

Invest More, Innovate More, Trade More, Learn More:

The Way Ahead for Nova Scotia

DONALD J. SAVOIE

July 2010

Contents

Invest More, Innovate More, Trade More, Learn More: The Way Ahead for Nova Scotia	1
What We Heard	2
What Is Being Done	11
What Is Being Proposed: What now in order to invest more, innovate more, trade more, and learn more?	17
<i>Invest More</i>	18
<i>Innovate More</i>	20
<i>Trade More</i>	23
<i>Learn More</i>	24
What Is Being Proposed: How to repair the machinery of government	26
<i>Economic and Rural Development (ERD)</i>	28
<i>Innovacorp</i>	34
<i>Venture Capital</i>	35
<i>In the Regions</i>	35
Consolidated List of Recommendations	39
Notes	43
Annex A: The Consultations	45

ISBN - 978-1-55457-367-7

Invest More, Innovate More, Trade More, Learn More: The Way Ahead for Nova Scotia

A SENIOR GOVERNMENT OF NOVA SCOTIA OFFICIAL went to the heart of the matter when he observed during my consultations that Nova Scotia needs to “invest more, innovate more, trade more, and learn more.” In the consultations with both public and private sector officials, I soon discovered a consensus on what Nova Scotia needs to do to position itself to meet emerging economic challenges. Indeed, I was struck, not only by the consensus on what needs to be done, but also by the willingness on the part of economic actors to collaborate on an economic development agenda for Nova Scotia. I have long been a student and, at times, practitioner of economic development, and I would rank the climate of confidence and cooperation that exists between federal and provincial government officials in Nova Scotia at the moment as extremely high or at the very top among the cases I have reviewed over the past 30 years. This is all to the good, because the economic development challenge confronting Nova Scotia will require that all economic development departments and agencies work in close collaboration with the private sector and others to mount and implement a successful strategy.

Private and public sector leaders in Nova Scotia, whom I consulted, also stressed, in one fashion or another, the need to “invest more, innovate more, trade more, and learn more.” But there are problems. Nova Scotia’s urban-rural dimension is, in some ways, the elephant in the room. In some quarters, Halifax is viewed as the problem or as the reason why parts of Nova Scotia are not flourishing, rather than the powerful economic engine that it has become not only for Nova Scotia but also for the other two Maritime provinces. There is also an important machinery-of-government issue that needs to be addressed. One private sector respondent put it very well when he observed: “there are too many people running around this province saying that they have a mandate from government to do economic development.” He added: “This does not work. Entrepreneurs simply do not have the time and resources to sort out who does what.”

The purpose of this report is to take stock of economic development efforts in Nova Scotia, report on the consultations with Nova Scotians, and bring forward recommendations on how governments can position themselves better to promote economic development. The report is in three parts: **what we heard** in our consultations and in reading published material from governments and other sources (see Annex A for a list of individuals I consulted for this report), **what is being done**, and **what is being proposed**, both to improve Nova Scotia’s economic future and to repair the machinery of government.

I soon discovered a consensus on what Nova Scotia needs to do to position itself to meet emerging economic challenges.

Donald J. Savoie

There are too many people running around this province saying that they have a mandate from government to do economic development. This does not work.

A private-sector respondent

What We Heard

The work from different sources and perspectives all point essentially in the same direction:

Invest more, innovate more, trade more, and learn more.

Donald J. Savoie

As we will see later, provincial government officials and officials with the Atlantic Canada Opportunities Agency (ACOA) have been busy in recent months thinking about how best to promote economic development in Nova Scotia, and they have produced some solid work. Other economists and public policy specialists, including the head of the Atlantic Provinces Economic Council (APEC), Elizabeth Beale, have also recently produced important documents designed to promote an economic development debate in the province. I find it remarkable that, for the most part, the work from different sources and perspectives all point essentially in the same direction: Invest more, innovate more, trade more, and learn more.

Elizabeth Beale, in her “Shaping A Path for Growth and Prosperity in Nova Scotia,” prepared for the province’s Economic Advisory Panel, underlines the productivity gap that continues to exist between Nova Scotia and Canada with labour productivity per hour worked still hovering around 0.84 of the Canadian average. She explains why: lower levels of investment in both equipment and human resources, low value-added products, limited capacity for innovation, and a rapidly aging population. She laments the fact that too many Nova Scotians still lack “basic skills or credentials to undertake further training where an estimated 38 per cent of Nova Scotia’s population has prose literacy below level 3, the minimum level deemed necessary to cope with the increasing demands of the knowledge and information economy.”¹

Beale points to “increasing growth and productivity” as the way ahead for Nova Scotia. She offers a number of suggestions, notably taking measures to ease the regulatory burden, promoting trade to new markets, and adopting a broad innovation strategy. Beale also calls for the recognition or, better yet, acceptance that Halifax will continue to strengthen its economic position within the province. The challenge then is to define economic strategies to ensure that Halifax maximizes fully its economic potential.²

Too many Nova Scotians still lack basic skills or credentials to undertake further training.

Elizabeth Beale

Given current economic circumstances, Beale calls on governments to look to productivity growth to shape their economic development initiatives. More to the point, she writes, “it is increasingly evident that job creation focused on recruiting firms attracted to Nova Scotia’s low-cost advantage confers limited long-term benefits either in terms of income growth or spin-off to other sectors.”³ She stresses the need to develop further the province’s human capital. She also stresses the importance of literacy and calls on the provincial government to take on a more direct role in dealing with the universities by ensuring that program planning needs meet provincial government goals and better coordination with the community colleges in delivering programs.

A number of organizations have also come forward with suggestions to strengthen economic development in the province. Some, like the Nova Scotia Cultural Action

Network, have defined strategies to promote better the “creative economy.” They make the case that creative industries hold important potential to create jobs that are “authentic, green, sustainable, and capable of attracting and holding young people in the early stages of their careers.”⁴ The objective is to provide opportunities and an environment for talented people to perform in creative industries such as film, television, music, publishing, and design.

The objective also speaks to the importance of innovation in the new economy. The creative class, the argument goes, should be leading the way in instilling an innovative culture in the provincial economy. The province’s Cultural Action Network points to a number of possible initiatives to support creative industries, notably: establish creative industries investments funds, introduce creative industries tax credits, infrastructure development funds, and stabilization and development funds for non-profit enterprises. The network also has some machinery-of-government advice: all programs in support of the sector should be the responsibility of a single agency delivered at arm’s length from government.⁵

The Cultural Action Network is hardly alone in promoting an innovation agenda. The Atlantic Provinces Economic Council (APEC), with its head office in Halifax, has long argued for greater emphasis on research and development and innovation as means to strengthen our region’s economy.⁶ The Greater Halifax Partnership also stresses the importance of innovation and the city’s creative class to economic development.⁷ The Nova Scotia and Halifax Chambers of Commerce, meanwhile, have an economic development agenda that looks to lower taxes and deregulation as the way forward. The Halifax Chamber of Commerce ranks “economic development” and “people” at the very top of its five-point priorities.⁸

Regional government agencies and groups from the Association of Atlantic Universities to ACOA have also stressed the importance of innovation in promoting our economy. Indeed, ACOA has made innovation the key building block of its economic development strategy and has in recent years invested a substantial amount of public funds to promoting innovation.⁹

A consensus is emerging among economic actors on the way ahead in economic development in Nova Scotia. The consensus looks largely to innovation, to increased productivity, to human resources, to value added, and to research and development to shape the province’s economic development agenda.

Although we have a consensus on *what* needs to be done, the *how* is far from agreed upon. Some see the need for a large number of government programs to stimulate investment, innovation, stimulating trade, and learning. Others see a greater reliance on public-private partnership arrangements and on tax incentives. Some insist that government should play a strong dirigisme role in the economy by picking economic sectors from which opportunities should be identified,

The consensus looks largely to innovation, to increased productivity, to human resources, to value added, and to research and development to shape the province’s economic development agenda.

Donald J. Savoie

Although we have a consensus on *what* needs to be done, the *how* is far from agreed upon.

Donald J. Savoie

while others argue that entrepreneurs and market forces should be left to pursue opportunities wherever and however they identify them. Still others maintain that too many government agencies and government officials are involved in the economic development as it is and that it would be unwise to add more. More is written about this below.

I worked closely with both provincial and federal government (ACOA) officials in preparing this report and, for the most part, they see the economic development field through similar lenses. Officials from various provincial government departments and agencies stressed the importance of research and development, innovation, human resources development, trade, and new investments.

On trade, they report that over the past five years export-oriented firms have employed nearly 40 per cent of all workers. But they point to other factors at play that suggest Nova Scotia should place still more emphasis on promoting trade. They maintain that, since Nova Scotia's domestic market is shrinking, the future prosperity of Nova Scotia will be increasingly tied to its trade performance.

They also report, however, that the province needs to do better in this area—only 1 in 34 Nova Scotia firms export compared to 1 in 23 for the Canadian average. Still, they insist that the “possibilities are endless.” They make the case that the changing nature of international trade provides ample opportunities for small firms to specialize and tap into someone else's global supply chain with the objective of having the firms expand over time so that they too will become global firms.¹⁰ International trade, the argument goes, is changing, and a disaggregation of business activities is under way. Large firms are increasingly outsourcing so that they can import goods and services, add value to them, and resell them in the global economy. Small firms can now explore opportunities to sell their products or services into the global value chains.

Governments can assist small firms to pursue new trade opportunities, but they too must change their ways. One provincial government official went to the heart of the matter when she remarked that governments must rethink how their organizations work so that firms “spend less time navigating through government departments and programs and more time navigating world trade opportunities.” In brief, provincial government officials recognize that they must “get their own house in order.” They also envisage the following roles in helping firms succeed in the changing nature of international trade and the global economy:

- support the international activities of companies
- represent the interests of Nova Scotia companies in trade discussions
- build on synergies amongst companies and between sectors
- provide advice to companies (especially SMEs) about policies and external programs and services

Governments must
rethink how their
organizations
work so that firms
spend less time
navigating through
government
departments and
programs and more
time navigating
world trade
opportunities.

*A provincial
government official*

- open doors and create opportunities that companies may not be able to achieve on their own
- potentially direct the development of the provincial economy towards a number of key sectors
- understand the capabilities of Nova Scotia companies and ensure that opportunities for growth do not go untouched

Provincial government officials are also of the view that the government should focus on firms that generate high-income or high-value jobs. This has replaced the age-old debate in the economic development field—which economic sectors should government support? In brief, the debate now centers on the firms, not sectors, and the firms to be supported should be able to generate high-income jobs and not just jobs.

The thinking is that, given that Nova Scotia's workforce is projected to decline (some observers suggest that the number of Nova Scotians employed in 2034 could be 20 per cent lower than 2009), it makes economic sense to focus government programs to promote economic development on firms that generate higher value employment. They have put together a list of key characteristics found in high-value jobs to guide future policy and investment decisions. Specifically, they have defined three at the job level and six at the firm level:

High-value jobs

- are knowledge intensive, with high skill levels
- offer above average wage or salary
- require adaptable and flexible skills portfolio

Firms that generate higher value employment

- offer high potential return to the economy
- are highly productive and innovative
- have exportability/ability to trade internationally
- create a high performance workplace
- are environmentally sustainable
- are sustainably competitive and resilient

Provincial government officials also point to the need to strengthen productivity in the Nova Scotia economy. They insist that productivity is the key determinant in improving a province's standard of living. They report that Nova Scotia stands ninth among Canada's provinces in terms of GDP per capita. They add that with a smaller workforce in Nova Scotia in the years ahead any improvement in the province's standard of living will have to rely almost solely on increasing productivity.

A better-educated, skilled, and experienced labour force, together with a dynamic private sector, will improve a region's productivity.

