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Federal Regional Economic Development Organizations

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Federal Regional Economic Development Organizations (Background Paper)

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FEDERAL REGIONAL ECONOMIC DEVELOPMENT ORGANIZATIONS

1 INTRODUCTION

This paper provides a brief overview of the history of federal regional development organizations and agencies, their relationship with Parliament, their respective roles, and how they are structured to fulfill their mandates. Central elements common to all agencies are discussed, including how they are funded and report to Parliament, as well as their role in infrastructure programming. The paper concludes with a brief discussion of the ongoing debate regarding the impact of regional development policies in Canada.

2 FEDERAL REGIONAL DEVELOPMENT ORGANIZATIONS: A BRIEF HISTORY

From Confederation onward, the federal government considered that growth in the national economy was the best means of ensuring the prosperity and well-being of the general population. Until the mid 1950s, there was no explicit regional development policy or program aimed at reducing regional gaps in economic growth and employment. However, continuing regional economic disparities and persistent pockets of rural poverty compelled the federal government to rethink its economic goals and policy approaches. Although not typically considered an instrument of regional economic development, the federal intergovernmental transfer payment system was set up to ensure that all Canadians received comparable access to public services at comparable levels of taxation regardless of where they lived. In 1957, the federal government established the first formal equalization payments system to address disparities in the delivery of public services among the provinces and later introduced block transfer programs such as the Canada Assistance Plan (1966) and Established Program Financing (1977), both forerunners of the Canada Health Transfer and the Canada Social Transfer.

During the 1960s, the federal government began to set up specific regional development initiatives such as special tax incentives (e.g., accelerated capital cost allowances on acquisitions of productive capital for designated regions), agricultural development boards and other programs to assist economically depressed regions with high rates of unemployment and poverty. In 1969, the federal government consolidated these programs and activities into a single entity by creating the Department of Regional Economic Expansion. This, in turn, was replaced by the Department of Regional Industrial Expansion (DRIE) in 1982.¹

In 1987–1988, the federal government dissolved DRIE and transferred some of its regional development responsibilities to two new organizations: the Atlantic Canada Opportunities Agency (ACOA),² which was established to represent the four Atlantic provinces,³ and the Department of Western Economic Diversification Canada (WD), which was set up to promote regional development and represent the four western provinces.⁴

In the meantime, as the new Department of Industry, Science and Technology (DIST) – the forerunner of Industry Canada – was being constituted, it was announced that a new, stand-alone organization would be formed within DIST, namely Regional Development Ontario and Quebec.⁵ This new organization would assume regional economic development responsibilities for both Ontario and Quebec. Thus, DIST retained the regional development responsibilities for both central provinces, while eastern and western Canada retained their own stand-alone regional development agencies.

In 1987, the federal government also established the Federal Economic Development Initiative in Northern Ontario (FedNor), a fund to support development initiatives in northern Ontario.⁶ To implement FedNor, a local advisory board – the FedNor Board – was appointed and the FedNor Secretariat was established within DIST.⁷ At its inception, FedNor received funding of \$55 million over five years.⁸ The federal government twice extended program funding to FedNor and, in Budget 2005, announced that it would commit an additional \$88 million to allow FedNor to continue operating until 2013.⁹

In 1989, DIST split Regional Development Ontario and Quebec into two separate entities, one for each province. DIST retained responsibility for regional economic development in Ontario, including FedNor for northern Ontario, and eventually spun off the Quebec portion of regional development programs and activities by forming a new agency, the Federal Office for Regional Development–Quebec (FORD-Q), in 1991.¹⁰ As the Agency responsible for regional economic development in Quebec, FORD-Q operated independently from DIST and coordinated federal interventions with respect to regional development initiatives.¹¹ However, although FORD-Q was a stand-alone entity, its activities were based primarily on an industrial strategy developed by DIST in 1988.¹² In January 1996, responsibility for FORD-Q was transferred back to the Minister of Industry through an order in council.¹³

In 2005, Parliament passed legislation¹⁴ transforming FORD-Q into the Economic Development Agency of Canada for the Regions of Quebec (CED-Q) and conferring autonomous status to CED-Q on the same basis as ACOA and WD.

