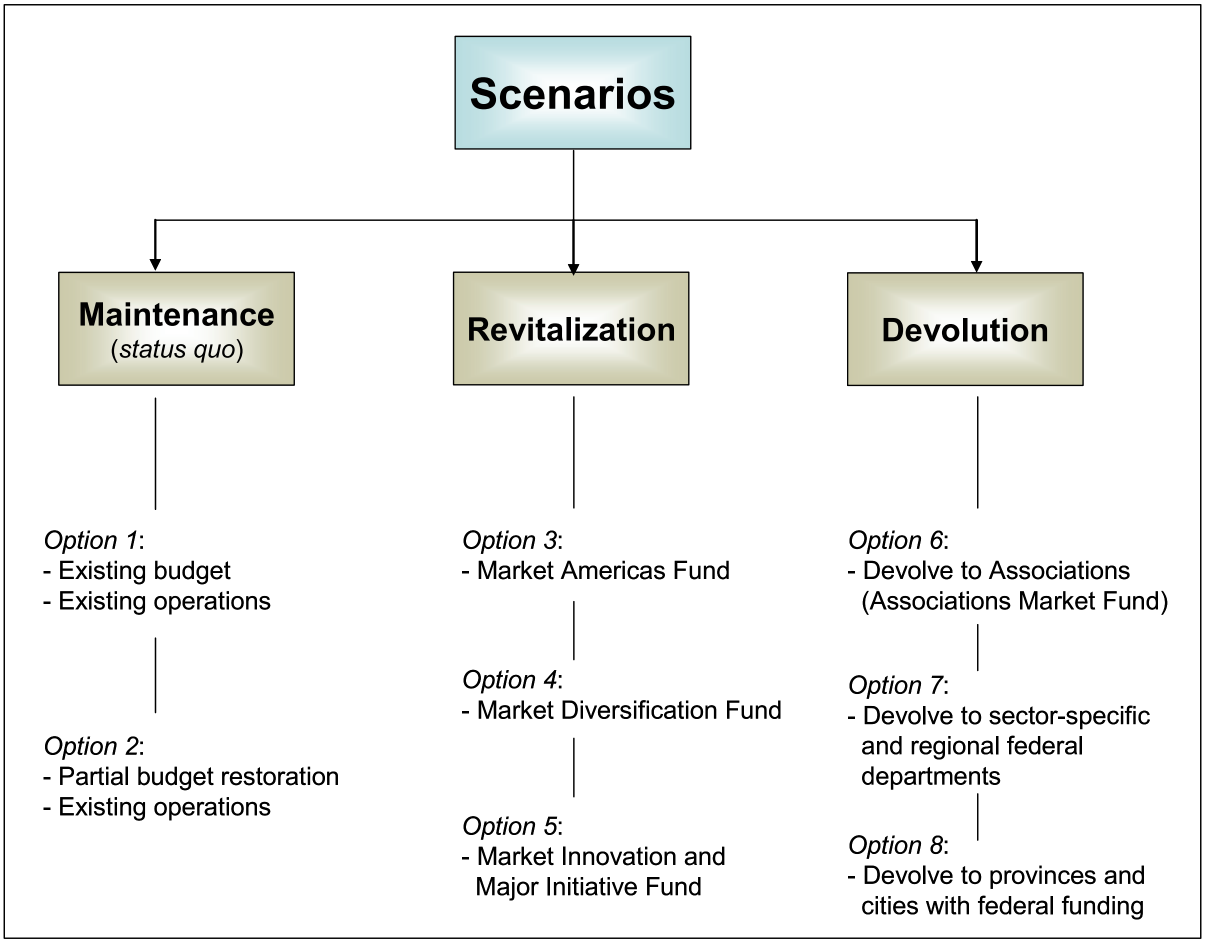
Table 3.3.2 Client Perceptions of International Business Impact

	2003-04 Score	2002-03 Score	2001-02 Score	2000-01 Score	Maximum
Impact/Contribution Index	75.6	81.5	76.8	77.7	100
Export sales	7.5	8.0	7.8	7.8	10
Anticipated sales success	8.0	8.4	8.0	8.1	10
Contracts won	7.0	8.2	7.2	7.4	10
Distributors/agents found in target market	7.8	8.2	7.8	7.9	10
Contacts established	8.5	8.6	8.2	8.4	10
Ratio of new clients to repeat clients	2.0	2.5	2.1	2.1	10

Source: DFAIT, PEMD Client Surveys, 2001 to 2004, Phase 5 Consultants

3.5 Future Scenarios PEMD (Industry)

In 2003, the evaluators identified three scenarios for PEMD (Industry) in the future – maintenance, revitalization or devolution.



Scenario 1 (PEMD Industry): Maintenance

It would be possible to continue with PEMD (Industry) without changing its basic design or budget but instituting reforms. The Advisory Committee to the Review in 2003 was of the opinion that either the PEMD (Industry) budget should be expanded or the program should be made simpler.

The advantage of the maintenance option is that the contribution structure and organizational arrangements are well tested. The disadvantage is a lack of responsiveness to new conditions and opportunities, and the continuance of problems that are now apparent. Structural limitations of the existing PEMD that have become apparent over time would not be remedied without significant design changes.

Another alternative is that the basic design of PEMD (Industry) could be kept the same while the budget was raised to something approaching the historical average, loosening the funding constraints that have created some of the program's structural weaknesses (especially the company eligibility constraints).

It would be possible to recreate a single-window approach to trade promotion contributions within the existing design of PEMD, although this would be more difficult than under the revitalization scenario (see following section). Finally, some of the reforms that are envisaged in the revitalization scenario could be instituted without changing the essential framework of the existing program structure, but, again, not as efficiently or effectively as they could be achieved in the revitalization scenario.

Scenario 2 (PEMD Industry): Revitalization

In 2003 the evaluators proposed a revitalization scenario for PEMD (Industry) that would involve three new funds. These would replace the existing PEMD.

Revitalization Option: Market Americas Fund

The proposed Market Americas Fund (MAF) would enable small and medium-sized Canadian companies to reconnoiter new markets in the Americas and then follow-up initial contacts with action on a well-thought-through marketing plan. Companies would be eligible if they had been incorporated for at least one year, had a minimum sales revenues of $250,000 in their most recent fiscal year and maximum annual sales of a certain amount. Annual sales of $10 million, $25 million and $35 million have been suggested as company size eligibility limits, depending on the total funding for the new program. Research indicates that firms with sales between $10 million and about $35 million per annum, given reasonable support, are potentially dynamic exporters.

Initially the Market Americas Fund would apply to marketing trips longer than a certain distance to regional markets in the USA, or Mexico. The minimum distance could be defined in kilometers (250 kilometers is one possibility that has been discussed, although this might create inequities. For example, support to companies in Calgary would be more restricted than to companies in Edmonton in regard to US border markets). Alternatively companies could be ineligible for reconnaissance trips to their nearest US market, or, alternatively, cost sharing for that market might be less than 50/50. However this approach seems hard on companies located in the North and other remote locations because their costs to travel even to the closest US market might be substantial.

Another possibility explored by the Advisory Committee was to give a contribution only when actual costs were over a certain amount. However this approach loses the advantage of a fixed-amount contribution. The whole point is not to have to track actual costs but rather to offer a fixed amount based on averages, since the savings in administrative and compliance costs should outweigh the minor inequities resulting from some companies' actual costs being above and some below the average.

On balance the study team thought it best to keep the fixed-contribution concept, and not have any distance restriction on the target market. After all the contributions for trips to the nearest regional market are modest, ranging from $850 (B.C. to USA NW) to $1900 (Ontario to USA South Central).[29] Accountability could be assured by a results-based approach.

A 'reconnaissance contribution' would be a fixed amount for each Province-to-Regional-Market trip. For example, if the firm's marketing staff were traveling from Alberta to New England, it would receive a standard contribution (based on ITCan's estimate of 50% of the average cost for two people to travel and return by economy-class air between those locations, and stay in the market for three days at a per diem of $200 per day each). In 2004 reconnaissance appropriate contributions are expected to be between $1,100 and $2,700.

Once approved the company would receive the standard contribution of a fixed amount after supplying evidence that two staff members had in fact traveled to the market in question (or one person had traveled twice) and met with a minimum of business contacts.

Detailed receipts of individual expenditures would not be required in addition to such evidence[30]. The point would be to establish that the agreed trip and work had in fact been done, an easier job than checking detailed expense receipts for individual item eligibility.

If the trip was to attend a trade fair or similar event, nothing additional would be paid in regard to the costs of that event (for reconnaissance trips overseas, in contrast, 50% of the per-person direct costs for up to two people to attend a trade fair or similar event that has an attendance fee would be covered additionally).

Each ITC would have authority to approve reconnaissance contributions. Applications would be received at any time but decisions would be made only three times each year, in February, June and October. This would facilitate budget control and also enable comparisons among applications leading to better selection.

Registration in *Virtual Trade Commissioner* would automatically trigger an invitation to apply at the next PEMD competition. Each PEMD competition date would be preceded by a Canada-wide awareness campaign comprising trade promotion advertising and events.

An application for an ‘implementation contribution’ could be submitted at any of the same PEMD competition dates. A contribution would cover 50% of marketing costs. To be eligible for reimbursement these costs would need to be incurred within a year of the date on which the application was approved. The applicant would either have received a reconnaissance contribution for this market during the previous six months, or provide evidence that representatives of the company had traveled from Canada to the market during that period at the company’s own expense. Payment of the contribution would follow the submission of receipts to substantiate claims, much as the existing PEMD requires. Approval would be decided by set criteria with transparent (announced beforehand) weights.

Companies could apply for a reconnaissance grant and/or an implementation grant to a total (reconnaissance + implementation) lifetime limit per company of $15,000 per regional market – that is, a maximum of $120,000 per company for IDB in the Americas.

The evaluators noted the following advantages of MAF over the existing PEMD:

- It would be tailored to business practices and conditions in the Americas. The relationship with the ITC and with ITCan Posts would be different from that which is appropriate for marketing in, say, Angola.
- Accountability would be maintained but simplified. Approval for a reconnaissance trip would be relatively quick and would involve a minimum of paperwork. Applications would be received only in electronic form on-line to speed processing.
- The eligible costs for an ‘implementation contribution’ would include all marketing costs apart from a short list of items specifically prohibited.

- The contribution would be taxable but not repayable, minimizing administrative costs for both the Government and the company. There would be a small cost in terms of loss of data. However it would only be a small loss because PEMD has many years of data that already demonstrate convincingly that, on average, incremental international business development activity results in sales approximately 20 times the amount of the contribution.
- MAF would be a single window for trade promotion contributions in regard to Canadian firms approaching US and Mexican markets. (Budget would be contributed by federal government departments and agencies interested in trade promotion.) This would simplify and economize at the same time as allowing better visibility with the business community.

Revitalization Option: Global Opportunities Fund

The second ‘revitalization’ instrument recommended by the evaluators was a Global Opportunities Fund (MDF) would support business development in markets outside the USA or Mexico. It would particularly favor initiatives in large fast-growing emerging markets (China, India, Brazil, and the EU/Russia) but would not be limited to these markets exclusively.

A MDF reconnaissance contribution would be a standard amount based on ITCan’s estimate of 50% of the average costs for economy return airfare for two people, 50% of country-specific per diems for seven days in market (that is, 50% of 7 per diems for two, or 50% of per diems for 14 days for one person). It would operate similarly to the reconnaissance contributions described above in the Market Americas Fund, with the exception that 50% of the per-person direct costs for up to two people to attend a trade fair or similar event that has an attendance fee would be covered additionally. Fixed contributions per trip are expected to vary from $2,500 to $9,000.

An MDF implementation contribution would cover 50% of economy airfare for two people and 50% of the costs of agreed marketing materials, plus a fixed country-specific per diem per person.[31] Companies could apply for up to $25,000 in implementation contributions per annum per major market, with a total company lifetime limit for IBD support outside the Americas of $120,000 (reconnaissance and implementation contributions together).

Canadian companies with annual sales greater than $500,000 per year and less than $50 million per year, or with export sales less than 15% of their total sales, would be eligible. These company-size restrictions are less constraining than those for the Americas recognizing that overseas marketing in many cases requires a stronger financial base than does selling close to home.

Applications could be made at any time but decisions would be communicated at three dates each year (the same dates for all components of PEMD). ITCan posts would be the primary decision makers, coordinated by its Global Markets Branch. Payment administration would be centralized at ITCan headquarters.

The advantages of MDF over the existing PEMD include the following:

- Approval would be by ITCan Posts/HQ which would lighten the load of the ITCan regional offices and allow them to concentrate on the North American markets.
- Posts would bring more foreign market expertise to the funding decision.
- A broader range of export-ready SMEs would be eligible to participate.

Revitalization Option: Market Innovation and Major Initiatives Fund

The third 'revitalization' instrument put forward by the evaluators was the *Market Innovation and Major Initiatives Fund* (MIF). As proposed, it would have two parts. The parts are separate but are related because an application to either would be one-of-a-kind. The Fund would be flexible in considering applications that did not fit the other funds, either because innovation was involved or because a major one-time project was involved.