Donald J. Savoie

They point to several measures to strengthen productivity, and innovation once again tops the list. Innovation speaks to more efficient ways to get things done with the same amount of effort. The Council of Canadian Academies published a report in 2009 making the case that investments in research and development, and particularly in information and communications technology (ICT), are the key drivers of productivity growth. They also point to the importance of having access to capital (to fund innovation and capital investment), but report that Nova Scotia has one of the lowest per capita venture capital supplies in Canada, some 62 per cent below the national average. A third important driver of productivity is the quality of a province's human resources. At the risk of stating the obvious, a better-educated, skilled, and experienced labour force, together with a dynamic private sector, will improve a region's productivity.

At the same time we were consulting individuals and government documents for this report and in the aftermath of the 2008–10 recession, two American economic development specialists outlined a “new paradigm” for economic development.¹¹ The new paradigm contains some old recipes—the importance of innovation, research and development, and universities to sustainable economic development. But David Shaffer and David Wright argue that universities must embrace four key factors to respond effectively to society's need for sustainable economic development:

- They must **innovate**, using their research power to create knowledge that can have an economic impact and then helping to move their new ideas into the marketplace.
- They must **transfer knowledge** that helps businesses grow and prosper, through programs such as job training, technical and other consulting assistance, and assistance to start-ups.
- They must **revitalize** the communities in which they are located, with efforts to help local elementary and secondary schools and local businesses, for example.
- They must **produce** the educated populace that is needed to build, run, and work in the innovation economy, which is their core mission.¹²

Though universities can be expensive to operate, Nova Scotia has several excellent ones, including Dalhousie University, which is one of the top Canadian universities. It is not at all clear, however, if Nova Scotia's universities have, thus far at least, played much of an “activist role” in revitalizing communities. That said, Acadia University of late has started to reach out to local businesses in the community (e.g., the wine industry) to collaborate on research activities. One can only encourage this type of initiative and make the case that universities in Nova Scotia can only prosper if the local economy prospers.

The urban-rural make up of Nova Scotia, particularly Halifax and the rest of the province, is never far from the surface in any discussion about the province's economic future. Halifax is both Nova Scotia's and the Maritime provinces' vibrant, dynamic, and growing city, where key economic indicators, from labour force participation to earned income, are the strongest in the region. Halifax's population is growing and is more than two years younger than the Nova Scotian average. It is also highly educated when compared with other centres and able to attract a growing number of new Canadians.

The local economy is highly diversified, and Halifax is home to the province's high-growth sectors. The life sciences sector is finding a welcoming home in the city where thousands of researchers are working in a growing number of laboratories. The Brain Repair Centre enjoys a solid reputation around the globe and now employs hundreds of specialists. The city is also home to Ocean Nutrition Canada, the world's leading innovator and provider of nutraceuticals and functional food ingredients. Every Nova Scotian should also take great pride in the work of Dalhousie's Donald Weaver who was recently awarded the prestigious Galien prize for his work in designing drug therapies to treat chronic neurological disorders, such as epilepsy and Alzheimer's disease.

As is well known, Research in Motion (RIM) picked Halifax to invest some \$230 million in new activities and in time create over 1,200 jobs. The financial sector has looked to Halifax to locate new activities, including such firms as Butterfield and Citco.

But things are different in many parts of rural Nova Scotia. Leaving aside a few bright spots, rural Nova Scotia is losing population and is largely unable to attract new Canadians. The rural economy is not diversified and all too often relies on a single major employer. Earned income is lower in rural Nova Scotia, unemployment higher, and education levels lower than in Halifax. Some rural communities are fighting for their economic survival and clinging to the local hospital, the school, or the government office to anchor the fight. In brief, when it comes to economic development, a sharp urban-rural divide exists, and some rural communities point to Halifax to explain their economic woes: They are pointing the finger in the wrong direction.

Nova Scotia is not much different than other provinces on this front. The urban-rural divide is evident everywhere in Canada. The only difference is that in some provinces, notably Ontario, urbanization took root a great deal earlier than in Nova Scotia (Ontario saw its urban population surpass the rural population about 100 years ago, and at the moment the province's population is only 13 per cent rural).

A large urban area can have significant trickle-down effects in adjacent communities, but less so on small peripheral communities. It is the most isolated and remote communities that have witnessed an important decline in both economic

Some rural communities point to Halifax to explain their economic woes: They are pointing the finger in the wrong direction.

Donald J. Savoie

activities and population in recent years. Young people tend to leave these small isolated communities to go to university or college in search of opportunities that almost invariably are located in larger centres. In addition, as the old saying goes, new Canadians go where new Canadians are, which tend to be larger urban centres.

The point is that Nova Scotia is no different than so many jurisdictions in North America. There is an economic adjustment taking place driven by growth in research and development activities, in the service and financial sectors, and in the public sector that tends to concentrate in urban areas. More to the point, rural Nova Scotia's economic challenges are not Halifax's doing.

This is not to suggest that all is lost for rural Nova Scotia. Many of Canada's early manufacturing success stories were born in small towns and villages. And some of the country's leading food processing firms that have over time become highly competitive and successful global firms were also born in small towns—one only has to look to Oxford Foods here in Nova Scotia for evidence.

Rural Nova Scotia is not about to disappear, and natural resources are also not about to disappear or somehow relocate to urban areas. Consumers will continue to demand fresh seafood, and wood will continue to have its users.

What role, then, should the provincial government play in rural Nova Scotia as peripheral communities seek to adjust to a more competitive and demanding global economy? The first point to be made is that there are powerful market forces at play that no government can arrest. Simply throwing money at the problem did not work in the best of times, and it is unlikely to work any better now that governments throughout the Western world are confronting important fiscal challenges. The second point is that the economic activities of Halifax cannot be duplicated elsewhere. The third point is that the Government of Nova Scotia, as the 2010 budget makes clear, has limited resources to commit to economic development projects. Accordingly, it would be unwise to advocate new expensive programs to stimulate economic development in rural Nova Scotia, in part because of the province's difficult fiscal situation, but also because such programs in the past have not lived up to expectations.

What the provincial government can do is put new policy and program initiatives through rural lenses. The lenses initiative would be designed to raise awareness of rural issues in provincial government departments and agencies and to highlight rural and remote implications for consideration by the provincial cabinet when assessing the impact of new initiatives. Central agencies should turn to the following questions to promote the rural lenses initiative:

- How is this initiative relevant to rural and remote areas?
- Is the impact specific to a selected rural or remote environment or region?

- Have likely positive and negative effects on rural Nova Scotia been identified and, where relevant, addressed?
- Have rural Nova Scotians been consulted during the development or modification of the initiative?

This need not be very costly to implement and would serve to ensure that rural circumstances are taken into consideration as new policies and programs take shape.

The provincial government could also explore the possibility of relocating its “back office functions” to selected rural communities. It will be recalled that Ottawa’s decentralization program (circa 1975–80) saw a number of units relocate to communities outside Ottawa. Evidence suggests that these units become more productive than when they were located in Ottawa because of low staff turnover and other factors.¹³ The Government of Nova Scotia could work with the federal government to monitor the establishment of new units (administrative or processing units) to see if it would make economic sense to locate them in selected rural communities in the province.

Another issue that is never far from the surface when discussing economic development in Nova Scotia is the energy sector. Energy affects every Nova Scotian, and getting the sector right is key to long-term economic and social well-being. As is well known, Nova Scotia is more reliant on dirty fuels than on any other province. Indeed, over 80 per cent of electricity generated in the province is generated from the dirtiest fossil fuels available (coal and petroleum coke).

Provincial government officials are working on both short- and medium-term solutions and longer term ones in the energy sector. In the short-medium terms, they argue that greater efforts should be made to conserve energy through greater efficiency of energy consumption, promote greater use of natural gas, and pursue wind and solar energy opportunities. Over the long term, there is a growing consensus that tidal power holds important potential for Nova Scotia and more is said about this below.

I raised the issue of “branding” for economic development purposes on many occasions in my consultations. Branding is the new fashion in economic development in many jurisdictions in the Western world. The thinking is that proper “branding” can facilitate or encourage economic development. Boston, for example, has successfully branded itself as home to great universities, strong research and development capacity, and a high-tech centre along route 128. However, in contrast, Quebec City’s attempts to brand itself as the “innovative city” have met with limited success abroad and controversy at home.¹⁴ The problem in the case of Quebec City is that the marketing initiative proved costly to city taxpayers and many cities in the Western world are out to brand themselves the “innovative” city.

Individuals I consulted for this report were either uncertain or lukewarm in their response to “branding” Nova Scotia for economic development purposes. To be sure, they see value in promoting the province in other Canadian regions and abroad. They also see potential branding initiatives for Halifax from the smart or life sciences city to an important financial services centre. The consensus, however, is that it is best to wait for a brand to emerge from successful efforts and activities, rather than try to manufacture a brand. In brief, one needs convincing evidence to make the case, not slick marketing advertisements.

I have long believed
that a competitive
tax regime is a
powerful economic
development
instrument.

Donald J. Savoie

I have long believed that a competitive tax regime is a powerful economic development instrument. Nova Scotia’s tax structure is not competitive, at least when compared to other provinces. Nova Scotia has the highest general corporate rate, the highest fourth and fifth personal tax brackets, and still has a capital tax. Several provinces (British Columbia, Manitoba, Ontario, and New Brunswick) and Ottawa have unveiled plans to lower corporate income tax by 2014. Nova Scotia has not. I note, however, that at least two of the provinces (Ontario and New Brunswick) are confronting far-reaching fiscal challenges, and time will tell if they are able to deliver proposed tax cuts. I also note that Nova Scotia as well as Ontario, Prince Edward Island, and Manitoba have announced plans to lower small-business tax rates by 2012.

The provincial Department of Finance reports that the three orders of government in Nova Scotia raised nearly \$11 billion in tax revenues in 2006. This includes all forms of taxation, but not user fees. This accounts for over one third of the province’s economic output. Accordingly, taxes in Nova Scotia make up some 34 per cent of the province’s GDP. This is slightly higher than the Canadian average, but lower than many Western countries from Germany, the United Kingdom, Austria, Norway, and France. It is, however, higher than the United States, Japan, and Australia.¹⁵

However, relative to GDP, Nova Scotia’s effort on personal income tax is the second highest in the country, and the same can be said relative to consumption tax effort. As a share of GDP, the province’s corporate income taxes are the fourth highest in the country, though it has the second lowest reliance on payroll taxes in the country.¹⁶

What Is Being Done

To be sure, there is no shortage of measures to promote economic development in Nova Scotia. The Government of Nova Scotia spends about \$500 million annually in the economic development field. But that is hardly all—the federal government has a strong presence in the economic field in the province, and there are also 13 regional development authorities (RDAs) in Nova Scotia financed by the three orders of government covering all regions and communities in the province.

The Government of Nova Scotia centres its economic development efforts around its Department of Economic and Rural Development (ERD). The province also has five Crown corporations, all with an economic development mandates and all linked to ERD: Film Nova Scotia, Innovacorp, Nova Scotia Business Inc., the Trade Centre, and the Waterfront Development Corporation Limited. The idea, at least initially, was to have ERD perform essentially a policy advisory and coordination function and have the five Crown corporations deliver the programs. Given the above, together with federal government economic development activities in Nova Scotia and the difficult fiscal challenge confronting the provincial government, one would be hard pressed to suggest that what is needed is still more agencies and still more programs. Indeed, one should explore opportunities to streamline both the mandates of the agencies and the programs to make them both more efficient and effective.

The ERD has four divisions: Community and Rural Development, Economic Strategies and Initiatives, Decision Support Investment, and Procurement Services. It has eight regional offices. The regional offices are often the first point of contact with the local business community. Efforts are made to locate ERD regional offices with other government offices for economic development (e.g., RDAs). The budgets of the Crown corporations, with the exception of NSBI, all go through the department. The NSBI budget is funded directly under the Provincial Finance Act. ERD's total annual expenditure budget is about \$107 million.