In 2009, the federal government announced the establishment of two new agencies, the Federal Economic Development Agency for Southern Ontario (FedDev Ontario) and the Canadian Northern Economic Development Agency (CanNor), to support economic and regional development in the southern portion of Ontario and in the northern territories (i.e., Northwest Territories, Nunavut and Yukon), respectively. Both agencies are stand-alone entities with programs and initiatives that aim to support economic and community development in their respective regions.¹⁵ Each new agency will initially deliver existing programs and services and will later establish its own program structures and operations.¹⁶

CanNor inherited programs previously delivered by the Department of Indian Affairs and Northern Development (DIAND), and FedDev inherited FedNor's eastern Ontario development program operations.

ACOA, CED-Q and WD were created and are governed by enabling legislation. In contrast, both FedDev Ontario and CanNor were established through orders in council.

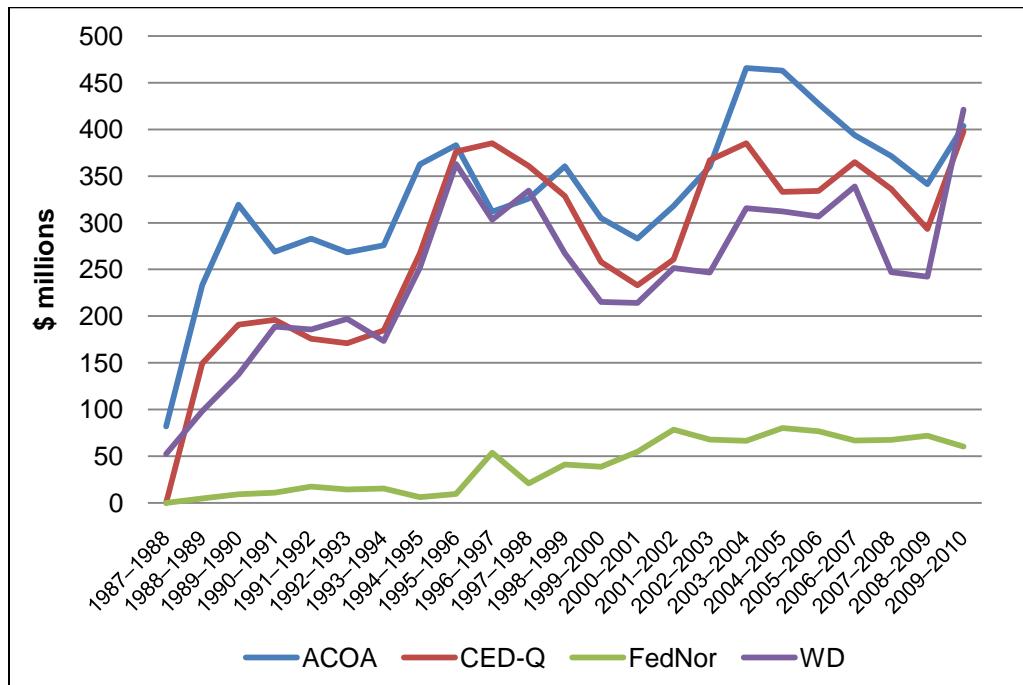
3 REPORTING TO PARLIAMENT

Regional economic development agencies are funded through budgetary appropriations and therefore must report to Parliament on a regular basis. The agencies produce annual reports to Parliament and periodically submit budgetary documents such as reports on plans and priorities, departmental performance reports¹⁷ and a number of other statutory documents (reports on official languages, access to information, sustainable development strategies, and the results of internal audits and program evaluations). Most of these reports are available to the public.¹⁸ In addition to producing annual reports, ACOA is required by law to produce, every five years (starting from 1993), a performance report that provides an evaluation of all of the Agency's activities, including an assessment of outcomes.¹⁹

4 REGIONAL DEVELOPMENT AGENCIES' EXPENDITURES

Figure 1 shows the expenditures of the regional development agencies (or program, in the case of FedNor) since 1987–1988. With the exception of FedNor, the annual expenditures for each agency are comparable, and there is a relatively close correspondence among the annual rates of expenditure growth for ACOA, CED-Q and WD.

Figure 1 – Regional Development Agencies/Programs – Annual Expenditures



Source: *Public Accounts of Canada and the Main Estimates, Part III: Departmental Performance Reports, 1987-2010*.

5 MAIN POLICY INSTRUMENTS

Regional economic development agencies deliver a number of programs and services to promote and stimulate economic development in their respective regions. A complete description of these programs and initiatives is beyond the scope of this publication; however, all agencies share certain policy instruments, which are discussed below: transfer payments, the Community Futures Program and infrastructure programming.