Market Innovation Contributions

Market Innovation Contributions would be aimed at innovative IBD initiatives perhaps sparked by other innovation programs of the Government of Canada such as IRAP and Technical Partnerships Canada; or perhaps related to Canadian companies' business and technological relationships with other organizations internationally.

The key characteristic of 'market innovation' contributions is that eligibility would be flexible. The increasing number of cases where a traditional PEMD approach to international business development does not fit could be addressed on a case-by-case basis. The company's IBD proposal might include various non-traditional things, such as taking equity or selling equity to a strategic partner, collaborating in marketing of joint technology investments, negotiating two-way marketing mandates, establishing innovative distribution agreements, or other.

The Fund would be administered by ITCan headquarters. There would be no fixed minimum or maximum contribution, nor any constraints on the type of Canadian company, nor any preconceptions of the best way to undertake international business development. Each application would be treated as a special case and would be considered individually. Applications would be accepted only three times each year, on the same cycle as the other PEMD funds, partly to avoid the temptation for companies to 'end run' the normal PEMD processes. Because of the flexibility of the fund ITCan would need to protect against frivolous applications. One way to do this would be to charge an application fee of, say, $250. This seems reasonable for a program with no limit on the amount of the contribution, which might see some applications well over $100,000 each.

Market innovation contributions, partly because they are one-of-a-kind and therefore expensive to adjudicate, and partly because the point is to provide an incentive for substantial of an innovative kind, would offer a minimum contribution of $25,000 (with a company lifetime maximum of $100,000). Eligible costs would be the same as those for implementation contributions in MAF and MDF.

Bidding on Major Projects

The second part of MIF would support formal bids and proposals by Canadian companies short-listed for major projects (projects with potential to lead to over $50 million in business or short follow-on business) anywhere in the world. This type of support was generally the most cost-effective before severe constraints on eligible company size essentially rendered it inactive. In the revitalization scenario, there would be no constraints on the types or sizes of Canadian companies that could apply, nor on the type or location of the project. ITCan would offer a 50/50 cost sharing with a minimum contribution by PEMD of $25,000 (within a company lifetime maximum of $200,000 net of repayments).

Support in-kind would be an important aspect of this sub-program. There would be an account executive responsible for each case. He or she would convene an appropriate *ad hoc* support team across departments and in some cases across levels of government.

Repayment would be required immediately upon success of the bid, but not otherwise. Repayments would result in replenishment of the available funds in the company's 'lifetime account'. Applications would be received by ITCan headquarters at any time.

Decisions would be made by a Board comprising Directors of TCE, TCD and the Chief Trade Commissioner.

The advantages of MIF over the existing PEMD include:

- Targeting at exports at a more ambitious scale.
- Willingness to support innovative approaches to international business development.

- In-kind support by ITCan Posts would often be an important factor.

Scenario 3: Devolution of PEMD (Industry)

The previous section argued for restoration of a single-window for federal support for international business development by Canadian companies. However there is another strategy that takes a very different tack and has its own advantages and disadvantages. In the 'devolution' scenario, resources flow from the federal government to other actors (business associations and cities, in particular), and from there to individual companies. This could greatly simplify federal involvement, and could potentially improve the linkages between private companies, associations, and local officials, in support of international business development. However, there are also possible disadvantages. In particular, the link with trade commissioners would not be enhanced, although complementary measures might overcome this problem.

Devolution Option 1: An Associations Trade Fund

An Associations Market Fund (AMF) would enable business associations that were in receipt of a PEMD (Associations) contribution to make contributions to some individual members for specific international business development. In a sense this would involve amalgamating PEMD (Industry) with PEMD (Trade Associations).

As a delivery vehicle, the AMF has two potential advantages. First, it would strengthen the work of associations in international business development, improve business development ties between associations and members, and move key associations towards a lead role in Canadian international business development in the longer term. Second, it would lessen the administrative burden on ITCan and other federal departments while improving the specific-industry expertise brought to bear on the contribution approval decision.

The types of contribution (reconnaissance and implementation) would be the same as MAF, but, initially at least, association contributions to any particular company would be limited to $10,000 per annum.

Applications would be received at any time but decisions made only three times each year, in February, June and October (the same cycle as the proposed MAF and MDF). In the medium term, it might be possible to involve major associations more broadly in ITCan's decision making on MAF/MDF applications (for example, paying those associations that have the capacity to undertake the task to rate applications).

The AMF would also offer the selected associations a contribution of 50% of the salary of a specially-hired and dedicated international marketing person, for up to two years, to provide the core administrative capability necessary for operating a program of contributions to members.

Devolution Option 2: Sector-or-Region-Specific Trade Funds

In the past several years new federal resources in support of international business development have flowed not to PEMD but to programs of other departments and agencies of the federal government. It would be possible to continue along this road, devolving all federal support to individual companies to sector-or-region-specific departments and agencies.

However the limited capacity of most of the relevant departments and agencies to deal with large numbers of individual companies, the potential for inequities across sectors and regions, and the potential disconnect with the Trade Commissioner Service, all argue against this option.

Devolution Option 3: Cities International Marketing Fund

The final option within the devolution scenario is to provide federal funding for cities to become active in supporting companies' international business development. This would be the most innovative of the options, and would require careful design. It might spark provincial government opposition, although most provinces have withdrawn from active programs of international business development support themselves.

The potential advantages are that the cities are in some ways the logical unit of business and business development, since they have greater local knowledge of applicants for support than ITCan can muster and, in the case of larger cities, generally have an economic development office that could administer a contributions program for international business development.

Devolution Option 4: All of the Above Devolution Options

Given the resources, there is no reason why federal support to international business development should not use multiple points of delivery. The relative emphasis on each type of delivery instrument, within this strategy, would require careful thought.

3.6 Costs and Benefits of PEMD (Industry)

The costs of PEMD (Industry) include administrative costs and contribution costs. The study team counted 100% of the government's administrative costs, since they would not have occurred without PEMD. They also counted thirty-five percent of the estimated administrative costs of the participating companies. The incrementality estimate [35%] is based on prior studies of PEMD. This assumption is mirrored in the benefits calculation below. The government administrative costs of PEMD-Industry were approximately $2.7 million per annum. The evaluators estimated that the participant companies incurred roughly the same total administrative costs as the government. Therefore the companies' incremental administrative costs were in the range $945,000 to $1,000,000 per annum, approximately. It was assumed, with some rounding of the numbers, that the total public and private administrative costs were in the range of $3.5 million to $3.75 million per annum. Similarly, 35% of the direct costs of the export promotion activities supported by PEMD-Industry were counted as incremental. This was 35% of $16 million (assuming $8 million in contributions and 50/50 cost sharing). Therefore direct costs were estimated to be $5.6 million. On these assumptions, total economic costs were estimated to be between $9.1 million and $9.3 million.[32]

There are two main benefits of PEMD (Industry): [1] direct economic benefits from short-term incremental export sales; and [2] long-term strategic benefits from building private-sector capability to undertake export promotion. The evaluators estimated that about 35% of the export sales associated with PEMD (Industry) were incremental, and the rest would have occurred anyway. In addition previous evaluations of PEMD had shown that, of the incremental 35%, about half probably displaced domestic production and sales.

The estimate of total associated export sales [to which these ratios just discussed would be applied] was also based on previous studies of PEMD. These had established that, on average, export sales promotion generates about 20 times its dollar value in export sales. Apart from being the approximate ratio established by previous studies of PEMD, 20 to 1 was also the 'sales/promotion cost' target set by the Australian trade promotion agency, *Austrade*, indicating that Australia's experience has been similar to Canada's in this regard. The final parameter needed to be able to calculate the likely benefits of PEMD-Industry was the gross before-tax margin for Canadian goods and services exported. From Statistics Canada records that was estimated to be approximately 15%. On these assumptions,[33] the annual expenditure on international business development activities associated with PEMD (Industry) resulted in the profit to Canadian businesses of $8.4 million to $11.76 million.[34]

Comparing the costs with the benefits, then, the net economic benefit of PEMD (Industry) was estimated to be between approximately $1 million and $3 million.[35] The evaluators noted that, because this estimate was based on incremental export sales, a true increment of total demand, PEMD (Industry) was one of the rare cases where it is legitimate to apply an 'income multiplier' to the net benefit. Since the average multiplier for Canada as a whole was approximately 1.9, their estimate of the net economic benefit of PEMD was between $1.8 million and $5.1 million per annum. The evaluators concluded, therefore, that PEMD (Industry) is cost-beneficial on average. However there is some risk that it could have a negative economic effect in a particular year.

To be absolutely sure that PEMD (Industry) was cost beneficial, either the costs would have to be decreased or the benefits increased. One way to decrease the costs would be to reduce the Government of Canada administrative expenses from $2.7 million to something like $0.9 million. This would entail a radical simplification of the program. The other way would be to hold administrative costs constant and expand the scope of the program to increase the benefits.

3.7 Government of Canada Revenue Scenarios

Government Revenue Scenario A: No repayment other than tax recoveries from PEMD (Industry)

If PEMD (Industry) contributions were not repayable the Government of Canada would still recover some monies from income taxes on incremental export sales. One can use the same assumptions as those used in the benefit-cost analysis above to see how the financial picture might work out for the federal government. To recapitulate those assumptions – the export sales associated with PEMD are typically about 20 times the contribution; about 35% of these sales have been found to be incremental in the past; and about 15% of these incremental sales are taxable profits at SME marginal tax rates (federal only) of about 20%.

The Government of Canada receives two income-tax flows from a PEMD contribution. The contribution is taxable in the year it is received and the profits from incremental export sales are taxable as they occur. To illustrate, suppose PEMD has $2.7 million in administrative costs and $8 million in contribution expenditures for a total of $10.7 million. This total is off-set by immediate income tax on the contribution itself (20% of $8 million) plus income tax on the profits from incremental sales (about $1.7 million) for a net cost of $7.5 million. The effective recovery ratio by the federal government would be 3.3/10.7 or approximately 30%. If the administrative costs can be held constant and the contribution budget increased, the recovery ratio will improve. For example, if the contribution budget were $25 million and the administration budget were a constant $2.7 million, then the recovery ratio would be 10.2/27.7 = 37%.

So within the range of plausible PEMD contribution budgets, the Government of Canada can expect to recover at least one third of PEMD (Industry) expenditures through income taxes on incremental alone. Income taxes on the PEMD contribution itself are additional.

Government revenue scenario B: Repayment + Tax Recoveries from PEMD (Industry)

In addition to recoveries through business income taxes, the Government of Canada recovers contributions through repayment agreements. Repayment is immediate on success in the case of Capital Projects Bidding and is 4% of export sales in the target market during the following two years for NEC or following three years for MDS. In 1999-2000 companies repaid $3.79 million, in 2000-2001 $3.4 million and in 2001-02 $3.99 million. Of course these repayments are tax deductible so their net addition to federal coffers, on the same assumptions as above, is about $3.2 million. This means that the federal recoveries (tax and repayments) on, say, $10.7 million total program expenditures, are about $6.4 million, for a recovery ratio of 60%. This is approximately the existing situation. The advantages of requiring repayment are that there is less overt subsidization, resources are returned to the federal treasury, and information about sales is collected. However there are disadvantages as well.

- Because of globalization, attribution of sales success to PEMD support has become more difficult. A visit to a potential client in England might result in a sale to a production subsidiary in Poland, for example. The instances of time-consuming wrangling between PEMD and companies over attribution have increased.
- Follow-up, tracking and auditing related to repayment have been the most expensive process in the PEMD cycle. The costs of recoveries are high per dollar recovered. PEMD is operating an administrative system that is essentially unchanged from when the program was four times larger in terms of disbursements and costs were spread over a larger base of support activity.
- The information gathered from sales reports is repetitive and most of what is to be learned from it has already been learned
- Finally, a more subtle point is that repayment penalizes success. PEMD would provide stronger incentives for serious traders if repayment were not required.

The exception, in our opinion, is capital projects bidding (part of the Market Innovation and Major Initiatives Fund). In this case, repayment makes more sense. The MIF contributions would be much larger than the typical PEMD contribution, and it is quickly obvious whether the short-listed company succeeded, and little or no tracking and auditing would be needed.

3.8 PEMD (Industry) Program Design

Size Constraints on Company Eligibility

There is good reason to believe that the $10 million limit on company size was probably too low ten years ago and is certainly too low now. First, demand for the program dropped off very sharply during the 1990s, under the new constraints, especially in regard to Capital Projects Bidding (the section that had previously shown the highest associated sales ratios) but also in other sections.

Second, we know from PEMD's earlier history that sales associated with PEMD contributions increase from $5.1 for every dollar of contribution for companies whose sales are less than $100,000 per annum to $159 per dollar contribution for companies with sales greater than $25 million.[36] Within limits, the larger the company the greater PEMD's incremental effects on exports.