Nova Scotia's Industrial Expansion Fund (IEF) managed by ERD has a long history dating back to the 1950s. The fund has been active ever since and generated over 200 transactions in the last 10 years. The fund's trademark is its flexibility—it is not governed by regulations and provides maximum flexibility in how assistance can be provided. Government officials report, however, that economic benefits to the province must exceed costs on all transactions and that the benefits have to be demonstrated. Over a five-year period ending in 2009, the fund provided \$82.2 million in incentives, \$71.1 million in loans, \$34.2 million in guarantees, \$12.7 million in equity, \$3.3 million in royalties, and \$18.4 million for ferries, for a total of \$221.9 million. The fund's flexibility enables the department to deal with virtually all firms in many sectors. The fund is accessible to large multinationals, medium-sized manufacturing businesses in Nova Scotia, and also to small firms. It can and has in the past been accessible to deal with distress situations in local communities. It is

The Government of Nova Scotia spends about \$500 million annually in the economic development field.

Donald J. Savoie

interesting to note the fund's regional distribution: 27 per cent in Halifax, 8.1 per cent in Cape Breton, 18 per cent in Shelburne, 12 per cent in Lunenburg and 2.1 per cent in Yarmouth.

ERD has developed a program in partnership with Credit Unions that has met with success, and I would like to underline its importance to rural Nova Scotia. The Credit Union Loan Program is designed to assist aspiring entrepreneurs and micro businesses and has assisted 450 firms that have had difficulty securing credit to launch or expand a business. The default rate on the program is about 3 per cent, which is remarkable given its client base and when compared with other economic development programs.

This program is as
good as it gets.

*Donald J. Savoie,
about the
Credit Union
Loan Program*

I have, over the years, looked at a number of economic development programs in Canada and abroad. This program is as good as it gets: it is a simple program easily accessible to entrepreneurs and small businesses, it is open to most types of businesses, the evaluation process is rooted in the community where the entrepreneurs live, and it has a very low overhead cost. The decision-making process is not hard wired into a computer thousands of kilometres away. This probably explains the program's extremely high success rate. As I understand it, other provinces have recently come to Nova Scotia to look at the program to see if it could be duplicated for their own communities.

The program, which began as a two-year \$8,000,000 pilot project, is now in its sixth year of operation. To this point, the program has put out \$34 million in loans to some 450 businesses and created or maintained 5,000 jobs with a loan loss thus far of about 4 per cent. The program has evolved into a \$33 million revolving loan program with a management expense ratio of only 0.429 per cent, which compares very well with other economic development programs, which have a ratio of anywhere between 3 and 5 per cent. In addition to loans, the program also provides for mentoring entrepreneurs to guide them as they create or grow their businesses.¹⁷

The Nova Scotia Co-operative Council and the Economic and Rural Development Department recently teamed up again to offer a similar program for new Canadians—the Immigrant Small Business Loan Program. The program is available across the province to new Canadians who are permanent residents of Canada or a protected person living in Nova Scotia for at least one year. The program requires a business plan and offers loans of up to \$150,000. It is too early to assess the performance of the loan, but Dianne Kelderman, who led the drive to establish both programs, reports that the new immigrant small-business program is showing early signs of success. One can only applaud the work of Ms. Kelderman and others, including ERD officials, for their work in developing and implementing the two programs.

But the two credit union-inspired programs are hardly the only government-sponsored programs designed for aspiring entrepreneurs and micro-businesses.

Indeed, one federal government official argued in the consultations that the two programs are in competition with the ten Community Business Development Corporations (CBDCs) operating in Nova Scotia. Through the Community Futures program, which is a national program, CBDCs receive funds to establish investment portfolios. These portfolios enable CBDCs to make loans to aspiring entrepreneurs and small businesses. The average size of CBDC loans in Nova Scotia amounts to \$28,807 in mainland Nova Scotia and \$24,267 for Cape Breton.¹⁸

The five Crown corporations have different mandates and pursue different objectives. Nova Scotia Business Inc. (NSBI) enjoys a high profile and has been able to claim credit for attracting RIM and a number of businesses, including well-known financial institutions, to Nova Scotia. NSBI has in the past relied, to a very large extent, on wage rebates to attract firms to the province (fully 74 per cent of NSBI's assistance has been in the form of rebates compared to 14 per cent in loans, 2 per cent in guarantees and 10 per cent in equity). NSBI's sectoral focus is on the IT sector and aerospace, allocating the bulk of its resources to both (67 per cent and 19 per cent of its assistance) over the past four years. In regional terms, fully 77 per cent of NSBI's assistance has been committed to the Halifax region during the past four years.

The difference between IEF and NSBI are sharp: IEF tends to focus on existing businesses in the province, relies on an assortment of instruments from cash incentives to loan guarantees, remains highly flexible to accommodate different circumstances, looks largely to the manufacturing sector, and continues to focus on both urban and rural Nova Scotia. In contrast, for the most part, NSBI looks to attract outside businesses to Nova Scotia, looks to payroll rebates as its key instrument, operates according to program guidelines, and looks mainly to the IT, financial, and aerospace sectors to pursue its mandate. IEF operates within a traditional government department, while NSBI operates as an arm's length Crown corporation and looks to the private sector to inspire its organizational culture.

IEF, by definition, has a higher risk than NSBI. The work of NSBI, meanwhile, is overseen by a board of directors whose membership is largely drawn from the private sector. The board, as one provincial government official explained, "does not want to be embarrassed by losses" and so will wish to avoid more risky cases. This also explains NSBI's reliance on wage rebates rather than cash incentives in pursuing outside investors. I note that the work of NSBI is overseen by a board largely made up from the private sector: members are highly successful in their own work and it is important to note that they serve on a volunteer basis.

NSBI has a very low risk tolerance, while IEF is expected to respond quickly to emerging economic opportunities. All IEF-sponsored projects have to secure Cabinet approval. ERD officials report, however, that the IEF program has a 189 per cent return on investment over the past five years, which compares favourably with NSBI's 67 per cent, and has created or maintained 11,250 jobs, compared to 11,717 for

NSBI. Here, however, it is important to note that NSBI performs a number of diverse activities in attracting foreign investments and trade promotion, which the IEF program does not.

I asked private-sector representatives for their views on IEF, NSBI, and Innovacorp. I heard a variety of views. Innovacorp gets high marks for promoting entrepreneurship, NSBI for attracting outside investors, and IEF for its contributions to strengthening businesses both from away (Michelin) and local (Oxford Foods and IMP).

Not all comments were positive, though Innovacorp, in particular, received high marks from the great majority of those consulted both from outside and inside government. Some, however, insisted that governments should scale back substantially the number of government agencies and the number of officials in the economic development field. Others felt that NSBI had a very high overhead cost, that it has too many employees, and that its operations are too expensive. Still others argued that there is too much politics in the IEF program and that it should be eliminated.

However, other than a fairly wide agreement that there is a need to streamline the number of officials working in the field, there is no widely held consensus on what is the way ahead when it comes to government programs and the machinery. One leading private-sector representative had this to say about IEF: “You could eliminate the program and maybe you should try. But I guarantee you that within six months to one year, there would be another program like it which would be established. There is no guarantee that the new program would be any better. The government needs a program like that to manage the province, to be in the economic development game, and to deal with special situations.” He added: “it would be fine if all other governments in North America would do the same. Look at what they did in Ontario for the auto sector. There are provinces and states that throw everything at projects, including money, tax breaks, equity, and so on. That is just the way it is and, unfortunately, we have to be in that game. The best you can do is try to make sense of it all and to see if you can impose some discipline on how the fund is managed.”¹⁹

In light of the above, we also need to review the work of Innovacorp, the other economic development Crown corporation that enjoys strong visibility in the province. It has a distinct mandate. Its focus is on knowledge-based economic activities, business start ups, and entrepreneurship. Innovacorp has produced literature on its policies and programs that the reader can consult on the corporation’s website, and so, there is no need to go over this material here.

Suffice to note that Innovacorp seeks to fill a void in the economic development field in Nova Scotia. The Crown corporation correctly points out that initial public offerings from Nova Scotia firms are rare, that a good number of knowledge-based companies in the life sciences and information technology require “risk capital”

You could eliminate
the program and
maybe you should try.
But I guarantee you
that within six months
to one year,
there would be
another program
like it which would
be established.

*A leading private-sector
representative,
about the IEF*

to be properly launched, and that there is considerable economic development potential in university and college research commercialization. It seeks to fill this void through its programs and activities.

Innovacorp sees important economic development potential in promoting entrepreneurship. It launched, with a number of partners mainly from the private sector, an innovative project to stimulate new business start ups. The initiative 1-3 Technology Start-Ups Competition is designed for Nova Scotian entrepreneurs with potential new knowledge-based businesses. The interest among aspiring entrepreneurs has exceeded expectations, and the competition is now widely applauded throughout the province. It is an excellent initiative.

The competition is divided into five regions or zones and generates over 100 submissions. The winner in each zone is awarded a \$100,000 prize made up of cash and business-building services, while second place receives \$40,000 in cash and business-building services. The overall provincial winner is awarded \$100,000 in seed investment from Innovacorp. By all accounts, the competition has generated strong interest, and strong submissions have promoted the importance of entrepreneurship throughout the province and created economic activities.

Innovacorp's activities are all geared to promoting new business development and expanding existing ones, primarily in the knowledge sector. It operates successful incubation centres and is on schedule to open a "worldclass" incubation facility on the Dalhousie campus in April 2011. Innovacorp also provides mentoring services in the form of business planning, intellectual property identification and protection strategies, financial and accounting management, competitive analysis, and the list goes on for start-up firms. In addition, the Crown corporation provides venture investments between \$100,000 and \$1.5 million to early stage, high-growth potential firms.

Film Nova Scotia manages several loans and investment programs to Nova Scotian firms and their co-production partners to promote the development process of film or television projects. The Trade Centre Limited manages some 40,000 square feet of convention and exhibition space. The centre hosts some 600 events annually, which bring together over 120,000 people from around the world. The Waterfront Development Corporation, meanwhile, has a mandate to "plan, coordinate, promote, and develop properties on designated waterfront around Halifax and other locations as determined" by the provincial government.

The above hardly constitutes the full menu of provincial government programs and central agencies all pursue economic development mandates or activities in one form or another. A number of departments and agencies also pursue trade promotion activities.

The federal government has a strong economic development presence in Nova Scotia. ACOA leads the federal government economic development efforts in Nova Scotia. As is well known, ACOA's programs are designed to improve productivity, promote the commercialization of innovative technologies and skills development, community development, and entrepreneurship. As is also well known, ACOA's Atlantic Innovation Fund encourages partnerships between private firms, universities, colleges, and other research groups to develop or improve products and services. ACOA also has a strong presence in international trade. But ACOA is hardly the only federal government agency in the economic development field in Nova Scotia.

Enterprise Cape Breton Corporation (ECBC) has a mandate to promote economic development in Cape Breton and the Mulgrave area. ECBC provides loans to businesses and financial assistance to firms wishing to participate in investment and trade missions.

Industry Canada has a presence in Halifax and the department is responsible for the Small Business Financing Program, though financial institutions remain responsible for making the loans. Export Development Corporation (EDC), meanwhile, supports Canadian exports by offering financing insurances and risk management solutions to firms to help them compete at the international level. Business Development Canada (BDC) provides Canadian firms with flexible financing, venture capital, and consulting services.

