

# Financing Local Economic Development (LED) In Canada

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## ABSTRACT

LED refers to the process in which local governments engage to enhance local economic prosperity and quality of life. In an era of global uncertainty, success in local economic development requires that municipalities become ever more capable, more flexible, and especially more pro-active and innovative in how they approach the challenges of enhancing economic prosperity and quality of life. While success is in large measure determined by good planning; a firm understanding of LED principles and priorities; and, a concerted effort; all of this comes at a cost. And thus clearly a cornerstone of LED success is that the organizations and authorities charged with this important responsibility have the necessary resources from which they might realistically and effectively pursue positive courses of action.

A properly resourced LED effort implies an appropriate mix or balance of an interrelated array of critical resources including human resources, infrastructure, technology and of course finances. Rightfully or otherwise, by far the most talked about and by far the matter of most concern is that of financing.

The following paper looks specifically at how LED is financed in Canada. In terms of format this paper briefly reviews and explores a variety of financing structures, systems, programs and models utilized within a variety of LED settings and circumstances. This discussion is supplemented by the inclusion of several interesting case studies. The intent of this discourse is not simply to better understand the challenges of financing LED in Canada but to highlight the possibilities this experience might imply to other jurisdictions, especially to those communities and cities within Ukraine.

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## 1.0 PROJECT DEFINITION

*“ A great deal has been written about how to develop local economic strategies, but very little has been written about how to establish the local investment strategies to pay for them. Many local economic strategies are never fully implemented because they did not identify the investment resources in advance ....”*

The following report builds from the earlier document: The Evolution of Local Economic Development in Canada – A Review Of Concepts, Applications And Best Practices. The intent of this publication is to explore and discuss how LED is financed in Canada.

In fact the funding of local economic development efforts be they operations, projects or programs, can be very challenging; though arguably these challenges have a number of different dimensions: in some cases it is the absolute absence of funding where funding is the predetermined ingredient of success; in others it is the lack of cohesion between funding needs and funding availability; and in other instances it is simply a lack of balance between the resources required and the resources available, i.e. “where can we get the finances to deliver programming” versus “where can we get the resources to deliver programming?” At the end of the day it is really about achieving some level of LED success and financing plays an important role in this process.

### I.1 Problematique

In November 2011 pursuant to the Ukraine Municipal Local Economic Development Program (MLED), the Federation of Canadian Municipalities (FCM) contracted Lochaven Management Consultants Ltd. to undertake a research effort focused on Financing LED In Canada. Specifically, the terms of reference for this assignment stated:

*“ ... “To explore, describe and assess the multiplicity of ways that Canadian LED efforts/initiatives are financed. The investigation should broadly encompass: (1) a review of the typical LED organizational structures and LED programming (i.e. needs/uses of funds) with two or three examples to illustrate the diversity of structures; (2) an identification and description of the various sources of funding i.e. public (federal, provincial, municipal), private (Chambers of Commerce, Corporate) and NGO sources with two or three examples; (3) a description of the various ways in which the spectrum of LED efforts might be financed including program based and operational based, i.e. ranging from the traditional to the*

*innovative including fee for service, sponsorships, and in-kind to membership fees, shares, commercialization, operational/capital grants, P3's and the like with two or three examples; (4) a review of how LED is financed in other jurisdictions (Europe, USA) with an emphasis on best practices with two or three examples.”<sup>1</sup>*

In terms of comprehensiveness the proposed research effort was expected to comprise: 1) an understanding or clarification of what LED is, i.e. the context in which LED funding is required and sought; 2) how LED in Canada is typically resourced – with some selected case studies to illustrate salient points; and, 3) lessons learned and best practices in LED financing.

## I.2 The Consultants – Lochaven Management Consultants Ltd.

By way of background, Lochaven Management Consultants Ltd. was established in 1987. Since inception the company has built a global reputation for excellence, and is internationally recognized for its work in economic and private sector development. Within this field the company has a diverse clientele that broadly includes a range of public and private sector interests; numerous communities and regions worldwide; provincial, national and foreign governments; large NGOs; multinational companies; international organizations such as the International Council for Small Business and the Organization for Economic Cooperation and Development (OECD); and, multilateral development organizations such as the World Bank, the United Nations Development Programme, and the Multilateral Investment Guarantee Agency. The geographical breadth of successful assignments extends to efforts in Canada, United States, the Russian Federation, Ukraine, Georgia, China, Indonesia, Czech Republic, Slovakia, Poland, France and Hungary.