Third, the average size of exporter has increased significantly during the 1990s. The average transportation equipment exporter in 2003 ships $78 million internationally. Some other indicative examples include: chemical ($14 million), computer and electronics ($13 million), general manufacturing ($13 million) and wood products ($11 million).[37] These are exports figures not total turnover. So no company in the upper half, sometimes the upper three quarters, of exporters in these sectors is eligible for PEMD. One also knows that other countries' eligibility limits are not nearly so constraining.

Increasing the company-size ceiling from $10 million to $50 million only increases the pool of eligible companies by about 10% [See Annex 2, "Estimated Segment Size" (MDF)], and therefore will not increase the workload of PEMD staff greatly. However that additional ten percent probably contains a disproportionate number of companies with excellent potential for expanding internationally.

In contrast reducing the minimum company size to zero from the present $250,000 turnover per annum would increase the pool of eligible companies greatly. Many of these companies are probably not export ready, although some may be. As one of the Advisory Committee said, it might open the floodgates to neophytes who would be better advised not to attempt difficult export markets.

The eligibility limits proposed for a revitalized PEMD by the evaluators in 2003 are as follows:

Table 3.8.1 Possible Company Size Eligibility Limits ($million turnover per annum)

PEMD Section	Reconnaissance	Implementation
Market Americas Fund	Min $250K Max $10M-$35M	Min $250K Max $10M-$35M
Global Opportunities Fund	Min $500K Max $50M	Min $500K Max $50M
Market Innovation and Major Initiatives Fund	No min or max	

Expense Eligibility

Administrative costs could be reduced for both PEMD staff and for recipient companies by having a list of ineligible costs (all other business costs being eligible). This approach has worked well in the reformed PEMD (TA).

Application Simplification

If companies were required to package their applications for Implementation Contributions, into more standard sizes, and to relate them to results expected, adjudication and follow-on would be easier and more effective for both parties. The standard package approach to supporting international business development projects has many points in its favour.

Due Diligence

It is important that PEMD be assured that applicants are legitimate companies that are capable of undertaking international business development. It has been suggested that applicant companies would need first to be certified as ‘export ready’ by an ITCan regional office.

Lifetime Ceilings

In 2003 the evaluators considered the idea of a lifetime ceiling on certain types of PEMD contributions. The existing program does not have such ceilings. They recommended ceilings as a rationing device to partially replace rationing of the PEMD budget by restricting company size. Imposing lifetime ceilings also seems reasonable if repayment is to be discontinued.

Table 3.8.2 Possible Lifetime Ceilings for PEMD Support ($million turnover per annum)

PEMD Section	Reconnaissance	Implementation
Market Americas Fund	$15K per market, $120K lifetime	
Global Opportunities Fund	$25K per market, $120K lifetime	
Market Innovation and Major Initiatives Fund	Min $25K per instance, Max $200K lifetime	

PEMD (Industry) Administration

PEMD (Industry) is administered primarily by the ITCan regional offices and, in Quebec, by the DEC. The proposed revitalization options would rebalance the program, involving ITCan Posts and trade commissioners in a more substantive decision-making role where appropriate. At the same time, the partnership aspect of PEMD would be enhanced, and a single window for IBD assistance to companies reestablished, by having major federal partners contribute to the budget of the Market Americas Fund and play a central role in the high-level governance of the Fund. The choice of revitalization options would also open up opportunities for involving the private sector in the governance of PEMD.

4.0 PEMD (TRADE ASSOCIATIONS)

4.1 Introduction to PEMD (TA)

The Program for Export Market Development, Trade Associations, (PEMD-TA), provides financial support (contributions) to Canadian industrial associations[38] for international business development (marketing) activities in support of their industrial sector. The supported activities must be part of the association's long-term international business plan.[39] Eligible activities may promote products or services, improve market access or generate market intelligence. The cost is shared between associations and the federal government. The annual contribution is a minimum of $20,000 and a maximum of $100,000. Applications are normally made for a one-year period, starting on April 1 and ending on March 31 of the following year. Applications may include requests for a second year of funding.

The Program for Export Market Development [PEMD]

PEMD (Trade Associations) was part of a program, founded in 1971, that had three parts: repayable contributions to small and medium sized companies to support their export promotion [about 80% of the budget], contributions to universities to attract foreign students [about 3%], and assistance to industry associations to conduct generic export promotions internationally [about 17% of the budget]. Only national single-industry associations were eligible for contributions. They could apply at any time. The maximum contribution was $100,000 per annum for two years.

Opportunities and Risks

In supporting generic approaches to broad international business development by whole sectors of Canadian industry, the Government of Canada has generally thought it efficient to work through the established networks of the business associations rather than duplicate them. Thinking along these lines, one objective of PEMD (TA) was gradually but continually increasing the capacity of industry associations to undertake international business development activities.

On the other hand, there are risks to this approach. First, associations might become dependent on continued funding. Second, they might not add anything of substance to their members own efforts but only form another level of 'overhead' in Canada's international marketing efforts. Third, PEMD contributions might attract organizations that were not ready or not seriously committed to international business development. Fourth, the wrong terms and conditions might compromise Canada's trade policy commitments. Lastly, there was a risk of inefficiency [duplication of effort] or inequity [disruption of the level playing field for Canadian companies].

History of PEMD-TA

Although there has long been some form of assistance to Trade Associations under PEMD, it was after the 1993 program revamping that this form of indirect assistance to industry became relatively important. The government was disengaging from major direct trade Initiatives. Therefore it was hoped that each industry association would assume greater responsibilities for its sector developing international markets.

As defined further to receiving the authority to proceed with the restructured PEMD, the PEMD-TA provides support for generic international business development activities that benefit a particular industry sector. The association's proposed activities must be for the benefit of its members and industry sector, relate to the generic export promotion of the sector's products or services, the improvement of market access or the development of market information/intelligence.

In 2001, the trade-associations component of the program (PEMD-TA) provided a non-repayable contribution of up to $100,000 per year, for up to two years, to about twenty-two national industry associations to carry out a program of export promotion activities. DFAIT commissioned an evaluation of PEMD (TA) in that year.

The evaluator’s report set out three options. The first was to discontinue PEMD (TA). In favour of this option PEMD-TA was a small program but expensive to administer. There would have been little discernable effect on Canada’s trade if it were discontinued. Its effects on incremental sales were indirect. The strongest arguments for continuing PEMD-TA, in the evaluators’ opinion, were not immediately financial, but were strategic. The Canadian Trade Commissioner Service (TCS) had an extensive network of international offices and staff. When industry associations are closely connected with the TCS they can facilitate the use of trade commissioners by business people. The evaluators found that PEMD-TA is an important partnership program that promotes cooperation between firms, associations, and government; and, in the long run, it is strategically important to build trade promotion capability among Canadian industrial associations. Therefore they recommended that the PEMD-TA program be continued but made simpler, more transparent and more effective. The main changes recommended were:

1) Move to a competitive mode, rather than a sole-source negotiated mode. (Accepted by DFAIT/ITCan)
2) Move to “package’ contributions with payment on substantiated performance, rather than detailed checking of eligible costs. (Accepted by DFAIT/ITCan)

3) Move to an open transparent set of selection criteria and weights, and solicit proposals from associations that address the criteria directly, rather than continue with vaguely articulated general statements of purpose. (Accepted by DFAIT/ITCan)

4) Expand the program's budget. The scale of the program barely justified the minimum administrative infrastructure that it needed. Also there was a striking imbalance between the PEMD-TA budget, which covered all sectors except agriculture, and the much larger budget of Agriculture and Agri-Food Canada for similar activities. (Accepted by DFAIT/ITCan)

5) Strengthen of the incentives for associations to expand their export promotion efforts each year. (Partly accepted by DFAIT/ITCan)

6) The evaluators recommended that the competition be open to all industry and business associations in Canada. (Not accepted by DFAIT/ITCan)

7) The concept of eligible costs should be abandoned in favour of payment upon performance. DFAIT should pay a lump sum upon completion of each "package" of agreed activities and outputs. Performance should include a report by the association covering agreed performance specifications and indicators. (Accepted by DFAIT/ITCan)

Results of PEMD-TA Reform

In the following two years PEMD (TA) underwent a revitalization. Without any additional management overhead the program expanded by about three times.[40] The application and approval process were greatly simplified by instituting an annual competition, fully disclosing the selection criteria, using the Internet for communications, and 'packaging' activities (and in 2004 'self-ranking' the proposed activities). As well, the program became more results-focused. Associations were required to state the expected results of each 'package of activities' up front, which had a good effect in itself in clarifying their focus. This approach also enabled payment-by-results. The previous program design had required extensive detailed accounting and checking of every small expenditure item. The new program design simplified matters by having a short list of ineligible expenses, all other relevant expenditures being automatically eligible; and by focusing more on completion of the package of activities and reporting of results as a payment milestone. Associations are audited selectively to control risk of misinformation, a more economical process than checking every transaction before payment. Another way administrative costs were lessened was by allowing associations reasonable flexibility to alter a work package under $10,000 with verbal approval and without having to obtain a formal contract amendment.

The overall result was that PEMD officers have been able to concentrate more on the substance of association and member activities and less on the administrative formalities that previously filled the agenda. One product has been a best-practices guide that promotes the idea of one association learning from others.

PEMD-TA Objectives

The objectives of PEMD-TA are to assist Canada-wide industrial associations in their generic international business development activities undertaken to promote their sector of industry.

The programs activities, outputs and outcomes mentioned above are expected to lead to actual development of international markets, increased export sales, increased numbers of joint ventures and other innovative IBD activities and greater international awareness of in Canadian business.

Through this, the benefits to Canada will be:

- increase total Canadian employment and job creation and retention by enhancing the capability and effectiveness of international business development by Canadian business;
- encourage and promote the pursuit of excellence in the development of international markets by allocating funds on the basis of competition. Applications are judged on clear, long-term planning principles and demonstrated cooperation between the association and the department;
- help Canadian businesses become more effective in international business development initiatives.

Strategic Objectives and Key Results

The government of Canada has identified several strategic objectives including building a 21st century economy and strengthening Canada's economy through enhanced trade and investment. The PEMD-TA review undertaken in 2001 concluded that "PEMD-TA is strategically important, well established and well accepted by its clientele. It reaches SMEs by working with associations whose membership is mostly SMEs. For a small budget outlay the program provides ITCan staff with an entrée to these associations and with the opportunity to work with them directly to improve their capabilities in trade promotion".

Stacking Provisions

Recipients of PEMD-TA funding can only seek reimbursement of 50% of eligible expenditures that are matched by 50% of association funding from private sources. The terms and conditions stipulate that total program assistance to a client shall not exceed 50% of eligible costs (with the exception of ‘per diems’ which are allowed at a flat fee, currently $200).

4.2 PEMD-TA Program Structure

PEMD-TA Eligibility

An eligible association must be a national trade or industry association (or a regional association with a national perspective); be registered as a partner client in the Department's Virtual Trade Commissioner (VTC); be incorporated; not directly sell products that are sold by its members; and be sector-specific. Chambers of Commerce and Trade Councils representing foreign geographic areas (with or without a Canadian chapter) are not eligible. Applicants must be registered with the Virtual Trade Commissioner as a partner client (business or industry association). In addition, applicants must be incorporated, have the managerial and financial capacity to undertake their proposed activities and must not sell the goods or services of their members.

Eligible Activities

Applicants may submit up to ten packages of activities, with a maximum of five activities per package. The "packages" concept has been introduced as a way to group market development activities that have identical objectives or that share similar performance indicators and key results. While the activities may be unrelated they are usually complementary. There are three types of international business promotion initiatives: Direct Contact, Marketing Tools and Research, Other). As a general rule, all expenses of a nature to promote international business development are considered eligible (including communications and local transportation). To be eligible, expenses must clearly relate to the proposed activities and must not be included in the list of ineligible expenditures Ineligible expenditures are spelled out in the guidelines and form part of the agreement (they include Hospitality and accommodation costs, taxes, capital expenditures and salaries)

A minimum of $20,000 and a maximum of $100,000 per annum is allowed per application, with the exception of optional Supplemental Funding Rounds in the fall of each year. Although there is no minimum amount for individual packages of activities, the maximum amount per package is $50,000.

4.3 PEMD-TA Delivery

During the application period for the upcoming fiscal year, ITCan officers assist associations with applications based on the goals and objectives of the program. Throughout the year these officers approve or reject modifications to planned activities, approve claims and monitor the progress of the applicant.

A PEMD Associations Board (review committee) reviews and adjudicates all applications. The Board includes the Directors of TCE and TMM as well as one Director from another Division. Adjudications are held in February with announcements made before the beginning of the fiscal year for which the contributions will be available. Where possible, a second adjudication (Supplementary Funding) is held in early fall to provide a second opportunity to current funding recipients to add activities to their current program, and also provide an opportunity for PEMD management to reallocate available remaining or unused funds prior to the end of the fiscal year. Applicants must submit on-line proposals based on guidelines set out in the “PEMD Associations Handbook”.