There are several other federal departments and agencies operating in Nova Scotia pursuing economic development activities: Fisheries and Oceans, Canadian Heritage, Indian and Northern Affairs, Agriculture and Agri-Food Canada, Human Resources and Skills Development Canada, and the Department of Foreign Affairs and International Trade (DFAIT) with its emphasis on trade. There are also federal departments and agencies pursuing research and development activities: National Research Council (NRC) and Health Canada. There are federal agencies, notably Canada Business Services, whose purpose is to make government programs more readily accessible to private firms.

What Is Being Proposed:

What now in order to invest more, innovate more, trade more, and learn more?

Private sector representatives, provincial and federal government officials, and others I consulted are, in many instances, on the same page in how best to promote economic development in Nova Scotia. Many see the importance of Halifax and the need to build on its strengths, the need to strengthen productivity, innovation and research and development, human resources development, trade, and to attract new investments. Provincial government and ACOA officials have met on a number of occasions in recent months to map out a revised economic development strategy for Nova Scotia. They are on the right track, and their planning efforts are in line with what I heard during the consultations, with what the more successful jurisdictions in North America are doing, and with the most recent economic development literature (see, for example, the importance of the creative class to economic development). In short, Nova Scotia can hardly get it wrong if it “invests more, innovates more, trades more, and learns more.”

The critical question, then, is how best to do this. There is little need to spend time debating the way ahead in economic development for Nova Scotia. I only need to echo what I heard in the consultations and what I read in various documents prepared by government departments and what the recent economic development literature recommends. In point form, Nova Scotia should

- Strengthen productivity
- Strengthen human resources
- Assist firms in pursuing new markets
- Promote research and development and innovation
- Promote the application of new technologies
- Focus development efforts on firms that are able to generate high income jobs
- Promote new business start-ups
- Look to universities willing to play an activist role in revitalizing communities
- Look to Halifax as the dynamic economic engine that it has become for both Nova Scotia and the Maritime provinces
- Promote new business start-ups
- Promote an entrepreneurial culture
- Establish a rural lenses initiative in central agencies
- Monitor the province’s tax regime to ensure that it is competitive

The government's
overriding objective
should be to realign
its approach to
economic development
without increasing
spending.

Donald J. Savoie

Before we turn to the recommendations, I would like to stress that, given the province's fiscal situation and the need to have a competitive tax structure, the government's overriding objective should be to realign its approach to economic development without increasing spending in the economic development field more than it currently allocates to it.

Invest More

One can also easily come up with a recommendation that makes a great deal of economic sense, stands to be widely applauded, and has no impact on the machinery of government. **Recommendation 1:** *The government should continue to work in partnership with credit unions to deliver a loan program to aspiring entrepreneurs and small businesses and to new Canadians.*

These programs are inexpensive and non bureaucratic. They target aspiring entrepreneurs and small businesses equally well in all regions of the province. The success rate of the small-business program is nothing short of remarkable. Those who make the program work argue that it needs to be revised to allow for business acquisition. They point out that many owners of the province's small businesses are aging and, if no one in the family is prepared to take them over, there is risk that a number of businesses will simply close shop. Given the program's impressive track record and the need for a *relève* in the business community, I see no reason why the government should turn down this recommendation.

However, other issues flowing from the above list of things to pursue are not as straightforward. For one thing, the government of Nova Scotia has limited resources and must pick and choose carefully initiatives and, at the same time, think about their implementation. The private sector respondent quoted in the first pages of this report spoke eloquently to the challenge at hand when he said: "there are too many people running around this province saying that they have a mandate from government to do economic development. This does not work. Entrepreneurs simply do not have the time and resources to sort out who does what." A provincial government official was no less insightful when she observed that firms should "spend less time navigating through government departments and programs and more time navigating world trade opportunities." The second part of this report, "What is being done," outlined the complex web of government departments, agencies, and programs for economic development for Nova Scotia and its population of 908,000.

The challenge then is to define initiatives bearing in mind that financial resources are scarce and that adjustments are needed to the machinery of government not only to generate savings but also to make government programs more accessible and their implementation more efficient. In brief, while what needs to be done on

the policy front is clear, the same cannot be said about the machinery. Here we have challenges which we address later.

We spent a great deal of time in the consultations to identify ways to encourage Nova Scotians to invest more. Some in the private sector suggested that one should look to province's tax structure to encourage more private-sector investments from local businesses and to attract out-of-province investments.

The province currently has an Equity Tax Credit that provides a 35 per cent tax credit for investments in qualified Nova Scotia small businesses, cooperatives, and community economic development investment funds (CEDIFs). Currently, the maximum investment allowed is \$50,000, which yields a maximum credit of \$17,500 per individual. I understand from provincial government officials that the cost of the treasury is relatively modest—\$1,500,000 in foregone revenues. Given the above, given that tax incentives are inherently fairer and less expensive to implement, and given what I heard in the consultations, we recommend **Recommendation 2:** *That the Equity Tax Credit limit be increased to \$250,000.*

There are some issues with the equity tax credit, however, that the Department of Finance should review. As I understand it, the regulations around the tax credit are not sufficiently well defined. In some instances, membership in a golf course may qualify for the tax credit. Finance should be asked to review regulations in the equity tax credit and report its findings to Cabinet within the next six months.

The provincial government should also **Recommendation 3:** *Abolish the province's capital tax*, which serves to create a barrier for firms looking to invest in the province. I met no one, either in government or out, who made the case for retaining the province's capital tax. This should also be an easy recommendation to pursue since current plans are to phase out the capital tax over the next two years.

Study after study reports that Nova Scotia has one of the lowest venture capital supplies in Canada, some 62 per cent below the national average. The impact of a lack of venture capital is felt at all levels—by SMEs, by those seeking to attract new investors from outside the region, and by those seeking to commercialize the \$140-million plus of research carried out by universities and community colleges.

Study after study also reports that the rate of business formation in the region is lower than the national average, which is 71.5 establishments per 1,000 population. Nova Scotia's average is 57 establishments per 1,000 population. The studies also report that fewer firms in the region are accounted for by self-employed individuals than any other Canadian region. In addition, various studies report that there is a widely held belief in the region that debt financing is more readily available in the region than is equity and that there is a shortage of equity funding especially in the \$250,000 to \$1 million range. Lastly, we know that it is very difficult to finance growth from cash flow and that rapid growth is critical to competitiveness, particularly in the IT sector.²⁰

The challenge then is to define initiatives bearing in mind that financial resources are scarce and that adjustments are needed to the machinery of government not only to generate savings but also to make government programs more accessible and their implementation more efficient.

Donald J. Savoie

Nova Scotia, however, has some advantages that could be pursued or explored further. Increasing the Equity Tax Credit to \$250,000 would encourage local high-net-worth individuals to invest more locally. Nova Scotia is now home to a growing network of angel investors. Selected firms can expect investments in the \$200,000 to \$2 million range from angel investors. Increasing the Equity Tax Credit will serve to strengthen the activities of the network.

The creation of a well-funded venture capital fund would go a long way in serving early start-up firms to develop their products and technologies and assist them in producing marketing strategies. **Recommendation 4:** *The Government of Nova Scotia through Innovacorp and Economic and Rural Development should take the lead in establishing a \$50 million for return venture capital fund.*

Innovacorp officials inform me that they already have in their budget allocation \$10 million that they can commit to the establishment of a new venture capital fund over the next several years. They also report that two federal government agencies (BDC and EDC) have some \$10 to \$20 million that could be committed to a new venture capital fund for Atlantic Canada. The two federal Crown corporations have already committed financial resources to venture capital funds in other regions in Canada, hence their willingness to do the same in our region.

To have a much greater chance of success, it is important to have the private sector manage the fund. The goal should be to raise \$50 million over time and have the private sector participate to tune of at least \$25 million. The fund should be managed by an arm's-length board of directors, and a minimum of restrictions should be imposed on the fund's operations. More to the point, the fund should be located in Halifax, but should be free to invest anywhere it wishes in pursuit of a healthy return on investment. The goal should be to realize a profit.

Innovate More

Many I consulted argued that Nova Scotia should concentrate its research and development (R&D) in selected areas where it has a comparative advantage and should introduce measures to encourage Nova Scotian firms to undertake R&D activities. Others cautioned that the government should not get into the game of picking winners and losers, even when it applies only to some sectors.

One senior private-sector representative argued that government or no one else, for that matter, can predict the next highly successful entrepreneur or what development in what sector will take flight. He added, "Whatever programs there are, they should be made available to everyone and everywhere. Governments should not be in the business of picking one sector, one firm, or one entrepreneur and dismiss the others." However, he went on to make the case that Nova Scotia

has advantages that should be pursued. It is important, he maintained, to develop a capacity so that when the government speaks, it speaks with some authority and will not be “hoodwinked” by anyone. In addition, it makes sense for a province to promote its comparative advantages in R&D before the other orders of government, the private sector, and the research community—a kind of branding for Nova Scotia in the research and development field.

The point here is not to engage in the debate about whether the provincial government should be picking winners and losers. The point is that Nova Scotia has important economic opportunities within reach—tidal power and developments tied to the ocean and life sciences, among others—and the province needs a capacity to identify, understand, and pursue these opportunities with the private sector, the federal government, and the universities.

What then are Nova Scotia's comparative advantages in R&D or what sectors hold the greatest potential for the province?

Alternative Sources of Power

Nova Scotia is strategically situated to become the world's leading centre for R&D in tidal power. Indeed, no jurisdiction is better located, particularly in Canada, to take a leadership role in tidal power. At least two universities—Acadia and Dalhousie—have established an interest in tidal power, and investments have already been committed to its development. New sources of power are critical to future economic development in Nova Scotia and elsewhere. There are also private firms (see, for example, Ocean Nutrition Canada) exploring new sources of energy from the ocean, wind, and sun that hold strong potential.

Life Sciences

Dalhousie University and other public and private bodies in the Halifax region have developed a solid reputation in the life sciences, a field destined to grow even more in the years ahead. To be sure, other centres have built a global reputation in the life services (among others, Boston and Toronto). But there is an hierarchy of capacity as well as niches in the R&D field. The provincial government should partner with relevant organizations in Halifax to position the region in the hierarchy and to identify those niches in which it has a track record and from which it can grow.

Ocean Nutrition Canada and Acadian Seaplants, among others, are quickly moving Nova Scotia up the R&D hierarchy in the life sciences. Both are growing fast, both export the bulk of their products, and both are home to well-paying jobs. Ocean Nutrition Canada opened in 1997 with 3 employees. Today it has 380 employees. Acadian Seaplants, meanwhile, is continually expanding its sales and marketing presence in various parts of the world.

The Environment – The Ocean

The environment sector came up time and again in our consultations as a field with R&D promise for the province. To be sure, Nova Scotia has all the attributes to establish a solid presence in R&D in the environment. Dalhousie University has well-known scholars, and the province is surrounded by ocean water. Halifax is also home to some of the country's leading engineering firms.

Aerospace and Defence

This sector also came up often in our consultations. The sector has grown in Halifax in recent years to the point that the region is now home to a significant aerospace and defence cluster. In 2002, the province's aerospace and defence industry had 40 firms. Today, there are 83 firms with 6,000 employees generating over \$600 million in revenues. About 80 per cent of its products and services are exported to markets outside Canada.²¹ Some of the firms were built by local entrepreneurs (IMP, Satlantic, and Survival Systems, among others), while others are major outside firms (Lockheed Martin, General Dynamics, Pratt and Whitney, and Sikorsky, among others) that have decided to locate some of their activities in the region. Halifax is also home to a substantial part of Canada's navy and a national research institute in the defence sector employing about 400 people. In addition, the defence sector is expected to generate some \$30 billion in procurement over the next 20 years, and Nova Scotians firms are well-positioned to capture an important part of it. Moreover, Canadian procurement contracts require the winning firms to invest in designated regions, and Nova Scotia, given its location and R&D infrastructure, is well-poised to capture some of these activities.