## I.3 Project Definition/Approach and Methodological Considerations

A greater understanding of how LED is resourced in Canada and an articulation of certain best practices in that regard has some interesting insights into how it might best be resourced in other countries. In truth there is much that can be shared from Canada's experience and these anticipated insights are the key outputs of this investigative exercise. However, the challenge in this investigative effort was to provide a proper context from which realistic and relevant insights could be drawn while at the same time not be burdened down with an abundance of interesting though not necessarily crucial information. To this end our research methodology initially encompassed a process of scoping and primary/secondary research. Subsequently we utilized our own experience/expertise and insights to identify and filter selected information and information sources so as to separate and define those observations we felt were the most important. For the rest we refer the reader to the wealth of literature, research and resources available through various economic development agencies and

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<sup>1</sup> Ukraine Municipal Local Economic Development Program (MLED ) Terms of References – Financing LED In Canada – A Review Of Approaches and Best Practices

authorities in Canada as well as to various government publications/reports, university libraries, professional publications and the like.

Our approach, as suggested in the TOR's, initially sought to clarify the context of LED in Canada and then moved on to discuss the varying roles/responsibilities and contributions of various key agencies and authorities involved in supporting LED. Needless to say the list of participants and the range of interventions was quite broad. As such we sought to broadly aggregate financing sources and typologies to provide a more succinct appreciation for the scope and depth of support available under current circumstances. A number of case studies were used to illustrate the application of various funding modalities. Following this we looked briefly at a number of innovative LED "financing" approaches and highlighted a range of best practices/lessons learned.

As with any consulting effort, regardless of the care taken, certain limitations are inherent from the methodology of investigation and the assumptions made. Collectively we contend that these limitations do not preclude the veracity or the value of the observations made nor the conclusions drawn within this report. As much as possible we have endeavored to ensure the effects of any shortcomings in either our methodology or our research have been minimized. Nonetheless it is important for the reader of this document to be aware of the more significant methodological qualifications, including specifically:

1. **Duration of Assignment** – This engagement allowed for a three week schedule which dictated that the report be based primarily upon a review and analysis of secondary information and insights drawn from the consultant firm's (LMC) own expertise and experience. In recognition of the dynamic changes happening within the context and application of LED, the project may have benefitted from a more comprehensive investigation involving a broader investigative effort of both primary and secondary information, especially in respect to ascertaining a broader range of current/topical lessons learned and best practices.
2. **Financing LED in the Canadian Context** – Because the mandate of MLED is Canadian focused the defined TORs for the assignment and the boundaries of the investigation focused on financing LED within Canada. It should be pointed out however that there are other interesting and innovative LED financing models, lessons learned and best practices from the experiences of other jurisdictions that might have application in Ukraine. Clearly these observations are not part of the assignment and as such are not part of this paper.
3. **Individual Financing Mechanisms:** This report is intended to present a broad discussion of financing LED in Canada. However there are numerous individual LED financing mechanisms/modalities available throughout numerous departments, agencies and associations of the federal, provincial and municipal governments of Canada; the private sector; and through various other agencies and authorities that are not identified not described in this report.

## 2.0 THE CONTEXT OF FINANCING LOCAL ECONOMIC DEVELOPMENT IN CANADA

*Local economic development refers to the process in which the “local” government or some agency, authority or organization on behalf of the local government engages to enhance a community’s (most commonly a hamlet, village, town or city’s) capacity to effect economic progress in both a quantitative and qualitative manner.*

Before embarking on an investigation of the sources of LED financing in Canada it is important to first understand exactly what LED is and what it involves so as to put into perspective the relative importance of financing to the overall LED effort and more importantly how financing influences LED priorities and activities. As noted in the paper: The Evolution of Local Economic Development in Canada – A Review Of Concepts, Applications And Best Practices there is no universal list of functions and responsibilities carried out by every LED effort in Canada. LED means different things to different communities and as such the approach and individual functions and activities will necessarily differ from municipality to municipality. In terms of implementation, there are five major functions commonly associated with a comprehensive LED function, which in whole or in part may be carried out by a single or multiple authorities and agencies:

### The LED Process



It should be pointed out that not all of these general components are represented equally nor wholly within a single LED effort and for each function, there is an array of sub-activities a sample of

which were presented in the paper: The Evolution of Local Economic Development in Canada – A Review Of Concepts, Applications And Best Practices. A brief and generalized overview of each component relative to application and financing follows:

Retention and Expansion Of Local Businesses: There is more than enough empirical evidence to support the contention that facilitating the development and growth of local businesses is fundamental to achieving strong local economies and as such should and usually is a key component of most LED efforts in Canada. However retention and expansion efforts tend to be undervalued in terms of financing allocations often because they yield a less visible impact than many other activities. As such when deemed a priority and with an absence of sufficient funding, LED agencies are limited by the range of services they might offer and are required to be very innovative in how they approach the broader issues of BRE program delivery.