Reporting

At the application stage, associations must identify performance indicators for each of their planned activities, and key results for the overall contribution. When associations submit a claim, they will have to describe the expenditures incurred and to report against the performance indicators they chose for each activity in the package. They have to provide a tangible Proof of Activity that resulted from the package. When an association completes its final package of activities for the year it must also submit a final report (called “results” report) comparing the anticipated key results and benefits to the actual results.

Adjudication

After receiving all applications, officers review and rate them according to pre-set criteria in an elaborate evaluation grid. Minimum scores are required for each criterion in order for the applications to be recommended for funding to the Board, which does the final evaluation and rating and either approves or rejects the applications. The announcement of the results is done at the end of February, so that successful applicants can initiate activities due to start as of April 1 and be finished before March 31 of the following year.

Claims Processing

Before 2002-03 the processing of claims under PEMD-TA was complex and dispersed. Claims were sent from DFAIT to Industry Canada for account verification and payment. The evaluators thought that a disproportionate amount of time was spent in checking and verifying details of claims, compared with time spent on more substantive matters, and suggested that it might be possible to structure the contribution agreements with associations so that much of the detailed checking of receipts would be avoided. If payment were for the completion of substantial packages of activities, and was thereby contingent on results, then the system could be simplified. For example, an association might undertake to expand its annual trade fair presentations from two to five, and also provide adequate justification that the effort will cost, say, $50,000. In return, PEMD-TA would contribute $25,000 [50% of the total cost]. Instead of micro-checking receipts and 'eligible costs', PEMD-TA could simply pay the $25,000 on receipt of suitable evidence of completed performance. This would save time and would free up people to do more substantive management tasks than checking receipts. It would also save the associations time and money, and avoid the unnecessary friction implicit in a micro-managed approach to contributions payment.

Under such a system it might be possible to simplify further by setting fixed amounts for applications. For example, DFAIT could set a minimum contribution at say $25,000 [the existing annual minimum at present is $20,000], and restrict applications to fixed amounts for proposed "packages" of trade promotion activity – say multiples of $25,000 up to $100,000 per year. That is, an association could apply for a contribution of $25,000, $50,000, $75,000 or $100,000, but not other amounts. Apart from the advantages of simplification, this 'packaging' would make competitive adjudication easier.

DFAIT did not accept the 'fixed-price-on-evidence-of-completion' approach to contributions. It kept the 'eligible expense' concept, but simplified payments somewhat. Currently, receipts are not required to be submitted with claims. However, original receipts for all expenditures still must be kept. PEMD-TA retains the right to audit all claims for three years following the expiry date set out in the legal agreement, and to recover any payment made to associations to which they were not entitled.

Client satisfaction

Associations are very satisfied with PEMD-TA. The satisfaction scores are significantly better than those for PEMD-Industry. The lowest satisfaction scores are for communications and the website. The key indicators of program worth and the impact/contribution index are very high.

Table 4.3.1 Association Client Perceptions of International Business Impact

	2003-04 Score	2002-03 Score	2001-02 Score	2000-01 Score	Maximum
Customer value and satisfaction index	83.6	80.5	83.1	78.7	100
Customer satisfaction with the program	8.2	7.7	8.2	7.6	10
Service quality of PEMD officers	7.7	7.6	8.2	7.2	10
Satisfaction with website & communications	7.3	7.0	6.3	7.0	10
Future use intentions	9.1	9.5	9.5	8.9	10
Value and worth	8.8	8.2	8.6	8.3	10
Impact/contribution index	89.9	91.7	91.6	93.0	100
Improving market access	9.0	9.2	9.6	9.1	10
Promoting association products/services	9.1	9.3	9.1	9.6	10
Increasing members' export sales	8.9	9.3	9.4	9.3	10
Generating market intelligence	9.0	8.8	8.3	9.2	10
Ratio of new clients to repeat clients	0.3	0.5	0.4	0.2	10

Source: DFAIT, PEMD Client Surveys, 2001 to 2004, Phase 5 Consultants

4.4 Recent Changes to PEMD-TA

The PEMD-TA program was redesigned for the 2002-03 fiscal year, after an evaluation in 2001. The intent of the redesign was to improve its effectiveness and to minimize time consuming and costly amendments to contribution agreements. The key features of the redesigned program included:

- Instead of applications trickling in and being considered piecemeal, an annual competition has been instituted using a common application process.
- There are supplemental funding rounds during the year, depending on the availability of funds, providing flexibility.
- Processes went on-line. All applications, reports and claims are now done on the Internet (in a secure password-protected fashion).
- The criteria for approval were made explicit and transparent. Applications are evaluated by a three-member Board using public criteria.
- Incrementality remained linked to new and/or expanded initiatives by the association.
- Applicant associations were required to forecast the performance and results of proposed activities.
- Applications were required to group their proposed activities into coherent 'packages'[41] of trade promotion activities.

- The program was made more result-based by requiring associations to report on their performance and achievements upon the completion of each package of activities, as part of submitting claims for payment.

Subsequently, there were other changes to PEMD-TA. In 2004-2005 the following changes were made:

- Associations were asked to rank their proposed ‘packages of trade promotion activities’ from highest to lowest priority, as part of their application. (They would still be ranked by the PEMD Board, as well.)
- The department introduced a “Guide to the Best Practices of Successful Associations”.
- The requirement that the total amount of activity (all packages) be at least a minimum amount was discontinued.
- The standard per diem for incoming visitors was increased to $200

These changes were based on an evaluation study in 2001 that is described below.

4.5 Evaluation of PEMD-TA (2001-02)

In 2001-02, the Department of Foreign Affairs and International Trade commissioned an evaluation of the section of its Program for Export Market Development (PEMD) that made contributions to industry associations for exports promotion. The objectives of the 2001 evaluation were to review the rationale for the program, identify performance measures, consider how incrementality should be defined and managed, and recommend a program design for future operations.

The evaluation resulted in changes that made the program more transparent, and more results-based. In the following three years the program has undergone a remarkable revitalization. Without any additional management expense it expanded its reach by more than twice. Its active clientele increased from about twenty to twenty-five associations in 2001-2002 to about fifty-five to sixty in 2003-04. Its contribution budget expanded from about $1.5 million (of which as little as half had been disbursed in some years) to $3.4 million.

The application and approval process were greatly simplified for all concerned by an annual competition, fully disclosed criteria, on-line communications, and the ‘packaging’ and (in 2003) ‘self-ranking’ of proposed activities.

As well, the program became more results-focused. Associations were required to state the expected results of each ‘package of activities’ up front, which had a good effect in clarifying their focus. This approach also enabled payment-by-results. The previous program design had required extensive detailed accounting and checking of every small expenditure item. The new program design simplified matters by having a short list of ineligible expenses, all other relevant expenditures being automatically eligible; and by focusing more on completion of the package of activities and reporting of results as a payment milestone. Associations are audited selectively to control risk of misinformation, a more economical process than checking every transaction before payment.

Another way administrative costs were lessened was by allowing associations reasonable flexibility to alter a work package under $10,000 with verbal approval and without having to obtain a formal contract amendment.

The overall result was that PEMD officers have been able to concentrate more on the substance of association and member activities and less on the administrative formalities that previously filled the agenda.

4.6 Costs and Benefits of PEMD-TA

In 2001 evaluators calculated the costs of PEMD-TA including administrative costs and contribution costs. They counted 100% of the government’s administrative costs, since they would not have occurred without PEMD-TA. They also counted thirty-five percent of the estimated administrative costs of the participating associations. The incrementality estimate [35%] is based on prior studies of PEMD. The best of these were done in the mid-1980s, based on a survey of a large sample of PEMD clients and a quasi-experimental approach to estimating the incremental effect of the program.[42] In the absence of comparable recent research, the evaluators thought it reasonable to use this estimate of the general incrementality of the international business development activities supported by PEMD.

The assumption of 35% incrementality is mirrored in the benefits calculation below. The government’s administrative costs were approximately $450,000 to $580,000 per annum. The evaluators assumed that the associations incurred roughly the same total administrative costs as the government. Therefore the associations’ incremental administrative costs were in the range $175,000 to $200,000 per annum, approximately. Under these assumptions, total public and private administrative costs were in the range of $625,000 to $780,000 per annum. Similarly, 35% of the direct costs of the export promotion activities supported by PEMD-TA were counted as incremental. This was 35% of $3 million (assuming $1.5 million in contributions and 50/50 cost sharing). Therefore direct costs were estimated to be $1.05 million.[43]

The evaluators observed two main benefits of PEMD-TA: [1] direct economic benefits from incremental export sales by members of the associations, and other companies in the sector, that arise from the activities of the association – for example, organizing booths at trade fairs or tours by incoming visitors; and [2] long-term strategic benefits from building private-sector capability to undertake export promotion.

As described above, the evaluators assumed that about 35% of the export sales associated with PEMD-TA were incremental, and the rest would have occurred without intervention by PEMD. In addition previous evaluations of PEMD had shown that, of the incremental 35%, about half probably displaced domestic production and sales.[44]

The estimate of total associated export sales [to which these ratios just discussed was be applied] was also based on previous studies of PEMD. These had established that, on average, export promotion of the type undertaken by associations generates about twenty times its dollar value in export sales. Apart from being the approximate ratio established by previous studies of PEMD, 20 to 1 was also the 'sales/promotion cost' target set by the Australian trade promotion agency, *Austrade*, indicating that Australia's experience has been similar to Canada's in this regard. The final parameter needed to be able to estimate the benefits of PEMD-TA was the before-tax profit margin for Canadian goods and services exported - from Statistics Canada data that was taken to be approximately 15%. On these assumptions,[45] a $3 million annual expenditure on activities associated with PEMD-TA resulted in the profit to Canadian businesses to be approximately between $1.6 million and $2.2 million.[46] Comparing the costs with the benefits, the net economic benefit of PEMD-TA was estimated to be about one quarter to one half a million per annum.[47] The evaluators noted that because this estimate was based on incremental export sales (a true increment of economic demand) PEMD-TA was one of the rare cases where it is legitimate to apply an income multiplier to the net benefit. Since the average multiplier for Canada[48] as a whole was approximately 1.9, the evaluators estimate of the net economic benefit of PEMD was approximately from negative one half million to about one million dollars per annum.[49]

The evaluators concluded, therefore, that PEMD-TA roughly breaks even, economically. The net economic benefit was between 'plus $1 million' and 'minus $0.48 million' per annum. There was a 95% probability that it was greater than plus $930,000 per annum. Therefore the evaluators concluded that the program was probably cost-beneficial, and that it also had an important positive (but unmeasurable) strategic value. That is, the ultimate balance of benefits and costs would depend on how much DFAIT valued developing trade promotion capability in the private sector rather than depending on government interventions, in the long term.

4.7 Two Approaches to the Incrementality of PEMD-TA

Government funding is justified only when it achieves something that would not have been achieved in its absence. The evaluators noted that there were two ways of thinking about incrementality in the case of PEMD-TA. The first was to focus on the incrementality of particular projects and activities proposed by an association, one by one. If participation in a trade show is proposed, for example, had the association been to that trade show before? If incoming visitors were proposed, had those visitors been to Canada before?

There are problems with this ‘micro approach’ to incrementality because funds are fungible. Consider, for example, an association that without any support by PEMD-TA will attend three trade shows – A, B, and C. With PEMD-TA support the association figures that it can attend four shows – A, B, C and D. Trade show “B” fits the PEMD-TA criteria most closely so that is the one that is shown in the application. However, since funds are fungible, the reality is that PEMD-TA is funding the marginal show, trade show “D”, which is never seen in the application.

The evaluators decided that a better approach to improving incrementality in the operations of PEMD-TA was to compare the association’s whole trade promotion activity in the previous year with the whole program it proposes for the current year if it receives a contribution from PEMD-TA. This approach to incrementality would achieve two things – it would encourage the association to think in terms of expanding its efforts overall, not just in terms of coming up with apparently incremental ideas within a static overall effort. This is important if the associations are to become increasingly effective players in trade promotion. Second, it avoids the artificiality of activity-by-activity assessments of incrementality. Overall expansion of the association’s international business effort is an incrementality concept easily explained. An association can continue its core international business activities each year, and yet receive PEMD-TA funding, as long as it can demonstrate that it will expand that core effort. How much the government should require the core effort to be expanded before public support would be forthcoming is a matter of judgement. The evaluators suggested that the appropriate annual expansion of an association’s overall annual trade promotion activity was by twice, or more than twice, the proposed PEMD-TA contribution. That is, if the proposed PEMD contribution was $100,000 then the association would have to demonstrate, in support of its application, that it would expand its total international business development effort by $200,000 (including the PEMD contribution).

This approach to incrementality lends itself to a simplified payments system. The association could receive its PEMD-TA payment once at the end of its fiscal year (or after completing a substantial package of activities) and upon submitting a business report that demonstrates that it has in fact expanded its core international business effort by the amounts promised, along with an assessment of how well that expansion has worked. The evaluators suggested that this concept of 'total incrementality' be given a weight of 20% in the PEMD-TA selection criteria.