There are other promising R&D fields (among others, activities related to IT and financial institutions) for Nova Scotia, and we would not suggest that the province pick four, five, or six sectors to the exclusions of other sectors. Entrepreneurs and market forces do not follow neatly laid down plans, hence the suggestion that whatever R&D support the provincial government puts in place should be made available to all sectors and firms.

That said, the above-noted sectors hold promise, and the provincial government should work hand in hand with the private sector and the region's R&D community to pursue new opportunities. The goal would be to clear the way—to provide the necessary information and networking support to entrepreneurs and the local R&D community so they may become full participants in emerging opportunities. **Recommendation 5:** *The Government of Nova Scotia should, in full collaboration with private sector representatives and the federal government, establish task forces in the sectors noted above to pursue R&D opportunities.*

Apart from pursuing opportunities in sectors in which Nova Scotia holds comparative advantage, there is a need to encourage the local private sector to pursue in R&D activities. The Conference Board of Canada released its "How Canada

Performs” in innovation in early February 2010 and gave Canada a “D” and ranked the country 14th out of 17 countries. The private sector in Nova Scotia, though it does better than the other three Atlantic provinces, trails all other provinces and even the National Capital Region in R&D investments.²²

ACO’s efforts at promoting R&D in the region in recent years have had an important impact. However, Nova Scotia’s private sector needs to invest more in R&D activities and produce more efforts at commercializing R&D activities. The literature and consultations with private sector representatives suggest that **Recommendation 6:** *Governments should look to tax incentives to encourage private firms to undertake more R&D activities.*

Trade More

The Government of Nova Scotia should continue in its efforts to adjust its programs to reflect the reality that potentially now exists for all businesses to participate in global markets given improvements in communications and transportation and reductions in trade barriers. It will also be important for the province to bring its partners, including federal government officials, to adjust their efforts.

A good number of private sector representatives I consulted insist that governments could do better in promoting trade or selling Nova Scotia products abroad. One put it this way: “Governments talk a good line about trade, but there is not much else.” Another private-sector representative echoed the views of provincial government officials in making the case that trade is the key to the province’s economic future because of Nova Scotia’s shrinking population and the opportunities flowing out of the global economy. He called for the provincial government to put in place tax incentives to promote trade—earnings realized in foreign markets, he suggested, should be taxed at a lower rate.

One area in urgent need of repair is the machinery of government. No one I consulted argued in support of the status quo, with many insisting that mandates have to be clarified and government activities streamlined. We return to this issue together with recommendations in the next section.

The province of Nova Scotia should **Recommendation 7:** *Aggressively pursue opportunities to export its expertise in delivering government services to developing countries.* Opportunities exist in developing countries, and Nova Scotia has already established a track record in selling its expertise in foreign markets—for example, solid waste management and motor vehicle registry in Trinidad. The province should also seek out private-sector partners to create new opportunities for local firms in selling public-service expertise abroad. This requires a capacity to work with the Canadian International Development Agency (CIDA) and international aid agencies, such as the World Bank.

Learn More

Human resources development has always been a key ingredient in efforts to promote economic development. However, this has become even more important in recent years, because of the changing nature of the province’s demographics and its economic structure.

The province expects its labour force to shrink, while over half of all new job openings over the next several years will require post-secondary skills. At various consultation sessions, I was told that the province is at the moment coping with labour shortages in some sectors, notably in IT and engineering. Research report after research report also reveals that every extra year of learning can increase productivity and income.

Provincial government officials are arguing for a “cultural change” in Nova Scotia where everyone—from employers to employees and institutions—actively promote learning, in many ways branding Nova Scotia as the “learning province.” One can only applaud their efforts.

Making Nova Scotia the learning province requires commitments to

Recommendation 8: *Invest in adult learning, literacy, and skills upgrade (it is no longer acceptable that some 38 per cent of Nova Scotia’s population lacks literacy skills); whenever appropriate, make human resources an important part of all negotiations with private firms; promote staying in school programs and returning to school initiatives; develop new approaches designed for specific populations, notably African Nova Scotians, aboriginals, persons with disabilities, and new Canadians to ensure that they can become productive and highly valued members of the workforce.*

It is no exaggeration to write that Nova Scotia’s future economic development is directly tied to the province’s ability to promote human resources development.

Donald J. Savoie

It is no exaggeration to write that Nova Scotia’s future economic development is directly tied to the province’s ability to promote human resources development. It is a message I heard in one form or another from both private-sector representatives and government officials. Private-sector representatives talked of labour shortages in key sectors (IT and health care), and many said that the availability of qualified human resources is one of the most important factors in deciding whether or not to expand or launch new activities in Nova Scotia. Government officials, meanwhile, argue that the economy will continue to recover at the same time as the labour force is aging and shrinking. They insist that raising the level of education in adults to prose literary level “three” would yield tremendous economic benefits.

Human resources development is one area where there is wide agreement on the way ahead: create a cultural shift where employers, government departments and agencies, and individuals actively support learning. The province of Nova Scotia is also home to top-flight learning institutions, notably universities, a community college network, and private training institutions.

The province recently established the Premier's Council on the Economy to act as a sounding board for the premier on government initiatives for economic development and fiscal management. The council is made up of representatives from business, labour, and the voluntary sectors. Given the importance of human resources to economic development and given that it brings together key players in the province's economy, the Premier's Council on the Economy should **Recommendation 9: *Make human resources development a central issue in its work. The Council should play a lead role in promoting a cultural change and in engaging all sectors in promoting the importance of human resources development.*** Promoting a cultural change requires quite a wrench of the wheel—old habits die hard. The Premier's Council should work at all levels, starting at the high school level (e.g., having the business community make presentations on the merits of entrepreneurship and looming skills shortages) to adult education, the workplace, community colleges, and the universities. If in five years the council can look back and point to concrete evidence that it has made a substantial contribution in establishing a strong learning culture in Nova Scotia, then it will be able to make the case, on this basis alone, that its work has been a success.

In addition to investing more, innovating more, trading more, and learning more, Nova Scotia will need to focus on the energy sector, a key sector in the region's economy. As already noted, Nova Scotia should take the lead in R&D on alternative sources of power. The province also needs to intensify efforts to conserve energy and promote energy-efficiency measures.

Nova Scotia is in a strong position to play a leadership role in bringing an Atlantic Canada perspective to the energy sector. The region is home to diverse energy-generating facilities and is strategically located to establish new partnership arrangements with the U.S. eastern seaboard.

Nova Scotia should also take the lead in promoting an Atlantic Canada perspective to Ottawa. There are many issues where an Atlantic Canada voice would have a greater impact than four different voices pushing distinct agendas. To be sure, the energy sector is one such sector.

However, other areas would also benefit from a concerted Atlantic Canada perspective. There is every indication that Ottawa will soon embrace expenditure restraint measures. The last time Ottawa reduced its expenditure budget, Atlantic Canada lost a high number of federal government jobs. In 1994, Atlantic Canada was home to 72,697 federal government jobs, while today it has 62,000. In contrast, Ontario had 208,789, while today it has 220,314. The National Capital Region (NCR) also gained jobs at the expense of Atlantic Canada during the last federal government program review (circa 1995–97). This despite the fact that there is evidence to make the case that federal public service units are more productive when located outside the NCR.²³

Someone has to speak on behalf of the four Atlantic provinces, and the premier of Nova Scotia is in a strong position, given his recent four-year election mandate, to play a lead role in defining an agenda that would speak to the economic interest of all four provinces. A number of issues transcend the interests of a single province: federal government jobs in the region, energy, venture capital, tourism, trade, and innovation. The Atlantic premiers would also find a ready partner in ACOA in promoting the region's economic interests.

It is both revealing and instructive to note that three Western provinces (British Columbia, Alberta, and Saskatchewan) recently decided to join forces to establish an economic partnership agreement to boost trade and investment with several countries, including China, Japan, and Korea. The agreement was born out of a “growing frustration with Ottawa's failure to court Asia's emerging economic might.”²⁴ If these economically strong provinces see merit in joining forces on some public policy issues, there is every reason why the three Maritime or four Atlantic provinces should do the same.

What Is Being Proposed:

How to repair the machinery of government

The machinery of government for economic development in Nova Scotia is in urgent need of repair. In the first pages of this report, I quoted a private sector respondent: “there are too many people running around this province saying that they have a mandate from government to do economic development.” He summed up the situation well. You know that a problem exists when a senior government official argues that the local business community “should spend less time navigating through government departments and programs and more time navigating world trade opportunities” in the global economy. There is a need to clarify mandates between departments, agencies, and Crown corporations.

To make the point, let's look at trade and say that you are an entrepreneur or manager of a mid-size firm. You decide to establish or expand your capacity to export and look to government for a helping hand or information on foreign markets. You could be looking at well over 20 government agencies. At the federal level, you would need to look at programs offered by the Atlantic Canada Opportunities Agency, the Department of Foreign Affairs and International Trade (which has a seven-person office in Halifax), Export Development Corporation, various sectoral departments depending on your line of business, and ECBC if you are in Cape Breton. At the provincial level, you would need to look to ERD, NSBI, Innovacorp, Intergovernmental Affairs for trade policy, several sectoral departments, again depending on your line of business, and possibly Film Nova Scotia. At the federal-provincial-municipal level, you would need to look to the RDAs. This elaborate

machinery is not limited to trade issues—it is found in all aspects of the economic development field in Nova Scotia.

To be sure, the fact that Canada is a federation contributes to a larger machinery of government apparatus than if it were a unitary state. All three orders of government see a role in the economic development field for both political and economic reasons. As is well known, economic development projects, particularly when successful, can generate positive visibility for a government.

Recommendation 10: *The Nova Scotia government should set out to become the most business-friendly jurisdiction in Canada in terms of accessing government programs and services.* Nova Scotia holds a number of advantages: the province is relatively small, its bureaucratic machine is not overly cumbersome, and the current level of federal-provincial cooperation is already a model for other jurisdictions to follow. There are also promising developments (e.g., the Integrated Service Delivery project) that can pave the way to enable the private sector, notably entrepreneurs, aspiring entrepreneurs, and small businesses, to have easy access to government programs and services.

It is beyond the scope of this report to roam around the federal government and sort out who should be doing what. However, we can make the case for making government programs for economic development more accessible to the business community, in particular, aspiring entrepreneurs and small businesses without the knowledge or resources to know which government door to knock on.

As already noted, federal and provincial government officials in Nova Scotia have in recent years established a particularly strong working relationship, arguably one of the best in the federation. There are developments in the federal-provincial field that are unique to Nova Scotia, and we urge both orders of government to build on this strength to make their programs more accessible to the business community.

Some four years ago, the two governments initiated an “Integrated Service Delivery” project, the first of its kind in Canada. The purpose is to enable federal and provincial government departments to deliver a subset of each other’s programs to the business community. The project was formally launched on 10 April 2010, and a number of departments and agencies have signed on: from the provincial government, ERD, NSBI, and Nova Scotia Labour and Workforce Development, and from the federal government, ACOA-NS, EDC, Service Canada, ECBC, BDC, and Indian and Northern Affairs.

For reasons that are not all clear, the project’s implementation has been slow. As noted above, it took four years from inception to organizing a formal launch of the program. Officials now report that steps have been taken to improve the implementation process. We hope so. This is an important project, and it is one sure way for both orders of government to gain credibility with the business community

and to ensure that businesses spend more time “navigating opportunities” than trying to sort out where government programs reside and which ones apply to their circumstances. **Recommendation 11:** *We urge the Government of Nova Scotia to press on with the implementation of the Integrated Service Delivery project through its own efforts and by promoting the merits of the initiative through the Nova Scotia Federal Council and the Atlantic Canada Opportunities Agency.*

The Government of Nova Scotia and its own machinery

No jurisdiction
in North America has
turned over economic
development completely
to market forces.