5.1 TRANSFER PAYMENTS

Transfer payments²⁰ represent a sizeable portion of the agencies' annual budgets. According to the 2009–2010 *Public Accounts of Canada*, transfer payments represented over 65% of ACOA's annual budget (excluding the Enterprise Cape Breton Corporation), 54% of WD's annual budget and almost 62% of CED-Q's budget.²¹

Regional development agencies use contribution agreements, a type of transfer payment, to provide financial assistance to beneficiaries, including private businesses, non-profit organizations, and other levels of government. These contribution payments are intended to finance commercial and non-commercial development initiatives that would otherwise have been implemented on a smaller scale, postponed, or abandoned altogether. For-profit entities receiving payments with the aim of generating profits or increasing the value of their businesses are expected to repay these contributions, but in some circumstances businesses can receive non-repayable contributions.²² To a lesser extent, the agencies also use other instruments, including financial assistance in the form of grants or loan guaranties, and the provision of business consultancy and technical support services to small and medium-sized enterprises and to rural or isolated communities.

5.2 COMMUNITY FUTURES PROGRAM

The Government of Canada first established the Community Futures Program (CFP) in 1985 as part of its Canadian Jobs Strategy. The Program's objective is to support community-based economic development and/or adjustment initiatives through financial and technical assistance in remote and rural areas under significant economic strain.²³ Initially administered by Human Resources Development Canada, the CFP was transferred in 1995 to the three regional development agencies and Industry Canada (FedNor).²⁴

The CFP is delivered by a network of not-for-profit organizations that provide business services and access to capital to small and medium-sized businesses, social enterprises and other local organizations.²⁵ These non-profit organizations (more commonly known as Community Futures Development Corporations [CFDCs]) are incorporated entities governed by volunteer boards of directors representing local community interests. Funded by regional development agencies, CFDCs provide the following community services:

- strategic community planning and socio-economic development to help define economic goals, identify opportunities for development and devise plans to achieve them;
- the formation of partnerships with the public and private sector to support and implement community-based initiatives in tourism, entrepreneurship, industrial diversification, community economic restructuring and adjustment;
- the provision of business information and referral services to local businesses and entrepreneurs; and
- enhanced access to capital for small businesses through the operation of locally governed investment funds that provide loans, loan guarantees or equity investments for the start-up, expansion or stabilization of local businesses.²⁶

CFDCs²⁷ offer local businesses “single window” access to capital funding and services when conventional forms of financing are unavailable.

5.3 INFRASTRUCTURE PROGRAMMING

With the exception of FedNor, all existing regional economic development agencies work with the federal government, through Infrastructure Canada, in delivering certain types of infrastructure programming. Each agency acts as an implementation agent related to specific infrastructure projects, while Infrastructure Canada acts as the funding agent and negotiates agreements with each of the funding partners and project proponents. Partners can include provinces and territories, municipalities, First Nations communities, private organizations or a combination thereof. Monitoring and oversight of projects is shared between Infrastructure Canada and the federal delivery partners.²⁸

Under the federal government’s Canada Economic Action Plan (CEAP), tabled in Budget 2009, the regional development agencies also used their existing network of regional staff to review project proposals and monitor delivery of the following CEAP programs: the Community Adjustment Fund, the Recreational Infrastructure Canada Program, and, together with Infrastructure Canada, the Communities Component of the Building Canada Fund.²⁹

6 THE CONTINUING DEBATE ABOUT REGIONAL DEVELOPMENT AGENCIES

Debate continues about the effectiveness of the federal government’s policies and instruments intended to stimulate economic development in regions across Canada. Despite the provision for many years of subsidies and loans to local organizations in economically depressed areas, disparities in regional economic performance remain and pockets of rural poverty persist.³⁰

Some commentators argue that past and current federal interventions in the area of regional economics have been less than effective, and that the use of regional development programs and industrial subsidies may have delayed or prevented necessary economic adjustments by distorting business investment decisions.³¹

Other observers have proposed that, instead of relying on targeted subsidization of selected enterprises or industrial sectors, the federal government could have achieved better results by stimulating general business activity and fostering competition through general tax incentives such as broad-based reductions in business tax rates or the use of broad-based tax credits for investments.³²

On the plus side, CFDCs can provide local businesses and other not-for-profit organizations with “single window” access to capital funding and business services to support projects or proposals that conventional financial institutions would consider too risky. More often than not, CFDCs provide the only federal government presence and representation with respect to business development in remote and isolated communities.