Selection Criteria and Procedures

The evaluators recommended that applicants be required to state their case and make commitments in an open competition with other associations, rather than being considered one by one in isolation. It was proposed that each "package" of export promotion activities proposed be linked with what the outputs of its activities would be, what results these outputs were expected to have, and how success would be measured. Many programs say similar things but not many actually build these criteria into clear public selection criteria. The evaluators recommended that PEMD-TA state its selection criteria publicly and that these criteria should embody the rationale and strategy of the program.

Table 4.7.1: Evaluators' Proposed Selection Criteria, Scores and Weights

Criterion	Score	Weight
1) What is the exports potential of the sector? • PEMD-TA contribution/annual sector exports • Association members/number of companies in the sector • Sector 3-year growth rate [$ and unit volume]	1-10	0.2
2) Quality of the Application/Proposal • The amount of export sales likely to result • The clarity and competence of the strategy and work-plan • Innovation/creativity of the proposed activities	1-10	0.2
3) Synergy, Partnership & Institutional Strengthening • Is there more than one association involved? • Is there evidence of good interaction with DFAIT Posts?	1-10	0.1
4) Incrementality • % annual increase in the association's export marketing effort over the past three years • % SMEs among the association members	1-10	0.2
5) Association Effort Leverage • What percentage of the total promotional cost is the association willing to bear? (50% being the required minimum) • PEMD-TA contribution/association effort ratio	1-10	0.2
6) Association Past Performance with PEMD-TA • Past export promotion results • Past efficiency/take up of PEMD-TA funds	1-10	0.1
		1.0

DFAIT accepted the general concept of a rules-based system, with transparent criteria. However it opted for a two-stage evaluation process and different criteria and weights.

The criteria accepted were:

- Incrementality of activities
- Past performance of the association on PEMD-supported activities

The criteria not accepted were:

- Export potential of the sector
- Overall incremental effort by the association

Additional criteria instituted by DFAIT included:

- Fit with the associations export strategy, based on performance indicators proposed.
- Benefits to members of the associations, particularly small and medium enterprises.

In the first stage the applicant association must receive a minimum of 50% of the possible points on the following criteria.

- *Export Strategy:* strategy for international market development, how well the proposed activities relate to the strategy, and on proposed performance indicators and key results. Weight: 0.3
- *Incrementality:* Incremental activities are new or expanded international market development initiatives. Associations will earn a higher score for undertaking incremental activities than for undertaking the same activities year after year. Weight 0.3
- *Membership Benefits:* Applications are assigned a score based on how well their members stand to benefit from the proposed activities. Higher scores will be granted to applications that favour businesses with annual sales of less than $10 million. Associations will also be evaluated on how well their international market development strategy has been communicated to members of the associations. Weight 0.15
- *Past Two Years Performance:* Applications are assigned a score based on the Association's international market performance achievements of the previous two years. New associations will receive a maximum score. Weight 0.25

Applicants, who pass the first stage screening, then have their packages of activities evaluated by the PEMD-TA Board. Funding decisions are made on a package by package basis. There are no explicit criteria for this stage of adjudication. Each package is ranked primarily based on incrementality of the proposed activities. Other factors that the PEMD-TA Board may consider include eligibility of activities and expenditures for funding; appropriateness of the proposed performance indicators; the level of funding request in relation to the performance indicators; the capability of the association to complete the proposed activities in a timely way; past performance; and support, if any, from DFAIT posts abroad.

4.8 PEMD-TA Project Performance Reporting

In 2001 the evaluators found that little information on results was provided when associations invoiced for their expense claims. They recommended that the associations continue to report certain information on an activity-by-activity basis (trip or Mission, trade show, export education or training of members). However they also suggested that the performance contracts between the department and associations should be based on ‘packages’ of activities, to make results reporting more practical. Applicants would be invited to submit proposals for packages of activities at four levels, in $25,000 increments. The association would complete a package and submit a performance report as the basis of payment. The performance report would cover strategy, objectives, activities and results, and lessons learned.

The idea of requiring a performance report was accepted. The bundling of ‘packages’ in increments of $25,000 was not accepted.

The evaluators recommended this contract-based approach to performance monitoring, whereby the application would contain a statement of work that would become a contract between DFAIT and the association if a contribution were approved. For this to work, the association’s proposal was required to state commitments to deliver specific outputs. The evaluators noted that there had been too much emphasis in the past on high-sounding but unmeasurable outcomes, and too little on outputs for which the applicant association could be held accountable.

4.9 Strategic Choices (PEMD-TA)

The evaluators set out three scenarios for the program in the future, and, on the basis, of their analysis of these scenarios, made recommendations.

PEMD-TA Scenario 1: Discontinue this Component of PEMD

The evaluators recounted some arguments in favor of discontinuing PEMD-TA that they found reasonable. On the negative side, PEMD-TA was a very small program and there would be little effect on Canada's trade if it were discontinued. Its effects on incremental sales were indirect. There might also have been some small distortions in resource allocation that resulted from its rules and regulations. However the only criticism of the program that withstood serious scrutiny was that it was administratively expensive.

On the benefits side, there were several arguments in favour of continuing the program. The first was that there were large amounts of export sales potentially associated with PEMD-TA. However the strongest arguments for continuing PEMD-TA, in the evaluators' opinion, were not immediately financial, but, rather, were strategic. PEMD-TA provide a 'window' on the industry association world for the trade commissioners, at a small price. As well, PEMD-TA was that it might be strategically important if [as the evaluators expected] the long-term direction of international trade promotion were toward devolution of responsibilities to the private sector. On balance, it seemed to the evaluators that the strategic arguments in favour of continuing PEMD-TA were more persuasive than the modest economies that would result from discontinuing it.

PEMD-TA Scenario 2: Status Quo, with Simplifications

The evaluators recommended that if DFAIT decided to continue with PEMD-TA its design could be improved. If it was kept at roughly the existing budget level, then the program could be simplified so it would be less time consuming for all concerned. The main way in which it could be simplified was by moving towards a model that was competitive and paid on performance. This approach avoided checking every small expenditure for eligibility. It saved time and trouble for both parties and lost little in terms of financial control. In fact, the financial control that comes from detailed eligible-cost rules was largely illusory because money is fungible, as discussed above. Instead, the evaluators recommended that each applicant association make a commitment to complete measurable activities that produce clear outputs [such as organize a booth at each of five trade fairs and have an average of six member companies represented in person at each fair]. In return, DFAIT would undertake to contribute a lump sum, upon completion of performance.

PEMD-TA Scenario 2A: Rebalance Support Across Sectors

There was a serious imbalance between the budgets of Agriculture and Agri-Food Canada (the AIMS program for trade promotion) and PEMD-TA for the rest of the economy. This may have been justified as a transitional measure in the early 1990s when agriculture was adjusting to changes in the regulatory regime and in transportation prices. However the imbalance in support to various sectors had persisted longer than was originally envisaged. The evaluators recommended that the AIMS budget be kept static, and the PEMD-TA budget be increased over time until a reasonable allocation of resources was restored. This recommendation was not fully accepted, since the Department had no control over the AIMS budget. However the PEMD-TA budget did expand in response to increased demand prompted by its new design.

PEMD-TA Scenario 3: Adopt Best Practices from Other National Models

The evaluators examined best practices in programs around the world similar to PEMD-TA and found three viable designs. These were the existing PEMD-TA design; a ‘service-provider’ design [*Austrade* model]; and an association-incentive design [some U.S. programs].

Table 4.9.1: Three Design Options for PEMD-TA

	Option 1 ***Existing Design***	**Option 2** ***Service Provider***	**Option 3** ***Association Incentive***
Key design concept	Assist associations to do new things each year, but not necessarily increase their total effort	Pay associations to provide services in the public good	Reward associations that do more and better trade promotion each year
Scope and focus	Collaboration between DFAIT officer and association, novelty of activities, financial need	Competitive contract approach to buying service for SMEs	Competitive access to funds based on performance
Annual contribution per association	$100,000	Depends on size of association	50% of the 'baseline' + 75% of the increment each year
Repayable?	No	No	No
Criteria for eligibility/selection	First come, first served	• Number of SME trade novices who are members of the association. Ability to recruit them in trade promotion. • Association's own resources internationally. • Established trade expertise.	Any association that increases its baseline export promotion expenditures by > 5% p.a.
Performance criteria	• Having a strategic plan for trade promotion. • Operating within the eligible cost regulations.	• Number of SMEs enrolled per project manager. • Export sales by SMEs enrolled. • Number of rural/small town clients. • Number of 'new economy' clients.	Achieving an annual increment of trade promotion expenditures > 5% of baseline

PEMD-TA Design Option 2: The 'Service Provider' Approach

The evaluators found the "Service Provider" option [*Austrade*] to be a businesslike approach to involving industry associations in trade promotion. Its key concept was that the recipient of a government contribution is providing a service to the government and must be accountable for performance by contract.

The *Austrade* program for associations was arguably the most efficient program of its type. It created a network of trade promotion professionals in the industry associations and made trade promotion a core function of many associations, rather than being an add-on responsibility for already burdened general staff. It was based on a clear conceptual model, and has a strong incentive effect.

However, the "service provider" model had some drawbacks as well. It was expensive. It cannot be done at a small scale because, on equity grounds, the government cannot easily contract with one association but not another [since the approach implicitly assumes that the government is paying for a public good that should therefore be available to all SMEs through their industry association]. The program resulted in the hiring of new half-time and full-time Export Project Managers in the associations - a true incremental impact, but expensive. The government paid the whole cost, under the assumption that trade promotion is a government responsibility – better delivered by the private sector, but a public good to be paid for by government. This is dubious. In the long-run trade promotion is a business function and the main benefits accrue to particular firms and groups of firms. The 'public good' component is less than the private good. In summary, the 'service provider' contract approach builds capability in the right place, but creates a public funding dependency that may be difficult to break. Long-run transition to the private sector taking full financial responsibility for trade promotion is difficult to envisage under this system.

PEMD-TA Design Option 3: The 'Association Incentive' Approach

The 'association incentive' model focused on building the scale and quality of each association's activities in trade promotion. It did not emphasize novelty in the sense of encouraging associations to do different things every year. If it makes sense [and the association is best placed to judge] then the same core activities can be undertaken every year, as long as there is an overall increment – the association must do more trade promotion and/or do it better each year. In short, the incentive approach encourages associations to expand their total effort in trade promotion each year and, thus, to increase their commitment and capability.

On balance, the evaluators thought the "association incentive" option the best of the three. It provided a strong incentive. It built capability in the private sector where it was needed in the long run. It used DFAIT administrative resources sparingly and economically. It may be slower than the ‘service provider’ option in professionalizing the work of associations in trade promotion, but the consultants thought it would probably be equally effective in the long term. As well, it not only builds capability in associations to do the work, but also, can be designed to gradually and consistently wean them off dependence on public funding for trade promotion.

Recommendations by the Evaluators (2001-2002)

The evaluators found that PEMD-TA was an important partnership program that promotes cooperation between firms, associations, and government; and, in the long run, it was strategically important to build trade promotion capability among Canadian business associations. Therefore they recommended that the PEMD-TA program be continued. On balance, the evaluators recommended Scenario 2 [Status Quo with Simplifications]. The main simplifications recommended were:

1) Move to a competitive mode, rather than a sole-source negotiated mode.

2) Move to “package’ contributions with payment on substantiated performance, rather than detailed checking of eligible costs.

3) Move to an open transparent set of selection criteria and weights, and solicit proposals from associations that address the criteria directly, rather than continue with vaguely articulated general statements of purpose.

The evaluators recommended that the program’s budget be expanded. At its existing scale the program barely justified the minimum national administrative infrastructure needed to deliver the program.

The evaluators recommended the following best practices:

1) PEMD-TA contributions should be awarded in a single annual competition, adjudicated by a joint public-private panel. The evaluators suggested a panel of seven, four from the public sector and three from the private sector [trade consultants, paid an honorarium]. This was not accepted. The adjudication panel continues to be entirely public servants.

2) The evaluators recommended that the competition be open to all industry and business associations in Canada who believe they can present a convincing business case in accordance with the competitive selection criteria. DFAIT should inform all national and major regional industrial associations of the competition in good time before each annual deadline. They thought there

was no need to restrict which associations can prepare a proposal, but it was sufficient just to apply the selection criteria rigorously. Associations that do not comfortably fit the criteria were unlikely to invest in developing a proposal.

3) DFAIT was encouraged to state the criteria by which these contributions will be awarded, and the criteria should be the primary means by which the program is guided towards its objectives.

4) Applications should be put forward coherent “packages” of export promotion activities. A package must have a clear set of deliverables so that full performance can be easily ascertained before payment by DFAIT.

5) DFAIT should entertain applications that propose a contribution that is half or less of the total cost of the package. No package should be less than $20,000 or more than $50,000. The total of all packages for payment in a single year should not exceed $100,000. Taking the TCS core service categories as a guide, the evaluators suggested that packages might fall into one of three categories: [1] direct contacts (events such as missions, shows and incoming buyers); [2] marketing aids (websites, brochures, directories); and [3] other activities. Applicants should specify whether packages are independent of each other [that is, any one can be approved independently of others] or whether the application is for all-or-nothing funding for one or more combination of packages. Each independent package or combination of packages should be scored and adjudicated separately.