Donald J. Savoie

Here we start from the premise that governments can play three fairly distinct roles in the economic development field. Governments can help the local and business communities to create a business, to grow a business, and can also attract businesses from elsewhere. Opinions, of course, differ on how best government can play these roles. Again, some will insist that governments can rarely get it right and should simply lower taxes or turn to tax incentives and then let market forces have their way. Others insist that governments should have a wide arsenal of instruments from cash grants to regulations to guide or promote economic development. Reality is that, for better or worse, no jurisdiction in North America has turned over economic development completely to market forces. It would be economically risky and probably politically impossible for the Government of Nova Scotia to declare that it wants to vacate the economic development field. One has every reason to believe that RIM, among many others, would not have located activities in the province if NSBI had not been there.

That said, streamlining government efforts and the machinery is in order. The following departments, agencies, and Crown corporations have economic development responsibilities: ERD (about 110 person years), NSBI (88 person years), Innovacorp (34 person years, down from 37 five years ago), Film Nova Scotia (10 person years), the Waterfront Development Corporation (15 person years), and the Trade Centre (100 person years). As already noted, four other departments also have economic development responsibilities: Intergovernmental Affairs (Trade), Tourism, Culture and Heritage, Agriculture, Fisheries and Aquaculture, and Energy.

Economic and Rural Development (ERD)

The thinking when ERD was established several years ago was to have a traditional government department with a strong policy function and the various Crown corporations delivering the programs—that ERD was to steer and the Crown corporations would do the rowing. ERD was to have a small but powerful policy staff (the number varies from 20 to 50, depending on the source) and the Crowns would focus on delivering the initiatives.

Things have not worked out as planned, and there is now a need to clarify mandates. There have been instances when the right hand did not know what the left hand was doing and when costly duplications could have been easily avoided.

If one wants evidence of where the steering and rowing model did not work, one only needs to look at the Industrial Expansion Fund (IEF) program. When the model was first established, IEF was transferred to NSBI. Within a few years, IEF was transferred back to ERD. Those charged with steering would once again be asked to row, at least for selected programs. By all accounts, IEF was not a good fit with NSBI, which sought, to the extent possible, to introduce a private-sector bias in its work. The fund was viewed as too political or having too much of a socio-economic bias. **Recommendation 12:** *With only some exceptions, Economic and Rural Development should rediscover its original mandate and focus its efforts on policy and establishing accountability requirements for the Crown corporations operating under its portfolio.*

That said, ERD will not be able to be a pure policy department and one only has to look to IEF to accept this reality. I can think of no better home for IEF than ERD. I also accept the logic of a leading private-sector representative when he observed that even if one were to kill the IEF, it would resurface several months later in some form. Governments, the argument goes, need a flexible instrument to respond to economic opportunities or challenging economic circumstances confronting a community or a region. Provincial government officials, meanwhile, insist that the fund has met with considerable success over the years and the perception of being a political fund is far more myth than reality. They can make the case that IEF has authorized over \$500 million in transactions and that many of the initiatives were turned down by NSBI. They can also add that the government has incurred “no significant losses from these transactions.”

There are responsibilities of a socio-economic nature that belong in a traditional government department for social cohesion and accountability reasons. In addition, Crown corporations will want to instill private-sector values in their organizational culture and resist efforts to pursue social-cohesion objectives. The back and forth transfer of IEF to NSBI speaks volumes on this issue. NSBI insists that it evaluates all transactions from a commercial banking perspective. Indeed, NSBI goes to great lengths to make the case that it is a “business” agency in contrast to whatever government agency may exist and in whatever form. Indeed, NSBI at times appears to make the case that somehow it is not part of the public sector.

There is a risk that some businesses may shop around by looking to IEF or NSBI to secure the best possible deal. We are told that this has in fact occurred on occasion. In addition, at the moment IEF is managed by a highly competent and dedicated senior manager with a staff of three. More than one government official observed that more resources should be allocated to managing IEF in the interest of better risk management, capturing lessons learned, better program management, and in laying the ground work for the day when the current program manager leaves.

A process also needs to be put in place to minimize or, better yet, eliminate the risk that businesses will play IEF against NSBI or vice versa. There is no fool-proof measure that could eliminate “shopping around” government departments and agencies. Still, **Recommendation 13:** *The government should make it clear that all businesses from outside Nova Scotia looking to locate activities in the province should go to and be referred to NSBI and all local businesses should be directed to ERD. It would be up to either NSBI or ERD to assess the case, deal with it, or refer it to the other agency if it considers the business proposal a better fit with its sister agency. Specifically, one place is responsible for out-of-the-province work in attracting businesses, investments, and trade opportunities and that place should be NSBI. ERD, together with RDAs, should have the same responsibility for in-the-province work.*

The above alone can hardly constitute the only solution: it also requires a great deal of goodwill to make the relationship work. Turf—protecting or expanding it—is to the public sector what market share is to the private sector. It decides who wins.

The goal is to build on both ERD and NSBI’s strengths. NSBI can never be the “only” economic development agency in Nova Scotia for reasons outlined in this report (at the risk of sounding repetitive, the retransfer of IEF to ERD speaks volumes on this point). NSBI has a proven track record in marketing Nova Scotia and in pursuing and attracting business investments from outside the province. ERD, meanwhile, is connected to the business community and every community in the province through the province’s political and public administration processes. It is no accident that when the government introduced the Manufacturing and Processing Investment Credit, it was placed in ERD, not NSBI.

Managing the relationship between ERD and NSBI needs to rest on the recognition that both agencies have an important role to play in the economic development field and that NSBI not only operates in the public sector but that it is also at its core a public sector organization.

Given the above, Recommendation 13 calls for a formal protocol between ERD and NSBI. The protocol should establish in concrete terms what is expected from ERD (the government’s economic development policy shop and the first point of contact for businesses located and operating in Nova Scotia) and NSBI (the province’s marketing agency and the first point of contact for businesses operating outside the province and the agency charged with attracting new investments to the province).

The first point of contact “provision” makes the case that ERD and NSBI are agencies that work for Nova Scotia taxpayers. The economic development challenges confronting Nova Scotia, as this report makes clear, are great. The province’s fiscal situation is difficult, and the next several years will be demanding, given the competitiveness nature of the global economy. Preoccupation over turf needs to give way to directing opportunities to the most appropriate home, whether it is ERD, NSBI or, for that matter, elsewhere. The Cabinet should review the state of the protocol at least once a year.

ERD remains the logical home for RDAs. Some of the RDAs have done important community economic work—see, for example, the UNESCO-designated Joggins Fossil Cliffs. Here, too, Crown corporations would have limited interest in pursuing community economic development type projects.

That said, all is not well with RDAs. Time and time again, I heard that some RDAs are performing very well but others are not and that there are too many RDAs. Indeed, in my various consultations, I heard no one making the case that 13 RDAs was the right number. All said that there are too many.

Given the province’s challenging fiscal situation and given the importance of investing every dollar wisely in the economic development, **Recommendation 14:** *The government should, in cooperation with the other orders of government, notably ACOA, review the RDAs with a view of ensuring that their policies and activities are fully aligned with the economic development priorities of the Government of Nova Scotia and the other orders of government. The review should also look at the appropriate number of RDAs and* **Recommendation 15:** *Invest the necessary resources with the Atlantic Canada Opportunities Agency to assess properly the performance of the RDAs.*

Directing ERD to introduce more rigorous assessments of RDAs will require both resources and a commitment to give due consideration to the findings. The goal is that it should no longer be acceptable for everyone to observe that some RDAs perform well and others do not, but that, at the end of the day, it does not matter how well one does. Those that do not should have to deal with economic consequences. Given the government’s tight fiscal situation, it is no longer acceptable (for that matter, it never was) for government-funded agencies to simply go on and on without regard to how well they perform.

By most accounts, ERD needs to strengthen considerably its policy capacity. One senior government official went to the heart of the matter when he observed: “If I want to know something about policy, I do not go to ERD.” It should not be like this.

ERD should be the go-to place for anyone wishing to secure timely knowledge and advice on the economic and R&D sectors identified above that hold potential for Nova Scotia and on all key policy issues in the economic development field. This means consolidating policy capacity in ERD.

At the moment, responsibility for trade policy resides in Intergovernmental Affairs, ERD, several sectoral departments, and NSBI. **Recommendation 16:** *The government should consolidate responsibility for trade policy in ERD and for promoting and implementing trade activities in NSBI.* More is said about trade and NSBI below.

Though ERD cannot be transformed into a pure policy department, it is vitally important that it should house the lead policy capacity on selected R&D sectors,

on trade and, more generally, on economic development policy. It cannot be a policy only department because it will continue to have an operational capacity, as well as program responsibility in economic development. Again, it remains the logical home for some economic development programs.

More to the point, ERD should continue to house responsibility for IEF, RDAs, and other community economic-type initiatives, as well as for the Manufacturing and Processing Investment Credit. As a result, ERD should be the go-to place for policy, for evaluating the economic development performance of all Crown corporations with an economic development mandate, for evaluating economic development programs wherever they may reside, and for delivering programs with a community or socio-economic bias.

This will clarify economic development mandates, but it will still leave some overlap between ERD and Crown corporations, notably NSBI, on some aspects of program delivery. As we already noted, the risk is that businesses may play IEF off against NSBI or vice versa in their attempts to secure more generous government funding for their proposals. We noted earlier that IEF is managed by a highly competent and well-regarded government official. He has a staff of three and everything revolves around him.

NSBI has hit a number of home runs in the economic development field. RIM jumps to mind, but there are many others in IT, in aerospace and defence-related industries, and in financial institutions (among others, CGI, Keane, Butterfield, Citeo, and West End Capital). ACOA officials tell me that, though it is not widely known, NSBI also played a pivotal role in attracting Daewoo to Nova Scotia.

NSBI is widely applauded in the economic development field for its ability to attract new businesses to Nova Scotia and to promote trade development and expansion. It is recommended, **Recommendation 17:** *That NSBI, in future, should concentrate its efforts and activities in two areas—investment attraction and trade development— and assume responsibility for out-of-the-province work in economic development.*

The advantages of consolidating trade activities in NSBI are clear. At the moment, responsibility is scattered through several departments. This is both confusing and costly. For example, federal government officials inform me that they recently held a meeting on trade in Ottawa and invited all provinces and territories. Nova Scotia sent four representatives, while other provincial government, including the larger provinces, Ontario, Quebec, Alberta, and British Columbia, sent only two. I was also told that, in some cases, Nova Scotia had several representatives at trade shows, often with one department not knowing that another had also sent a representative.

Not only has NSBI built a strong capacity in promoting trade development and expansion, it is also able to attract financial support from other governments and other government departments (e.g., ACOA) for its activities. This is made possible

because it enjoys special organizational status. As I understand it, the support is not available to traditional government departments.

But this is not all. There is a natural link between attracting investment from outside the province and promoting trade development and expansion abroad. Contacts are made and knowledge is gathered in foreign markets. In addition, NSBI has a proven capacity in both areas, and it makes little sense in trying to recreate it elsewhere. Indeed, NSBI has a well-honed capacity to work with other government departments (e.g., ACOA) and the private sector in promoting trade activities. NSBI staff know how to organize and promote trade missions, manage trade promotion programs (e.g., Go-Ahead Program), and assist firms in identifying and pursuing new markets.