Another debate relating to regional development concerns the respective role of each level of government in promoting regional economic development. The federal and provincial governments have specific powers and responsibilities under the Constitution regarding regional development, which sometimes complement and sometimes conflict with one another. In response, governments, in order to reach consensus on regional development issues, have developed procedures and protocols that emphasize joint federal–provincial/territorial (and sometimes municipal) program planning, coordination and funding through the use of bilateral agreements on a wide variety of projects, including infrastructure, industry services, human resources, agriculture and natural resources. These agreements are based on the principle of matched funding, and seek to promote economic growth in areas of joint federal-provincial interest.³³

Some scholars have suggested that the traditional mindset of dealing with socio-economic disparities by region is likely not the best approach and should be recast into a rural/urban problem, since poorer regions in Canada are predominantly located in rural areas and tend to lag behind urbanized regions in virtually all economic development indicators.³⁴

A 2008 Senate committee report acknowledged the rural/urban split in Canada’s socio-economic development and proposed a number of recommendations to raise the profile of rural Canada in the nation’s policy agenda. In its report entitled *Beyond Freefall: Halting Rural Poverty*, the Standing Senate Committee on Agriculture and Forestry argued for greater federal support of rural communities across the country, notably by establishing a Department of Rural Affairs. This department would raise the political profile of the concerns and interests of rural Canada at the federal Cabinet table. Other recommendations included providing greater financial and technical support to rural transportation infrastructure and telecommunications networks; addressing rural poverty by strengthening policies in a number of domains, including income redistribution, education, social housing, justice and law enforcement; encouraging immigration in order to repopulate and revitalize rural communities; and improving access to health care.³⁵

NOTES

1. Readers seeking a more thorough exposition of the evolution of regional economic development policy in Canada can consult Donald J. Savoie, "[Reviewing Canada's Regional Development Efforts](#)," Royal Commission on Renewing and Strengthening Our Place in Canada, March 2003, and the first two chapters of the final report of the Standing Senate Committee on Agriculture and Forestry on rural poverty in Canada, [Beyond Freefall: Halting Rural Poverty](#), June 2008.
2. [Atlantic Canada Opportunities Agency Act](#), R.S.C., 1985, c. 41 (4th Supp).
3. In addition, the Atlantic Canada Opportunities Agency (ACOA) administers the Enterprise Cape Breton Corporation (ECBC), a Crown corporation mandated to provide assistance to economically depressed regions on Cape Breton Island and help shift its economy away from traditional resource-based industries (e.g., coal and steel) and toward new outlets or markets for economic activities. See ACOA, [Five-Year Report to Parliament, 2003–2008](#), Moncton [4 December 2008].
4. [Western Economic Diversification Act](#), R.S.C., 1985, c.11 (4th Supp).
5. Department of Regional Industrial Expansion, *Main Estimates, Part III: 1989–90 Expenditure Plan*, Ottawa, 1990.
6. Industry Canada, [Summative Evaluation of the Northern Ontario Economic Development Fund \(NODEF\), Final Report](#), Ottawa, January 2006.
7. Department of Regional Industrial Expansion (1990), p. 13.
8. Industry Canada also delivers infrastructure programming for Ontario and, through its Operations Sector–Economic Development Program, engages in a number of initiatives designed to address the needs of small businesses, encourage entrepreneurship and foster regional development across Canada. See Industry Canada, "3.4 Additional Information for Program Activities by Strategic Income," in [Departmental Performance Report – For the period ending March 31, 2009](#), Ottawa, October 2009.
9. Industry Canada, [2005-2006 Estimates: Report on Plans and Priorities](#), Ottawa, March 2006, p. 24.
10. Guy Beaumier, [Regional Development in Canada](#), Publication no. 88-13E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, 27 October 1998.
11. The Federal Office of Regional Development – Quebec (FORD-Q) "was established by a series of orders in council passed in 1991. It was given the authority required to operate independently under the *Financial Administration Act* and the *Public Service Employment Act*." See Minister Responsible for the Federal Office of Regional Development – Quebec [Minister Responsible for FORD-Q], [Performance Report – For the period ending March 31, 1997](#), Ottawa, 1997, p. 5.
12. Office of the Auditor General of Canada, "[Chapter 19 – Federal Office of Regional Development – Quebec](#)," in *November 1995 Report of the Auditor General of Canada*, Ottawa, 1995.
13. Minister Responsible for FORD-Q (1997); and [Department of Industry Act](#), S.C. 1995, c. 1.
14. [Economic Development Agency of Canada for the Regions of Quebec Act](#), S.C. 2005, c. 26.
15. Department of Finance, [Canada's Economic Action Plan: Budget 2009](#), Ottawa, 27 January 2009, pp. 182–183.