6) Major changes in activities or in the outputs of activities, such as a change in target market, would require prior written approval by DFAIT, but minor changes could be approved verbally. The department should reserve to itself the right to refuse payment upon completion of the package if, in its estimation, important undertakings by the association have not been met.

7) The concept of eligible costs should be abandoned in favour of payment upon performance. DFAIT should pay a lump sum upon completion of each “package” of agreed activities and outputs. Performance should include a report by the association covering agreed performance specifications and indicators, and a sworn and notarized statement by two officers of the association that the association has in fact expended its own resources equal to or greater than the contribution. If an association received a contribution for more than one package in a fiscal year, or for a package with a budget greater than $25,000, then the officers’ statement should be supported by an account of expenditures signed by a professional auditor. Where it was required, the applicant would include the cost of the audit in the proposed

budget for the package. Furthermore applicants would be informed that they would be subject to a general audit on a random basis, and that if a general audit showed significant irregularities then the association might, at the discretion of DFAIT, be ineligible for further PEMD-TA contributions.

5.0 EVALUATION FINDINGS AND RECOMMENDATIONS

5.1 A New Department of Trade

The context of this evaluation is that a new department of trade, International Trade Canada (ITCan), is proposed. PEMD, which previously was part of the Department of Foreign Affairs and International Trade Canada, will be a program of ITCan. PEMD-Industry has temporarily discontinued making new commitments, pending this evaluation and consideration by Treasury Board.

5.2 Findings and Recommendations

5.2.1 Relevance of PEMD

By any measure PEMD has been among the most successful contribution programs of the Government of Canada. It has lasted approximately 35 years and, over that period, for a relatively small expenditure, it has contributed to Canada's external trade economy in a number of ways. It has shown the federal government's commitment to encouraging Canadian businesses to expand internationally, it has led directly to incremental international sales that more than covered its costs from both a broad economic and a narrow fiscal point of view, it has supported small and medium enterprises, and it has been a tool for trade commissioners, in Canada and abroad, to enhance their contacts and support to business.

International business development has changed radically in the past two decades, with the risk of the Internet and other telecommunications, and the decline in the cost of international travel. However face-to-face contact between Canadian business people and their clients and colleagues abroad is not less important than it was. In fact the rise of new types of global ventures, and global supply chains, has made personal contact more important in many ways.

Unfortunately, over the past eight years, the relevance of PEMD-Industry has been eroded by four developments:

1. A much lower budget than the historical norm (especially in constant dollars);
2. Dispersion of sectoral and special-purpose programs providing contributions to trade associations and businesses for purposes identical to PEMD, compromising the single window concept. *Team Canada Inc* may have ameliorated this problem to a minor extent.

3. A failure of the Capital Projects Bidding component of PEMD to find a clientele because of the extreme limits on eligible company size.
4. A disconnect between PEMD and the trade commissioners at posts abroad that was, perhaps, exacerbated by having another department (Industry Canada, or, in Quebec, CED) deliver the program domestically.

Any redesign of PEMD-Industry, or of replacement program, needs to address these four points to recapture relevance.

In 2001, the picture for PEMD-TA was much the same – that is, declining relevance, a loss of effective scale, dispersion of responsibilities among sectoral programs and departments, and a lack of integration with the work of the trade commissioners abroad. However the redesign of the program after that date substantially remedied these problems. It is remarkable how the redesign has only made PEMD-TA much more efficient with its resources. Despite being more rigorous and demanding in the application phase, PEMD-TA has greatly increased its reach, more than doubling the number of associations it serves.

In the present context, PEMD is consistent with the priorities of the Government of Canada as articulated in the past two speeches from the throne. It has the potential to be one of the most relevant and important programs of the new department, *International Trade Canada*. Judging from the large demand that PEMD-TA showed to be latent, from the historical importance of the PEMD program, and from this study and others that have been conducted in the past several years, we believe that Canada can benefit from a well designed PEMD.

Evaluation questions:

Are PEMD-Industry and PEMD-TA consistent with International Trade Canada and government-wide priorities in IBD?

Their basic concept is consistent with priorities. PEMD-TA is close fit. PEMD-Industry needs redesign to fit priorities better.

Are PEMD-Industry and PEMD-TA relevant to Canada's major market in the USA, other mature markets, and high-growth emerging markets?

PEMD-TA leaves market targeting to the individual associations, which is appropriate.

The one-size-fits-all-markets approach of PEMD-Industry needs to be rethought. Rather than have the program organized around three types of contribution, which is somewhat inward looking and bureaucratic, it would be better to organize by the three major types of market (USA, other mature markets, and emerging markets).

Are PEMD-Industry and PEMD-TA relevant to an integrated approach to trade/investment/international S&T support?

PEMD-TA already enables an integrated approach by associations. PEMD-Industry has not done so in the recent past, although some earlier sub-programs were better integrated.

A redesigned PEMD-Industry needs to be proactive in regard to an integrated approach, since this is a key concept in the mandate of the new department, for good reason because it recognizes the reality of modern international business. The mercantilist model no longer fits Canada's business interests. A sharp distinction between exports promotion, international sourcing, international science and technology, and direct foreign investment (inward and outward), probably never made much sense. It is certainly a mould that a new PEMD needs to break out of.

Are PEMD-Industry and PEMD-TA relevant to the broader work of the trade commissioners?

For several years, PEMD has been highly relevant to the trade commissioners posted at regional offices (ITCs) in Canada, but largely irrelevant to trade commissioners at posts abroad.

Having both posts and domestic regional offices within a single department now gives an opportunity to remedy this disconnect. However it will not be easy. Again, one size does not fit all. For the most part, there is little need for post involvement in simple PEMD-supported projects in the USA. On the other hand there is often an important role for the post in PEMD projects in emerging markets. The trade commissioners are by far the major resource of the new department. PEMD is a very small matter by comparison. Therefore ensuring that

PEMD enhances the effectiveness of the trade commissioners is very important. Good intentions and formal bureaucratic inputs by posts on applications have not proved to be a significant role. It may be that only giving posts some PEMD budget authority will really engage them to the degree needed. This evaluation does not have sufficient scope to answer this question.

Does the program (PEMD-Industry and PEMD-TA) have clear eligibility criteria and criteria for approval of applications, and are these criteria relevant?

One of the more important changes to PEMD-TA in 2001 was the publication of clear and transparent criteria for approval. This improved the focus of the program, and made both application and adjudication more efficient and effective. The criteria that were implemented were not exactly the same as those recommended by the evaluators. In particular, the evaluators recommended that repeat applicants should be required to demonstrate that their annual investment in international business development promotion had increased significantly, not only that they wished to do some novel things within the same overall level of effort. The evaluators also recommended that association in sectors where international business was increasing more rapidly should be favored in adjudication.

PEMD-Industry had eligibility criteria that restricted the program to micro-firms, with less than $10 million in revenues per annum. This limit is much too low, and was the result of budget stringency rather than any belief that this was the best target clientele. In particular it discriminated against manufacturing firms, whose turnover tends to be higher than services firms. There was also a perception within DFAIT that access to PEMD had to be sharply rationed in this way because its budget was so small. A new PEMD-Industry, with a reasonable budget, should be open to SMEs, not just to micro-firms. It might be reasonable to limit support to very small firms for activity in the USA, and not to have company size limits overseas. Alternatively, a redesigned program might consider lifetime limits on PEMD support rather than per-project and company size limits.

Would recipients of assistance miss the PEMD if it did not exist? What would change if the program no longer existed?

If PEMD had never existed, it would have made a significant difference to Canadian companies. Its consistent influence over a long period of time has probably been very beneficial although difficult to measure. We know that about $16 billion in exports have been reported by recipients as being associated with the PEMD-supported projects. Various evaluation studies have estimated that about one third of this might be incremental. Canada has been very successful in international business and, without exaggerating its importance, it is reasonable to note that PEMD has played a useful role.

However, one should keep in mind the scale of Canada's trade. From 1993 to 2003 Canadian annual exports increased from $187.5 billion to $396.3 billion, an increase of 111% in nominal dollars. Similarly, since 1989 Canada-US trade almost tripled from $235.2 billion to $677.8 billion.[50] By 2002 exports were about 41% of Canada's total gross domestic product.

5.2.2 Has PEMD Been a Success?

PEMD-TA has been a remarkable success over the past three years, in extending its reach to a much larger set of associations and doing so both more rigorously and more cheaply.

PEMD-Industry has been a long-term success but in the recent short-term a mixed picture.

Have PEMD-TA and PEMD-Industry efficiently and effectively supported export market development by small and medium size Canadian firms, directly and through national sectoral industry associations?

We don't know how effectively PEMD-supported associations have worked with their members in international business development, or how effectively they have undertaken generic promotions. Reports to PEMD from associations show many achievements. However this issue requires an independent evaluation. One topic of interest is whether some associations have the ability and the interest in managing an on-granting facility (as a complement to PEMD-Industry).

What are the benefits and costs of PEMD-TA and PEMD-Industry? Are program costs reasonable in light of demonstrated benefits? What has been done to ensure better/cheaper management of the program?

Both PEMD-Industry and PEMD-TA were found to be cost-beneficial, even in the pre-reform phase of PEMD-TA (See Sections 3.6 and 4.6). Clearly PEMD-TA is much more cost-beneficial today that it was in 2001. PEMD-Industry remains barely cost beneficial at its inefficient scale.

What measures have been taken to ensure the program can make an incremental contribution to expected results? How effective have these measures been?

PEMD is one of the few programs of the Government of Canada whose incremental effect has been studied rigorously through quasi-experimental evaluation designs. These studies, as well as more traditional investigative studies over the years, have consistently shown the program to have a strong incremental effect.

5.2.3 Is PEMD cost-effective and are there better alternatives?

As noted above, both PEMD-Industry and PEMD-TA are cost effective, even at the inefficiently small scale at which they have recently operated? The cost-effectiveness of PEMD-TA is clearly greatly improved from its marginal position in 2001 but has not been measured recently. Some design alternatives have been suggested in this study.

However this study did not assess components of PEMD that were discontinued in the 1990s for lack of budget. These include the establishment of marketing offices overseas, assistance with consortia/joint venture formation, and special support to incoming buyers.

Are the funds/assistance limits at the right level? Or there is a need to approve more/fewer or larger/smaller businesses and associations?

The available budgets have been too low for efficient delivery of a national program, and the low budgets have led to company size eligibility limits being too constraining.

Do the financial planning, budgeting and control systems now in place enable managers to manage the fund efficiently and effectively?

PEMD-TA greatly improved its management systems by modernization after 2001. Going on-line enabled better efficiency and responsiveness. Some of the lessons learned, while not fully transferable to PEMD-Industry, are relevant.

Are the repayment provisions still working well and are they likely to work well in future? What is the actual level of repayment of contribution on assistance received, and is there a need to revise the current method of repayment?

PEMD-TA does not have a repayment provision.

PEMD-Industry has a repayment provision for those recipients who make sales related to the assisted project. The rationale for the repayment provision is largely related to trade policy, and is beyond the scope of this study. We note however that the returns to the Government of Canada have been more in taxes on income from incremental export sales than in repayments, and that the repayment system is inevitably relatively expensive to administer.

Does PEMD have adequate financial and human resources to effectively administer, manage the program and meet client needs? Where would resources best be placed?

PEMD-TA is centralized, and operates very efficiently. PEMD-Industry is decentralized and not integrated well with the trade commissioners abroad. The role of regional offices and posts need to be rethought. Perhaps a mixed model, with some aspects of PEMD-Industry centralized and some decentralized (domestically and abroad) can be devised.

Have PEMD-Industry and PEMD-TA established systems to ensure results-based and performance-oriented programme reporting, monitoring and management?

PEMD has an excellent record of auditing, evaluation, and client surveying.

One way PEMD-TA was made more results-based was consolidating applications into one competition each year rather than treating them as they trickled in. This enabled a more comparative approach to adjudication and encouraged more focus by the associations on results. It is an open question whether a redesigned PEMD-Industry could follow the same path. Perhaps applications for PEMD-Industry assistance (or for some parts or components) could be taken at, say, three milestones each year (compared with one for

PEMD-TA). There would be many advantages. Another possibility might be a twice-a-year competition for eligibility where candidate companies would be selected, followed by quick-response approvals for specific proposals up to a certain budget limit (see the US Millennium Challenge Account for a model). However this would take careful design because we found companies, in general, skeptical of the idea of taking applications periodically rather than continuously.

Are there more cost-effective ways of achieving desired results? How feasible are these alternatives?

The main hindrance to cost-effectiveness is inadequate scale for a national program. Budgets have been too small for efficient delivery of a national program; and constrained budgets have indirectly led to eligibility restrictions that have detracted from effectiveness.

5.2.4 Summary of Recommendations and Management Responses

PEMD-Industry

1. We recommend that PEMD-Industry be re-established as a single window for federal support to SMEs undertaking international business development, no matter what their sector.