Experience also tells us that ambitious reorganizations in economic development in government rarely live up to expectations.²⁵ Employees are not disinterested observers, and they will spend a great deal of time and energy trying to sort out where they will sit in future. Momentum in economic development is important, and the next few years will be critical as the global economy emerges from the great 2008–09 recession. Now is not the time for Nova Scotia to launch a complete overhaul of its machinery of government in the economic development field by abolishing organizations, merging others, and creating new ones. Clarifying mandates, firmly locating responsibility for policy, assessment, and accountability in ERD and streamlining operations will suffice, at least for the moment. I stress that even this will be no small achievement.

As noted earlier, the relationship between NSBI and the government needs to be updated. The relationship has been left pretty well intact since NSBI was established in 2001. The first thing that needs to be highlighted in the relationship between government and NSBI is that Nova Scotia is fortunate to have so many successful business leaders willing to serve on a voluntary basis on the board of NSBI. That, in itself, is no small achievement and speaks to the business community's deep commitment to the economic well-being of the province.

The second thing is that payroll rebates have merit in attracting new well-paying jobs to the province. The financial assistance is only made available as jobs are actually created. This alone attenuates the risk that public funds may be wasted.

As a result of the above, when NSBI staff and the board give their approval to a project, the proposal has been well-evaluated. But the process does not end there. Before a deal can be completed, it must be submitted to Cabinet through the Executive Council. The Minister of Finance, under section 59C of the Province Finance Act, must also review the proposal. The process—again after NSBI and its independent board had given their approval—can take up to four months after the proposal has been approved by the Crown corporation. One former NSBI board member reports that he can think of no case that was turned down or even challenged by either Finance or Cabinet during his tenure on the board.

I would not challenge Cabinet's authority to have proper notice of a pending deal and, if it deemed appropriate, to intervene. However, it is also important for NSBI to respond quickly to emerging opportunities and emerging economic circumstances. To this end, **Recommendation 18:** *A process should be put in place that would generate a response from its government within 22 work days from the date the proposal was sent to Executive Council. If no response from government has been received during that period, the proposal will be deemed to have been approved.*

NSBI, as already discussed, is in an ideal position to assume full responsibility for trade promotion. We see a direct link between seeking to attract investments from abroad and identifying new market opportunities. This means that NSBI becomes the “only go to” organization when Nova Scotia is planning trade shows, trade initiatives, working with firms looking to identify new markets abroad, and all trade promotion related activities.

NSBI has a strong track record in marketing the province and its business community abroad. It will need to establish a strong working relationship with sectoral departments and to look to ERD for policy guidance to be successful. NSBI's role in trade promotion should centre on organizing trade-related activities for the province's business community and government departments and agencies.

Innovacorp

Innovacorp has a solid reputation, and there is no need to reinvent it. The reaction to Innovacorp and its initiatives in my consultations was, virtually to a person, positive. One leading private-sector executive said: “We would not be in business today if it were not for Innovacorp.” Today, that private-sector firm employs some 350 people, many in highly remunerated positions.

Individuals whom I consulted applauded Innovacorp for its ability to support early stage firms (through its incubation program), and to provide advice and support at critical moments in a firm's development. Performance indicators report that firms are well-satisfied in their dealings with Innovacorp (as high as 96 per cent in recent years) and over 90 per cent of the corporation's clients would “recommend Innovacorp to a business colleague.” Innovacorp has become an important player in promoting closer cooperation between university-based research and the private sector. It appears to have gained the confidence of both sides. **Recommendation 19:** *The provincial government should look to Innovacorp in any further efforts to promote cooperation between the universities and the private sector.* Innovacorp is also winning high praise for its highly successful technology start-up competition. One can only recommend that Innovacorp continue its fine work. I note that no one in the consultations suggested that Innovacorp had too many staff (full-time equivalent of 34). This was not true for other government departments, agencies, and Crown corporations. Innovacorp is also well-positioned to play a lead role in establishing a private-sector-managed venture capital fund to be located in Halifax, but with the freedom to invest in other jurisdictions.

Venture Capital

The management of venture capital is best left in the hands of the private sector. A review of the role of governments in other jurisdictions reveals that governments tend to limit their participation in venture capital initiatives to contributing capital to private-sector venture firms. We believe that the Government of Nova Scotia should also limit its role to contributing capital. We are also of the view that Innovacorp is in the best position to play the lead role on behalf of the Government of Nova Scotia in the venture capital field.

To be sure, as the discussion above and cited reports make clear, there is a lack of venture capital in Nova Scotia and indeed throughout Atlantic Canada. At the moment, both Innovacorp and NSBI are involved in some fashion in venture capital.

We understand that, in the case of Innovacorp at least, a substantial amount of resources (anywhere between \$5 to \$10 million) could be made available for a new venture capital fund. We also understand that two federal Crown corporations are holding resources that could be made available (anywhere between \$10 and \$20 million) to a venture capital fund that would be located in Atlantic Canada.

Recommendation 20: *Innovacorp, with the support of ERD and ACOA, should launch an initiative to establish a new well-funded venture capital fund in Halifax. The fund should be operated by the private sector to which private firms would be asked to participate and would be free to invest in any sector and in any region. Innovacorp should be the go-to government body in Nova Scotia on all venture capital issues and should take the lead in building a new well-resourced and private-sector-operated fund.*

In the Regions

Nova Scotia has the distinct advantage of having a major urban centre, Halifax, which has the potential for important economic growth in the years ahead. It is home to financial institutions, numerous government offices, one of Canada's leading universities, a vibrant private sector, and a quality of life that compares favourably with any other urban centre in Canada and, indeed, throughout North America. I have argued elsewhere that Halifax is not just key to economic growth in Nova Scotia, but also in the three Maritimes provinces.

As we discussed earlier, this is not to suggest that there is little economic hope for rural Nova Scotia. We wrote about introducing a "rural lens" perspective in central agencies in the government and to explore, with the federal government, the possibility of locating "new" government units in rural Nova Scotia rather than Halifax or Ottawa.

What about the machinery of government? The first thing that should be said is that there is no shortage of government agencies in the economic field in rural Nova Scotia.

I am of the view that rural Nova Scotia needs two capacities in economic development: one to promote community economic development (see, for example, the UNESCO-designated fossils site) and another to work with local entrepreneurs, aspiring entrepreneurs and, more generally, the business community. Every effort should be made to divide responsibilities along these lines.

The fact that there are and will be federal and provincial agencies in the field will invariably entail some duplication of efforts. There is, of course, a limit to what the provincial government can do to influence federal government presence in the field. That said, the Government of Nova Scotia should continue to work closely with ACOA to establish a one-stop shopping site for the private sector trying to access government programs for economic development. The initiative currently under way shows promise, and Nova Scotia government officials should be its biggest supporter.

But what about provincial government officials in the field? Again, there is a need to streamline operations. The presence should be limited to promoting community economic development, on the one hand, and working with private firms, on the other. One presence could be assured by the RDAs or some such capacity and the other by ERD or a Crown corporation.

All departments, agencies, and Crown corporations see a presence for their organizations in the field. This is to be expected. If we had unlimited resources and if we had a good fool-proof capacity to ensure policy and program coordination, perhaps one could make the case for the status quo. But neither exists, and governments are getting a bad reputation for having an uncoordinated, if not competitive, approach to economic development.

Every effort should be made to co-locate economic development officials in the field. This would make it easier for the business community to access government programs and also ensure closer cooperation between departments and agencies. **Recommendation 21:** *ERD should be the lead player in promoting community economic development through the RDAs and other means and in dealing with the business community at the regional level. In assuming the lead role, ERD should streamline operations with a view of reducing overhead cost in regional operations for both community-development-type projects and business development.*

The Government of Nova Scotia has other Crown corporations with an economic development mandate. The Trade Centre Limited operates the World Trade Centre, and I heard little criticism about its approach in the consultation. Film Nova Scotia seeks to promote employment and growth in the Nova Scotia film and television industry. It has established a number of partnership arrangements with other government agencies (e.g., ACOA and CBC). Some observers remarked that a number of jurisdictions in North America have agencies to promote the film and

television industry and that such initiatives can be costly. I do not have the knowledge or resources to determine if Film Nova Scotia is operating efficiently or if it generates a sufficiently high level of economic activities. It is one more reason why ERD needs to strengthen its capacity to evaluate the performance of the five Crown corporations and report its findings to Cabinet.

The Waterfront Development Corporation, as already noted, is in the business of waterfront planning and development largely in the Halifax area. No one in the consultations suggested that the government should scrap the Waterfront Corporation, but a number of observers made the point that it could be more active and successful. One noted that “surely, it can do better than operate parking lots.” To be sure, it does more than operate parking lots as recent initiatives demonstrate.

One possibility that the corporation should explore, **Recommendation 22:** *Is to assess whether the corporation should be transformed into a capital commission with a mandate and capacity to partner with the private sector and other orders of government to strengthen Halifax’s attractiveness.*

It will be very important to ensure that one does not add more people to the economic development field or that, in the case of the capital commission, to make decision-making processes more bureaucratic. About 350 people work in ERD and the five Crown corporations.

If one were to base recommendations solely on the consultations with provincial government officials, one could only conclude that there is a need for still more staff resources. All agencies, with the exception of Innovacorp, made the case for more resources. Yet many acknowledge that there were too many government officials in economic development and some private sector representatives became exasperated when talking about the number of government agencies, programs, and officials working in economic development.

I did not have the resources or time available to determine whether new staff are truly needed or what would be the right number of full-time equivalents needed in the economic development field in Nova Scotia. My clear impression, however, is that there are opportunities for realignment and streamlining operations both in Halifax and in the regions. In light of the province’s difficult fiscal situation, **Recommendation 23:** *I am not of the view that the provincial government should increase either budget allocation (about \$500 million) or staff to the economic development field. I am of the view that a new policy direction and a organizational realignment could produce cost savings.*

If nothing else, locating responsibility for trade policy in a single department (ERD) and trade promotion and all trade-related promotion activities in NSBI should go a long way in clarifying mandates, streamlining operations, and avoiding a costly duplication of efforts. The same can be said about restructuring field operations along the lines suggested above.

Strengthening ERD as a policy department will require the support of the premier, Cabinet, line departments, and the five Crown corporations operating under its portfolio. It will not suffice to simply declare that ERD needs to rediscover its policy function roots. One senses that the support has not always been present. **Recommendation 24:** *ERD, with the full support of the premier and Cabinet, should take the lead in implementing the portfolio management concept.* Among other things, this means that business plans should be submitted to the department for review before they are submitted to the minister, that Crown corporations work in close cooperation with ERD to establish economic performance indicators for their operations and activities, and that others involved must recognize ERD as the lead on all major economic development policy issues.

Consolidated List of Recommendations

How to innovate more, invest more, trade more, learn more

Invest More

Recommendation 1: The provincial government should continue to work in partnership with credit unions to deliver a loan program to aspiring entrepreneurs and small businesses and to new Canadians.

Recommendation 2: The provincial government should increase the Equity Tax Credit limit to \$250,000.

Recommendation 3: The provincial government should abolish the province's capital tax.

Recommendation 4: The provincial government should establish a \$50 million return venture capital fund through Innovacorp and Economic and Rural Development.

Innovate More

Recommendation 5: The provincial government should establish task forces to pursue R&D opportunities in the sectors that hold the greatest potential for the province—alternative sources of power, life sciences, the environment/the ocean, and aerospace and defence—in collaboration with private sector representatives and the federal government.

Recommendation 6: The provincial and federal governments should encourage private firms to undertake more R&D activities through tax incentives.

Trade More

Recommendation 7: The provincial government should aggressively pursue opportunities to export its expertise in delivering government services to developing countries.

Learn More

Recommendation 8: The provincial government should

- invest in adult learning, literacy, and skills upgrade
- make human resources an important part of all negotiations with private firms
- promote staying in school programs and returning to school initiatives
- develop new approaches designed for specific populations, notably African Nova Scotians, aboriginals, persons with disabilities, and new Canadians to ensure that they can become productive and highly valued members of the workforce

Recommendation 9: The Premier’s Council on the Economy should make human resources development a central issue in its work and should play a lead role in promoting a cultural change and in engaging all sectors in promoting the importance of human resources development.