16. “[Order Designating the Federal Economic Development Agency for Southern Ontario as a Department and the President and Deputy Head for Purposes of the Act](#),” Order in Council P.C. 2009-1415, 13 August 2009; and “[Order Transferring from the Department of Indian Affairs and Northern Development to the Canadian Northern Economic Development Agency the Control and Supervision of the Northern Economic Development Branch](#),” Order in Council P.C. 2009-1423, 14 August 2009.
17. FedNor is a program delivered by Industry Canada. It reports to the public through its own website and provides, on request, copies of its business plans and other information. Its senior officials can be summoned to respond to parliamentary committee requests for information. See Industry Canada, [Highlights of the 2009–2010 FedNor Business Plan](#).
18. Regional development agencies, like most federal departments, must proactively disclose on their websites expenditures on travel and hospitality, contracts over \$10,000, position reclassification, and grants and contributions over \$25,000.
19. [Atlantic Canada Opportunities Agency Act](#), R.S.C., 1985, c. 41 (4th Supp.).
20. “A transfer payment is a grant, contribution or other payment made for the purpose of furthering program objectives but for which no goods or services are received.” (From “Part II: The Main Estimates,” in *2011–12 Estimates*.) Grants are transfer payments made on the basis of established eligibility and are not normally subject to audit. They have a legislative character and specific descriptions that govern their use. Contributions are transfer payments for which the recipients must meet performance conditions and may be subject to audit. Other transfer payments are transfer payments other than grants and contributions, based on legislation or an arrangement, which may include a formula to determine the annual amounts (e.g., equalization payments to the provinces and territories).
21. Public Works and Government Services Canada, [Public Accounts of Canada, 2010: Volume II – Details of Expenses and Revenues](#), Ottawa, 2010.
22. Treasury Board of Canada Secretariat, “[Appendix E: Terms and Conditions for Contributions](#),” in *Directive on Transfer Payments*, para. 15.
23. Industry Canada, Audits and Evaluations, [Final Evaluation of the Community Futures Program in Ontario: Final Report – October 2008](#).
24. Industry Canada, Audits and Evaluations, [Evaluation of the Community Futures Program in Ontario: Final Report](#), 31 March 2003.
25. See Community Futures Network of Canada, [Annual Review 2009](#).
26. See [Community Futures Development Corporations in Ontario](#).
27. In Atlantic Canada, similar organizations, known as [Community Business Development Corporations](#) (CBDCs), provide services to small businesses. [Canada Economic Development for Quebec Region](#) supports a network of 56 Community Futures Development Corporations (CFDCs) as well as 10 CBDCs in suburban areas and 15 Community Economic Development Corporations located in disadvantaged urban areas. FedNor has 24 CFDCs operating in northern Ontario, while the new FedDev Ontario has 37 CFDCs located in southern and eastern Ontario; see [CFDC Ontario](#).
28. Standing Senate Committee on National Finances, Sixteenth Report, [Report on Infrastructure Programs and Regional Development Agencies](#), 2nd Session, 39th Parliament, June 2008.
29. Office of the Auditor General of Canada, “[Chapter 1: Canada’s Economic Action Plan](#),” in *Report of the Auditor General of Canada to the House of Commons*, Ottawa, 2010.
30. Savoie (2003).

31. Fred McMahon, *Looking the Gift Horse in the Mouth: The Impact of Federal Transfers on Atlantic Canada*, Atlantic Institute for Market Research, Halifax, 1996.
32. Jack M. Mintz and Michael Smart, “[Brooking no Favorites: A New Approach to Regional Development in Atlantic Canada](#),” *C.D. Howe Institute Commentary*, No. 192, December 2003.
33. Organisation for Economic Co-operation and Development, [Regional Development Policies in OECD Countries](#), Paris, 2010.
34. Savoie (2003).
35. Standing Senate Committee on Agriculture and Forestry (2008).