   Management Response

   PEMD-Industry was closed down in 2004.

   ITCan developed a new SME contribution program for international business development, but a budget has not yet been identified to implement the new program proposed by ITCan. Although the proposal favours the adoption of a single window, the problem will still be acceptance of this concept by other departments.

2. We recommend that PEMD-Industry take a more flexible, innovative and integrated view of the projects it supports, rather than being narrowly fixed on traditional mercantile models of international business development. The stovepipes between types of international business development (exports, input sourcing, investment, innovation) should be broken down.

Management Response

The proposed program takes this factor into account, whereby companies will be able to propose innovative approaches for developing their international business.

3. The PEMD-Industry budget needs to be reinstated to something closer to its historical budget norms to make it cost-efficient as a national-scale program. If it is, the benefits are likely to outweigh the costs by a substantial margin.

Management Response

The PEMD-Industry budget needs to be reinstated to something closer to its historical budget norms to make it cost-efficient as a national-scale program. If it is, the benefits are likely to outweigh the costs by a substantial margin.

4. PEMD-Industry should be accessible to a reasonably broad range of Canadian SMEs, not only micro-firms. We recommend no limit on firm size for the component of a new PEMD that emphasizes innovation, and no limit on the size of firm for major capital projects (projects over, say, $10 million). For PEMD components that support marketing activities in the USA, we recommend a size limit of $50 million in annual revenues. This is a size limit that has been common among Canada's competitor countries, and seems a reasonable size limit in regard to marketing support in North America. For activities outside the USA we think that there are two alternatives (1) have no limit on company size, but give some extra points for smaller companies; or (2) have a ceiling that is somewhat higher than for the USA, perhaps $75 million to $100 million, since it is logical that it is mainly larger SMEs that have the resources to venture further afield. It is also worth considering whether to have eligibility defined in terms of either revenues or the number of employees. This would be a more balanced approach to treating manufacturing and service companies equally.

Management Response

The proposed program would be available for small and medium-sized companies.

5. We recommend that a re-designed PEMD-Industry have features that actively engage not only the regional offices in Canada but also the posts abroad.

Management Response

The proposed program will be incorporated into the chain of services provided by the Trade Commissioner Service in Canada and abroad.

6. We recommend that PEMD-Industry follow some of the practices pioneered by PEMD-TA, where they can be adapted to fit a more numerous clientele. These practices include interacting with clients on-line, having explicit criteria and weights for approving applications, and making the application process as competitive and comparative as possible.

Management Response

The proposed program will be on line from the application to the final claim.

7. We recommend that the repayment provisions be discontinued for three reasons: first, a simple calculation of the federal taxes on export sales (that are, on average, twenty times the PEMD contribution) shows that the fiscal return to the federal government is mainly from taxes on incremental sales by the companies, not from repayment of the PEMD contribution; second, repayment is expensive to administer; and, third, the trade policy argument for repayment does not appear compelling in light of the much larger programs of competitor countries that do not require repayment.

Management Response

Contributions from the proposed program will be non-repayable.

PEMD-TA

The re-engineering of PEMD-TA in the past three years has been successful in making the program more effective and efficient, and, at the same time, extending its reach to a much larger number of clients. Therefore we do not have any recommendations for change. We suggest the following:

1. PEMD-TA appears to be fully serving its clientele as presently defined. However there are some associations that are not presently eligible but which might make an excellent contribution if involved. PEMD should undertake a needs analysis to ascertain whether it would be beneficial to extend eligibility to Canadian associations that do not presently fit the PEMD-TA criteria.

Management Response

PEMD-Associations management turned down this proposal. However, the new edition of the association handbook will include a new section on the partnership with other organizations.

2. For the most capable associations PEMD-TA should consider lifting the ceiling on support from $100,000 to, perhaps, $250,000, to facilitate the support of more sophisticated ‘packages’ of international business development. These packages might include such things as hiring a new graduate specialized in international business development; or involving association members directly in promotional projects by the association (under similar terms and conditions to the existing PEMD-Industry, especially the 50% cost sharing by PEMD with small and medium size enterprises).

Management Response

The ceiling for financial aid allocated by PEMD-Associations during the annual competition will be increased to $100,000.

3. We suggest that PEMD-TA should experiment with funding the most capable associations to operate an on-granting facility. If an association developed an appropriate package in its annual proposal to PEMD-TA, it would receive funds to make competitive grants to members to support their participation in one of the high priority events of the association (a trade fair, for example). The advantage would be greater efficiency and perhaps better targeting of firms. ITCan would need to pay careful attention to the accountability of the associations that were provided such funds.

Management Response

PEMD-Associations management turned down this proposal, which presents significant challenges in terms of management and transparency.

4. A previous evaluation suggested that the most important aspect of incrementality is an increase in the overall effort of the association in regard to trade promotion. Doing new things is less important, although relevant. We support this conclusion.

Management Response

PEMD-Associations management turned down this proposal, preferring to continue focusing assessment of applications on the projects themselves.

Endnotes:

[1] The mandate of this business line is to contribute to the creation of employment and prosperity in Canada by assisting the Canadian business community in taking full advantage of international business opportunities.

[2] This evaluation led to an expansion in the reach of the program and to greater efficiency in program delivery. Before the review, PEMD (TA) received about twenty-five applications from associations each year, approved about $1.5 million in assistance and disbursed less than $1 million. After reform, in 2003-04, PEMD-TA approved fifty-seven applications. The program shared the costs 50/50 of about $7.4 million in international marketing projects by the associations.

[3] Mr. Ron Gilbertson, President and CEO, Lacent Technologies Inc., Edmonton, Alberta ; Mr. Bill Grant, President and Founder Kraken Automation Inc., Burlington, Ontario; Ms. Fischer Boulter, Energy Solutions Group, Inc., Halifax, Nova Scotia; Mr. Perry Niro, Executive Director, BioQuébec, Montreal; Mr. Mark Romoff, Executive Director, Ontario Region, Industry Canada; Mr. Michel Charland, Director, International Trade Centre, Montreal; Mr. Philip Stone, Director General, Trade Investment Branch, Heritage Canada; Mr. Ken Sunquist, Director General, Overseas Programs and Services, Trade
Commissioner Service, Department of Foreign Affairs and International Trade; and Mr. Pierre Sabourin, Director, Export Development Division, International Trade Canada.

[4] The Assistant Deputy Minister, International Business Development, is responsible for ensuring consistency in delivery by developing tools, templates, policies, guidelines and eligibility criteria necessary for the administration and management of program delivery; developing and delivering training programs to personnel in Ottawa responsible for program delivery (including policies, procedures and IBD theory/practice); compiling, sharing and encouraging best practices in program delivery among personnel at headquarters and posts around the world; compiling, sharing and encouraging best practices in international business development among Canadian Trade Associations; and communicating awareness and availability of the program.

[5] They are fully responsible and accountable to PEMD approval. They are primarily responsible for assessing and processing applicant companies and their market development plans; monitoring the company's implementation of PEMD-assisted market development strategy; and monitoring reporting and repayment of the assistance if sales are made.

[6] DEC and ACOA operate 'competing' programs that, to some degree, displace demand for PEMD in Quebec and the Atlantic Provinces.

[7] Canada's share of world exports (3.9%) and share of G-7 country exports (8.9%) in 2002 was well above the levels of the early 1990s. However in 2002 China surpassed Canada to become the world's fifth largest exporter. From 1993 to 2003 Canadian exports increased from $187.5 billion to $396.3 billion, an increase of 111% in nominal dollars. Similarly, since 1989 Canada-US trade almost tripled from $235.2 billion to $677.8 billion.[7] By 2002 exports were about 41% of total gross domestic product. Imports in 1993 were $170 billion and in 2002 $348.7 billion, an increase of 105%. Nearly every Canadian industry increased its orientation to trade during the 1990s. Clothing and textiles, printing and electronic equipment experienced the greatest increase in export orientation during this decade, driven by rapid improvements in productivity and cost competitiveness. In 2002, for example, 87% of Canada's computer/electronics production was exported, 85.7% of its machinery production, 82% of its transportation equipment production, and 70.4% of its paper production. Canadian non-resource-based manufactured exports have increased steadily. In particular machinery exports have increased by six percentage points and now stand at about one-third of all merchandise exports. Nevertheless Canada's imports in that sector have grown even faster. Services did not do so well. Between 1993 and 2002 Canadian trade in services grew by 8.9% per annum for exports and 6% for imports. Nevertheless growth in merchandise trade outpaced services trade. The USA accounts for 60% of Canada's services exports, far lower than its share of merchandise trade. Canada's fastest growing commercial services trade is in royalties and fees (however its largest deficit is also in this area). Small and medium enterprises are not a major contributor to Canada's exports. Most exports are by larger companies. Exporters that export less than $1 million per annum make up 70% of exporters by number but only 1.6% by value of exports. In the 1990s the size of the average exporter has increased in every sector.
Canada has done well in trade in the past decade. However, we need to do better in several areas where export promotion can help: Improving market share in the USA; building more strength among Canadian SMEs as exporters; diversifying Canada's trade to non-USA markets; and doing better in the new economy of knowledge-based services in the USA.

[8] More than sixty were reviewed. Five main types of program were identified. These included aggressive international business development programs that provide incentives to expanding businesses in any sector for activities similar to PEMD (*Austrade* and *Trade Partners UK*); programs like Agriculture & Agri-Food Canada's *Agri-Food Trade Program* and Natural Resources Development Canada's *Canada Wood Program* that provide assistance to a single industry sector; programs that essentially provide export promotion services at subsidized rates; regional or community programs for international business development, such as *ACOA*, *CED* and *WD*, mainly concerned with helping disadvantaged regions or communities rather than increasing trade *per se*; and small business programs mainly concerned with assisting micro/small businesses rather than with expanding trade as such. The programs do not all reflect the same thinking about how to stimulate international business development. For example some programs support only companies below a certain size (either because their purpose is to help small businesses, or as a rationing device). In contrast, some programs insist that participants be above a certain size (as a screen for export readiness). Another example of divergent thinking is that many programs limit participation to neophyte exporters. In contrast, some programs insist that participants must have some experience and some success in exporting before becoming eligible for assistance. Some other national programs link their financial incentive programs closely with the services of their trade commissioners. That is, their financial

support is packaged with the provision of other services. As well, some other national programs have integrated their incentive programs more closely with partners (typically provincial/state governments and industry associations). Several programs are 'two-tier' with the national program working through partner organizations to reach firms. Some programs, like PEMD, focus mainly on the direct expenses of company staff and materials, and some focus more on enabling the company to purchase expert assistance (consultants). Virtually no non-Canadian programs require repayment, although Austrade emphasizes that its Export Market Development Grants (EMDG*)* are taxable income (so, technically, are the unrepaid portions of PEMD contributions). Several programs adjudicate grant applications in one or two competitions per year, rather than allowing trickle-in.

[9] There was a shift towards supporting generic promotions by associations and group promotional visits with a large political component (Team Canada visits). These activities have some value but research has consistently shown that direct support to individual enterprises is what produces most export sales. The shift towards generic promotion by associations may not have been fully intended. When Cabinet allocated substantial funds to sector-specific departments for international business development, it was responding to submissions that highlighted SMEs. However, in practice these programs contributed mainly or exclusively to business associations. To a minor degree DFAIT reinforced this trend by reforming its PEMD (Associations) program first, resulting in a major expansion of the number of associations it supports. Federal government support to associations is good in itself, but the right balance may have been lost. The whole federal effort in international business promotion may be less effective when most assistance goes to associations rather than to individual companies.

[10] Outside of International Trade Canada, the other programs that support international business development include: Canadian Heritage Trade Routes ($2 million per annum); Industry Canada Canadian Apparel and Textiles Industry Program ($11 million per annum); Natural Resources Development Canada, Canada Wood Program; Aboriginal Business Canada, Trade and Market Extension Program ($4.5 million per annum); and regional programs such as the Atlantic Canada Opportunities Agency (international business development about $5 million to $8 million per annum), Canada Economic Development for Quebec Regions, IDEA-SME, and Western Economic Development. The two programs of the Canadian International Development Agency, CIDA Inc and Renaissance Eastern Europe, provide financial support for Canadian firms to undertake feasibility studies of major projects in developing countries. These studies have a strong marketing component in many cases and, as such, have similar interests to PEMD Capital Projects Bidding. CIDA Inc budgets about $15 million annually for such studies.

[11] Examples of goods-oriented industries in which 'average exporter size' is between $10 million and $25million per annum include wood products ($11 million), manufacturing ($13 million), computer and electronics ($13 million), and chemicals ($14 million).

[12] For example US markets are more transparent and familiar, and tend to be very competitive on speed, quality and price.

[13] ERI will enhance two existing offices to Consulates General (Miami and San Francisco); to create one new Consulate General (Denver); create six satellite Consulates reporting to existing Consulates General (Houston, San Diego, Raleigh-Durham, Phoenix, Philadelphia and Anchorage); and establish two Canada-based and two locally engaged staff positions in existing offices to focus on agriculture issues. This is expected to cost approximately $28 million per annum.