How to repair the machinery of government

Recommendation 10: The provincial government should set out to become the most business-friendly jurisdiction in Canada in terms of accessing government programs and services.

Recommendation 11: The provincial government should press on with the implementation of the Integrated Service Delivery project through its own efforts and by promoting the merits of the initiative through the Nova Scotia Federal Council and the Atlantic Canada Opportunities Agency.

ERD

Recommendation 12: Economic and Rural Development should rediscover its original mandate and focus its efforts on policy and establishing accountability requirements for the Crown corporations operating under its portfolio, with only some exceptions.

Recommendation 13: The provincial government should make NSBI the first contact for all businesses, investments, and trade opportunities from outside Nova Scotia and ERD the first contact for the same within Nova Scotia: NSBI or ERD would assess the case and either deal with it or refer it to its sister agency, when appropriate.

Recommendation 14: The provincial government, in cooperation with the other orders of government, notably ACOA, should review the RDAs to ensure that their policies and activities are fully aligned with government's economic development priorities and to determine what is an appropriate number of RDAs.

Recommendation 15: The provincial government should invest the necessary resources with the Atlantic Canada Opportunities Agency to assess properly the performance of the RDAs.

Recommendation 16: The provincial government should consolidate responsibility for trade policy in ERD and for promoting and implementing trade activities in NSBI.

Recommendation 17: The NSBI should concentrate its efforts and activities in two areas—investment attraction and trade development—and assume responsibility for out-of-the-province work in economic development.

Recommendation 18: The provincial government should reduce the time it takes to get Executive Council approval of pending deals approved by NSBI, which can take up to four months, to within 22 work days from the date the proposal was sent to Executive Council and deem approved any proposal for which a response from Executive Council is not received within the 22 work days.

Innovacorp

Recommendation 19: The provincial government should assign Innovacorp any future efforts to promote cooperation between the universities and the private sector.

Venture Capital

Recommendation 20: The provincial government should designate Innovacorp as the go-to government body in Nova Scotia for all venture capital issues, and Innovacorp should launch an initiative to establish a new well-resourced and private-sector-operated fund, with the support of ERD and ACOA, which would be free to invest in any sector and in any region.

In the Regions

Recommendation 21: The provincial government should designate ERD as the lead player in promoting community economic development through the RDAs and other means and in dealing with the business community at the regional level; and ERD should streamline operations with a view of reducing overhead cost in regional operations for both community-development-type projects and business development.

Recommendation 22: The provincial government should explore whether the Waterfront Development Corporation should be transformed into a capital commission with a mandate and capacity to partner with the private sector and other orders of government to strengthen Halifax's attractiveness.

Recommendation 23: The provincial government should update its policy direction, realign organizations, and streamline operations within the economic development field to improve effectiveness without increasing either budget allocation (about \$500 million) or staff, and potentially producing cost savings.

Recommendation 24: The provincial government should designate ERD as the lead in implementing the portfolio management concept.

Notes

1. Elizabeth Beale, “Shaping a Path for Growth and Prosperity in Nova Scotia,” (Halifax: A paper prepared for the Nova Scotia Economic Advisory Panel, 3 November 2009), 10.
2. Ibid., 12.
3. Ibid., 13.
4. “Nova Scotia and the New Economy,” (Halifax: Cultural Action Network, March 2010), 1. See also, Leah Hamilton et al., *Nova Scotia Can: Building the Creative Economy in Nova Scotia*, www.novascotiaca.ca, February 2009.
5. Ibid., 6.
6. See various publications from the Atlantic Provinces Economic Council at www.apec-econ.ca.
7. See, among other documents, *Competing on Creativity: Focus on Halifax* (Halifax: Greater Halifax Partnership, 2004).
8. See www.nschamber.ca and www.halifaxcanada.com.
9. See www.atlanticuniversities.ca and www.acoa-apec.gc.ca
10. Based on discussions with ERD officials.
11. David Shaffer and David Wright, *A New Paradigm for Economic Development* (New York: The Nelson A. Rockefeller Institute on Government, 2010).
12. Ibid.
13. D.J. Savoie, “Le programme fédéral de décentralisation : un réexamen,” *Canadian Public Policy*, XII (3), September 1986 : 413–23.
14. See, for example, “La ville de Québec s’est-elle lancée dans un exercice inutile,” *Le Devoir*, 17 mars 2010, 1 and A10.
15. See various publications from Paris, Organization for Economic Cooperation and Development (OECD).
16. Based on information and data provided by government of Nova Scotia officials.
17. See The Investing in Nova Scotia Enterprises Co-operative Ltd., *2009 Annual Report*, 2–4.

18. Based on information provided by ACOA officials, June 2010.
19. It is ironic that at the same time as I was working on this report, the province of Ontario made it clear that it would compete for Volkswagen's new engine plant. See "Ontario targets new Volkswagen engine plant," www.theglobeandmail.com/reportonbusiness, 16 April 2010.
20. See, among others, Halifax Global Access on Capital for Atlantic Canadian Small- and Medium-sized Enterprises – An Investor Readiness Plan: Phase I Extension Report, 20 November 2008; Canada, Survey on Financing of Small and Medium Enterprises, Data tables, Statistics Canada, March 2009; Access to Capital: Addressing the Equity Financing Gap, Nova Knowledge, Halifax, 9 December 2005; Ray Folkins, The Changing Banking Environment in Atlantic Canada and Effects on the SME Market and the Economy in General, A Report prepared for the Atlantic Canada Opportunities Agency, Moncton, November 2002; and "Review of Past ACOA Funding of Venture Capital Companies and other Third Party Financing Providers," Financing Continuum, Halifax, July 2008.
21. Based on information provided by officials with the Atlantic Canada Opportunities Agency.
22. See, among others, Donald J. Savoie, *Visiting Grandchildren: Economic Development in the Maritimes* (Toronto: University of Toronto Press, 2006), 267.
23. See, for example, Donald J. Savoie, "Le programme fédéral de décentralisation: un réexamen," *Canadian Public Policy* XII (3), September 1986.
24. "Western provinces unite to woo emerging market," *Globe and Mail*, 29 April 2010, B1.
25. See, among others, Donald J. Savoie, *Regional Economic Development: Canada's Search for Solutions* (Toronto: University of Toronto Press, 1986). Savoie Recommendations

Annex A

The Consultations

ARAB, Monica, *Corporate Strategist*
Economic and Rural Development

ADAMS, Lynn, *Director Policy and Research*, ACOA

BERNDT, Lorne, *Executive Assistant and Research*
NS Special Representative to Ottawa Office
(federal jobs presentation)

BRYANT, Chris, *Senior Corporate Policy Analyst*
Nova Scotia Office of Policy and Priorities

BUGDEN, Lisa, NSBI

BULL, Arthur, *Senior Corporate Policy Analyst*
Nova Scotia Office of Policy and Priorities

CAMERON, Laurie, *Director General*
Policy Advocacy & Coordination, ACOA

CASEY, Bill,
Nova Scotia Special Representative to Ottawa

CHIASSON, Jennifer,
Manager Investment Attraction, NSBI

CIRTWELL, Charles, AIMS

CLARKE, Rick, Nova Scotia Federation of Labour

COLLETTE, Monique, *President*, ACOA

CONRAD, Jeff, *Associate Deputy Minister*
Labour and Workforce Development

CONRAD, Neal, *Executive Director*
Community and Rural Development
Economic and Rural Development

DAVIES, Michael, *Corporate Strategist*
Economic and Rural Development

DAVIES, Paul, *Director of Taxation and Fiscal Policy*
Nova Scotia Department of Finance

DAVIS, Mike, *Director, Program Integration*
Service Nova Scotia and Municipal Relations

DECOSTE, Mike, *Executive Director*
Fiscal and Economic Policy
Nova Scotia Department of Finance

DEVEAU, Jean-Paul, *President*
Acadian Seaplants Ltd

DEXTER, Premier Darrell, Government of Nova Scotia

DOANE, Harvey, NSBI

FARMER, Scott, *Acting Executive Director*
Service Nova Scotia and Municipal Relations

FORCIER, Ben, *Vice-President*
Investment, Innovacorp

GRANT FIANDER, Darlene,
President, Tourism Industry Association

HAGGART, Elizabeth, *Senior Policy Advisor*
Economic and Rural Development

HARTLEN, Stephen, *President and Chief Executive*
Officer (Interim), Innovacorp

HENNEBURY, Bruce,
Executive Director, Economic Strategies and Initiatives
Economic and Rural Development

HOGAN, Peter, *Director General Regional Operations*
ACOA

IVANY, Ray, *President*, Acadia University

KEEFE, Greg, *Deputy Minister and Deputy Minister*
to the Premier's Office, Treasury Board

KELDERMAN, Dianne, *CEO*,
Nova Scotia Cooperatives Council

KUMARANAYAKE, Lilani, *Senior Policy Advisor
Evaluation and Performance Measurement
Economic and Rural Development*

LAFLECHE, Paul, Fisheries and Aquaculture

LANDRY, Greg, *Corporate Strategist
Economic and Rural Development*

LARKIN, Ray, Special Advisor to the Premier's Council

LEBLANC, Paul, *Senior Vice-President, ACOA*

LOGAN, Scott, *Associate Deputy Minister, IGA*

LUND, Stephen, NSBI

MACASKILL, Peter, NSBI

MACDONALD, Dan
Former CEO of Innovacorp; now with Eastlink

MACISAAC, Norma, *Director, Strategic Initiatives, IGA*

MACLELLAN, Nancy,
*Executive Director, Service Delivery
Service Nova Scotia and Municipal Relations*

MACNEIL, Peter, NSBI

MAILLET, Chuck, *Director
Community Development, ACOA*

MALLOY, Kevin, *Deputy Minister
Service Nova Scotia and Municipal Relations*

MARSMAN, Denise,
*Coordinator, Sustainability Secretariat
Economic and Rural Development*

MARTIN, Charles, *Policy Analyst, ACOA*

MARTIN, Gary, NSBI

MARTHUR BLAIR, Dr. Joan, *President
Nova Scotia Community College*

MCKENZIE, Sandra, *Chief Operating Officer
Economic and Rural Development*

MCLEAN, Colin, *CEO
Waterfront Development Corporation Ltd.*

MCMURRAY, Mike, *Manager
Trade Development, NSBI*

MOORE, Andre, *Director
Economic Policy and Analysis, IGA*

MORLEY, Fred, *Executive Vice President
and Chief Economist, GHP*

O'CONNOR, Dan, Premier's Office

O'NEILL, Tim, *former vice-president of BMO
Now consultant*

ORR, Robert, *President, Ocean Nutrition Canada*

PARIS, Hon. Percy, *Minister
Economic and Rural Development*

PATZELT, Robert, Scotia Investments

POWELL, Jason, *President and Chair
Digital Nova Scotia (formerly ITANS)*

ROBAR, Marvyn, *Executive Director, Investment
Economic and Rural Development*

RYAN, Pat, NSBI

SMITH, Christine, *Senior Trade Commissioner
Department of Foreign Affairs and International Trade
(DFAIT)*

STEWART, Iain, Dalhousie University

SULLIVAN-CORNEY, Judith, *Deputy Minister, IGA*

TERRIS, Andre David
Cultural Research Network

THOMPSON, Ian, *Deputy Minister
Economic and Rural Development*

WILLIAMS, Rick, *Deputy Minister
Policy and Priorities*

WINDSOR, Debbie, *Vice President, ACOA*

WRIGHT, Peter, *Account Manager, ACOA*