APPENDIX – REGIONAL DEVELOPMENT AGENCIES ANNUAL FUNDING

Table 1 provides a snapshot of expenditures since the inception of the existing regional development agencies. The information in Table 1 was compiled from Estimates documents and the *Public Accounts of Canada* for various years. Note that, for FedNor, the figures represent actual development fund spending only, excluding operational and capital expenses related to departmental activities and programs.

Table 1 – Annual Expenditures by Regional Development Agency¹ (\$ millions)

Fiscal year	Atlantic Canada Opportunities Agency		Canada Economic Development Agency for the Regions of Quebec		FedNor		Western Economic Diversification	
	\$ millions	Annual % change	\$ millions	Annual % change	\$ millions	Annual % change	\$ millions	Annual % change
1987–1988	81.7	n/a	n/a	n/a	n/a	n/a	52.3	n/a
1988–1989	233.3	185.5	149.3	n/a	4.7	n/a	98.2	87.8
1989–1990	319.5	36.9	190.7	27.7	9.0	92.7	137.5	40.0
1990–1991	269.0	-15.8	196.0	2.8	10.8	19.2	188.7	37.3
1991–1992	283.1	5.2	175.9	-10.2	17.4	62.0	185.8	-1.5
1992–1993	268.4	-5.2	171.0	-2.8	14.4	-17.6	196.9	6.0
1993–1994	275.8	2.7	184.6	7.9	15.1	5.4	173.5	-11.9
1994–1995	362.8	31.6	267.4	44.9	6.0	-60.3	251.9	45.2
1995–1996	383.4	5.7	376.2	40.7	9.6	59.1	363.0	44.1
1996–1997	311.8	-18.7	385.3	2.4	53.7	462.2	303.2	-16.5
1997–1998	325.9	4.5	360.9	-6.3	20.6	-61.6	334.7	10.4
1998–1999	360.7	10.7	328.6	-8.9	41.0	99.0	267.3	-20.1
1999–2000	305.0	-15.4	258.0	-21.5	38.6	-5.8	215.2	-19.5
2000–2001	283.0	-21.5	233.2	-29.1	54.6	33.2	214.1	-19.9
2001–2002	318.0	12.4	260.8	11.8	78.2	43.2	251.6	17.5
2002–2003	360.2	13.3	367.2	40.8	67.8	-13.3	246.8	-1.9
2003–2004	465.9	29.3	385.3	4.9	66.5	-2.0	315.8	27.9
2004–2005	463.0	-0.6	333.1	-13.5	79.9	20.3	312.1	-1.1
2005–2006	427.4	-7.7	334.2	0.3	76.6	-4.2	306.7	-1.8
2006–2007	394.0	-7.8	364.9	9.2	66.7	-12.9	339.0	10.6
2007–2008	371.6	-5.7	336.4	-7.8	67.4	1.0	247.2	-27.1
2008–2009	341.4	-8.1	293.4	-12.8	71.9	6.6	242.2	-2.0
2009–2010	403.8	18.3	398.1	35.7	60.1	-16.3	421.3	74.0
Cumulative total	7,123.1		6,350.5		783.0		5,191.0	

Notes: FedNor figures represent program funding only, excluding operational/maintenance and capital expenditures. ACOA figures exclude funding data for Enterprise Cape Breton Corporation.

Source: Main Estimates, Part III Departmental Performance Reports, 1987–2010.

Table 2 shows the voted appropriations for CanNor and FedDev (Ontario) for the next three fiscal years. The data in Table 2 on CanNor and FedDev (Ontario) were collected from *Main Estimates, Part III – Report on Plans and Priorities* (2010–2011) documents.

**Table 2 – Projected Total Annual Budgets for
the Canadian Northern Economic Development Agency and
the Federal Economic Development Agency for Southern Ontario**

Fiscal year	Federal Economic Development Agency for Southern Ontario		Canadian Northern Economic Development Agency	
	\$ millions	Employees (FTEs)	\$ millions	Employees (FTEs)
2010–2011	507.0	200	60.9	115
2011–2012	216.0	250	44.4	115
2012–2013	214.2	250	44.4	115
Cumulative total	937.2		149.6	

FTE = full-time equivalent

Source: Treasury Board Secretariat, Part III Estimates, Report on Plans and Priorities 2010–2011 for CanNor and FedDev (Southern Ontario).

NOTES

1. In Table 1, data are absent for the two new regional economic development agencies, FedDev Ontario and CanNor, because they were established in 2009–2010 and should begin receiving parliamentary appropriations as of the 2010–2011 fiscal year.