[14] Many businesses now must operate internationally to be competitive. In the older mercantile model international selling was a marginal add-on to domestic activity. This situation has changed radically. One now has to take a global view of how best to create value for Canadians – the business model might include acquisitions abroad for production or distribution, technology relationships, and partnerships with foreign firms, as well as traditional buyer-seller relationships. Trade has always been a two-way street, but now it depends on a wide range of complex international activities and relationships. Today a company might be headquartered in one country, conduct its research and development in three others, and have its manufacturing plants in four others. Among the G-7 countries competition has intensified for the high-value corporate functions, while the lower value production functions have devolved to lower-wage locations. Companies must internationalize to compete. International business development has changed with the Internet. Information is now available at a distance. One can see pictures and video clips, with product and services information, for most businesses worldwide. As well, the Internet itself has become a venue for selling products and services directly, a development that has made it feasible for smaller companies to sell internationally. In the 'new economy' it is also worth noting that what is sold internationally cannot so easily be categorized. How would one categorize a company whose 'export' model is to establish, grow rapidly in a niche, and sell the company to an international parent firm? However, all this said about internationalization being crucial and new information tools being central, it remains true that personal contact, particularly at the start of a business relationship, cannot be replaced. Business people still have to travel to meet potential clients and business partners.

[15] Industry Canada, Small and Medium-Sized Enterprise Financing in Canada, Catalogue Number lu4-7/2002E, Figure 16, p.39.

[16] Other countries have similar programs. In fact, PEMD balances to some extent the competitive disadvantage of Canadian SMEs created by more generous support to other national SMEs by their governments. The federal government, because of its size, can assume financial risks that small and medium enterprises find daunting. Therefore, by sharing marketing risk, it can provide an incentive to companies that might otherwise be too risk averse to move internationally as actively as they should.

[17] It would be inefficient for the Canadian private sector to duplicate the capacity of the trade commissioners (even if it were possible). PEMD is a tool that for a modest amount of money reinforces the impact of the trade commissioners by linking them to a wide range of businesses they might not otherwise come in contact with. The small investment in PEMD increases the returns to Canada's large investment in the trade commissioner service. That is, the benefits of PEMD include its direct effects on export sales, but also its leverage on the effectiveness of the trade commissioner service as a whole. To summarize, a successful international business development program will return more money to federal government coffers than is expended, will link businesses with the trade commissioner service thereby 'leveraging' the benefits of their expertise, and will contribute directly to Canada's trade economy.

[18] See, for example, Evaluation and Strategic Management Associates Ltd., 1983, “Comparative Evaluation of the Effectiveness of Two Export Promotion Programs: The Program for Export Market Development and the Promotional Projects Program”.

[19] To illustrate, suppose PEMD makes a contribution of $10,000, which leads to a company making $200,000 in sales evenly spread over the next three years (roughly the average experience, including all successful and unsuccessful projects together). We calculate that the marginal taxes paid by the company plus the direct repayment to PEMD would have a present value of about $23,000, more than twice the federal government’s investment.

[20] Statistics Canada, Baldwin:Micro-Economic Analysis Division, “Participation in Export Markets and Productivity Performance in Canadian Manufacturing”, November 2002.

[21] Rideau Strategy Consultants Ltd., Trade Commissioner Service of the Future, Ottawa, 2002.

[22] The study revealed that, in the past decade, PEMD was not the only grants and contributions program that was downsized. Partly under fiscal pressure and partly under the influence of ‘new public management’ theory, the Government of Canada moved away from subsidies, grants and contributions, and free services to business. The trend was to focus on setting regulatory and facilitative frameworks, and, in some cases, to provide incentives, but to leave most investment in business development to the private sector. As well, there was a trend towards devolving responsibilities to lower levels of government. The Canada Infrastructure Program is an example, where the federal government undertook a major cost-sharing initiative with municipal governments as an equal partner. Although the federal government presently enjoyed financial surpluses, the study pointed out that fiscal pressure would again intensify, with the gradual acceleration of growth of health care and pension costs, with personal income tax revenues perhaps lessening as the baby boomers retire, with major investments in infrastructure over-due, and with increases in interest rates on the national debt as the North American business cycle moves up. Consequently, the federal government may seek out policies that ease fiscal pressure as much as possible.

[23] These included devolution of government powers and resources to city/regions [federal shared programs that deal more directly with the cities]; movement away from direct federal government financial support [free services, grants and contributions] to individual companies, and towards greater emphasis on federal government maintenance of appropriate policy frameworks and infrastructure. Incentives to the private sector rather than grants; cost and risk sharing, but borne increasingly by the private sector. Greater emphasis on user fees for the private sector where the benefits are mainly private and individual; and user fees for other government departments when resources need to be rationed. Implementation of the new Treasury Board policy on interdepartmental charging for services; public-private partnerships, led by the private sector rather than by public sector officials. “Public and private partnerships are essential to the growth of the exporter capacity in all economies. To succeed these partnerships must be structured in such a way as to ensure that they are directed by the private sector.” Government on line. Simultaneous centralization/diversification of government services by going virtual.

[24] The most unusual of these is the “virtual enterprise”, which may rely on the Internet to reach customers. This is a sales vehicle that PEMD has not emphasized in the past. Other enterprise models that the report discussed included the “mastermind” enterprise, where an organization focuses entirely on high-level business functions [senior management, finance, R&D, and marketing] while contracting out production/fulfillment functions; the “niche network member” enterprise, where an organization focuses on a specialty, as part of a constellation of supplies around a major enterprise; the real-time event-driven enterprise; the knowledge-based business; and the computer-to-computer business model whereby services are performed automatically for clients, without the intermediation of an ordering process. The study team stated that ideology, theory, technology, and environmental change may combine to create rapid organizational change in the private and public sectors. Contributory drivers of change include greater ability to monitor performance within the enterprise and to ‘manage at a distance’, improved contracting techniques, a venture capital model of “trade”, and continued and increasing importance of large-corporation intra-company “trade” as multinational and trans-national companies proliferate. The consultants concluded that the machinery of business is volatile at present. They saw the most likely situation in the near future, for general business structure and strategy, is a ‘broken field’ – that is, no single dominant business model, but a multiplicity of contending business models. In this environment adaptability and the ability to cope with change are important. Whatever their organizational structure and strategy, no organization can rest on its laurels.

[25] Rideau Strategy Consultants, PEMD-Industry Review, Summary Paper, 2003.

[26] PEMD Processes Analysis, by Yannick De Meulemeester, Dilgens Inc., Ottawa

[27] Phase 5 PEMD Client Survey

[28] The methodology for the Survey includes an online questionnaire, coupled with optional fax-back.

[29] Example of Possible PEMD (Industry) Contributions for Reconnaissance Trips to USA or Mexico.

	Origin				
	Atlantic Provinces	Québec	Ontario	Prairie Provinces, and Territories	British Columbia
Destination Market					
USA NE	$1,340.00	$1,340.00	$1,600.00	$2,100.00	$2,400.00
USA Midwest	$1,900.00	$1,600.00	$1,470.00	$1,600.00	$2,100.00
USA NW	$2,600.00	$2,500.00	$2,400.00	$1,100.00	$850.00
USA SE	$2,200.00	$1,700.00	$1,700.00	$2,100.00	$2,400.00
USA Sth Central	$2,500.00	$2,100.00	$1,900.00	$2,100.00	$2,500.00

USA SW	$2,700.00	$2,300.00	$2,400.00	$1,370.00	$1,400.00
Mexico I	$1,600.00	$1,500.00	$1,400.00	$1,700.00	$2,300.00
Mexico II	$1,580.00	$1,440.00	$1,400.00	$1,400.00	$1,500.00

* Based on 50% of unrestricted economy-class airfare for two return, plus 50% of an 'expenses per diem' of $200 per person day for six person-days.

[30] Acceptable documentation would include travel tickets (air, train, or other), hotel bills, and/or letters from business contacts.

[31] Example of Possible PEMD (Industry) Contributions for Reconnaissance Trips Overseas

	Origin				
	Atlantic Provinces	Quebec	Ontario	Prairie Provinces, and Territories	British Columbia
Examples of Destination Markets					
China (Shanghai)	$3,545.25	$3,345.25	$3,345.25	$3,245.25	$2,845.25
India (Bombay)	$7,385.52	$6,985.52	$7,385.52	$8,785.52	$8,985.52
Brazil (Sao Paulo)	$3,266.26	$2,600.00	$2,500.00	$2,700.00	$2,900.00
Europe (Milan)	$1,842.29	$2,542.29	$1,742.29	$2,842.29	$2,442.29
Russia (Moscow)	$4,463.84	$4,263.84	$4,463.84	$4,763.84	$5,463.84
South East Asia (Singapore)	$4,168.29	$3,568.29	$4,768.29	$4,468.29	$8,468.29
Southern Africa (Johannesburg)	$5,667.33	$4,367.33	$4,467.33	$5,967.33	$5,567.33
South Pacific (Sydney)	$4,830.38	$4,730.38	$4,730.38	$4,530.38	$4,230.38

* Based on 50% of unrestricted economy-class airfare for two return, plus 50% of an 'expenses per diem' of $200 per person day for 14 person-days.

[32] Total economic costs = administrative costs + direct incremental funding costs
[High estimate]: = $3.75 + $5.6 million
= $9.35 million
[Low estimate]: = $3.5 + $5.6 million
= $9.1 million

[33] There are various other ways to estimate incremental benefits. For example, one could compare PEMD-TA with using the same budget to expand PEMD Industry. The difference is mainly efficiency benefits. That is, it is more efficient and arguably more effective for an industry association to organize participation in a trade fair than for DFAIT to be involved more directly. The association knows its members and their capabilities, and has established channels of communications with them. On the other hand, few associations in Canada [unlike many European counties] have universal coverage in their industry. Therefore working through an association disadvantages those who are not members.

[34] High estimate: = $16 x 20 x 0.15 x 0.7 x 0.35 million
= $11.76 million
Low estimate: = $16 x 20 x 0.15 x 0.5 x 0.35 million
= $8.4 million

[35] High estimate: = $ 11.76 million minus $9.1 million
= $2.66 million
Low estimate: = $8.4 million minus $9.35 million
= minus $0.95 million

[36] DFAIT, Trade and Economic Analysis Division.

[37] Industry Canada, Trade and Investment Monitor, 2003, p.25

[38] Chambers of Commerce and Trade Councils representing foreign geographic areas (with or without a Canadian chapter) are not eligible.

[39] Before starting to fill in the application form each year, associations must meet the following: have a documented export promotion strategy which has been approved by their governing body (e.g. Board of Directors); demonstrate adequate managerial and marketing capabilities; have sufficient financial resources to cover their share of proposed activities; be registered in Virtual Trade Commissioner (formerly WIN Exports); and have copies of Financial Statements for the past 2 years.

[40] The number of associations participating increased from 20-25 per year to about 60 in 2003-04. The contributions budget expanded from about $1.5 million (of which about half had typically been disbursed) to $3.4 million.

[41] Examples of packages include: a series of related trade shows; participation in a trade show in Canada with an international focus where incoming buyers are being brought in; an outgoing mission followed by foreign contacts visiting Canada; or, web site improvements that enable potential customers to download new brochures or directories. While some activities would not normally be included in the same package, they are if they have similar objectives or share performance indicators and key results. For instance if a web site is upgraded to support marketing efforts for a specific trade show, these activities are packaged together.

[42] See Evaluation and Strategic Management Associates Ltd., 1983, "A Comparative Analysis of the Economic Effectiveness of Two Export Incentive Program: The Program for Export Market Development and the Promotional Projects Program".
[43] Total economic costs = administrative costs + direct incremental funding costs
[High estimate]: = $0.78 + $1.05 million
= $1.83 million
[Low estimate]: = $0.625 + $1.05 million
= $1.675 million
[44] Ibid
[45] There are various other ways to estimate incremental benefits. For example, one could compare PEMD-TA with using the same budget to expand PEMD Industry. The difference is mainly efficiency benefits. That is, it is more efficient and arguably more effective for an industry association to organize participation in a trade fair than for DFAIT to be involved more directly. The association knows its members and their capabilities, and has established channels of communications with them. On the other hand, few associations in Canada [unlike many European counties] have universal coverage in their industry. Therefore working through an association disadvantages those who are not members.
[46] High estimate: = $million (3 x 20 x 0.15 x 0.7 x 0.35)
= $million (2.2)
Low estimate: = $million (3 x 20 x 0.15 x 0.5 x 0.35)
= $million (1.575)
[47] High estimate: = $ 2.2 million minus $1.675 million
= $0.525 million
Low estimate: = $1.575 million minus $1.83
= minus $0.255 million
[48] Harvey Swartz, 1999, Income Multipliers for Canada, with Finance Canada.
[49] High estimate: = $0.07 x 1.9 = $1 million
Low estimate: = minus $0.48 million
[50] DFAIT, NAFTA @ 10: A Preliminary Report, 2003, p.3