Business/Investment Attraction: Business attraction programs are intended to round out or help diversify local economies by bringing in new investors and new enterprises. With globalization, attracting new businesses and new investment is an exercise that has garnered considerable emphasis by an increasing number of LED agencies and authorities in Canada over the past twenty years. However, of all the LED components business/investment attraction tends to be the most costly of endeavors (to do it right, that is) though surprisingly in many cases the easiest to finance. The availability of somewhat “easy” financing exacerbates those situations that imply less focus on what needs to be done and a greater focus on where the money is.

Entrepreneurial Development Activities: As noted elsewhere, enterprises and entrepreneurs have been in the center stage of growth, transition and modernization since the days of the Industrial Revolution. In fact in Canada entrepreneurship has been and is the catalyst that initiates and sustains the process of development. Today, unlike in the United States, much of the programming that supports entrepreneurial development in Canada has been retained within line Ministries (Provincial and Federal), Universities and Colleges, or carved off to other quasi LED agencies and authorities such as Community Futures Organizations, Young Entrepreneurs Associations, Women’s Enterprise Centers and the like. This means, quite frankly, there is little or no interest nor financing available for traditional LED endeavors to directly support the entrepreneurial development process other than to focus on building a business/entrepreneur friendly environment, which in terms of financing usually implies programming predominantly along the lines of advocacy, improving the regulatory regime and selected pro-business policy changes.

Workforce Development Activities: Today throughout Canada, in terms of facilitating sustainable economic development, a significant amount of time and money is being expended by Federal and Provincial governments on workforce development. In an increasingly competitive global economy, a skilled workforce is critical to competitiveness and by implication sustainable economic growth and development. On a local level these workforce development



efforts, while funded directly by the higher tiers of government<sup>2</sup> are usually designed and implemented by a collaboration of agencies and partners including the private sector, vocational/educational institutions and various LED or quasi-LED agencies. It should be noted that in most cases the bulk of financing targets the recipients (individuals seeking training and the educational institutions that provide it) versus the agencies that initiate, design and develop the programming, e.g. LED authorities.

Community Cash Flow Development: Community cash flow has become an increasingly important LED function and is taking up an increasing amount of time and effort within many agencies. This activity is complex though highly visible and tends to attract a fair amount of financing (directly and indirectly). It should be noted that the effort to seek out and take advantage of innovative financing ideas implies a high level of financial skills at the local level.

## 2.I Organizational Approaches to LED and the Implications of Financing

As noted in the paper: The Evolution of Local Economic Development in Canada – A Review Of Concepts, Applications And Best Practices local governments are able to adopt any of a number of possible models or organizational structures to implement local economic development programming. Each of these models in turn has a specific financing arrangement that impacts on the delineation of specific LED priorities. To understand this better we need to take a step back and look at the concept of local economic development from the perspective of how it is resourced and from that point what are the implications of how it is financed:

If we think of local economic development from a resource perspective, it is the process of *“creating and utilizing human, financial, physical, technological and oftentimes social assets to generate improved and broadly shared economic well-being and quality of life for a community.”* Then within this definition, finance has two distinct roles. First, it can be viewed as an important direct input into the process that generates desired local economic development though it is only one input into this process. Secondly, it can be viewed as a desired outcome of LED efforts (capital availability) that enhances enterprise development which in turn affects the quality and supply of other inputs into the economic development process.

Now turning to organizational structures, as noted in the paper: The Evolution of Local Economic Development in Canada – A Review Of Concepts, Applications And Best Practices there are three common LED delivery models in Canada: (1) an in-house effort; (2) arms-length delivery; and (3) a blended public-private partnership. An abbreviated description of these formats is presented in the table below.

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<sup>2</sup> In Canada education is a Provincial responsibility though the federal government is quite active in funding directly or indirectly through the provinces a range of workforce development initiatives.

	Public	Private	Public/Private Partnerships
Core Funding sources	Predominantly though not exclusively funded by local government taxes; grants	Contributions of businesses, local industries, chambers of commerce, and individuals. Occasional access to provincial or federal grants for programming delivery.	While local funding is predominant there is often a mix of local, provincial and federal government funds; grants; including core funding and programming delivery.
Governing body	Mayor and city council elected by public	Board of directors elected by membership	Elected and appointed individuals
Legal form	Government agency	Nonprofit	Nonprofit

While each of these entities seeks to maximize local economic development how the task is approached and how priorities are confirmed clearly has a bearing on how the LED function is structured and how it is financed. Specifically:

*“Where local governments rely heavily on local taxes to fund their budgets, they are more likely to see local economic development as a way of increasing their tax base to finance local services, assets, and amenities. Such local development is highly oriented towards attracting and expanding business and human capital development. Here, ... the primary interface is with business, investors and developers.*

*Where local governments rely heavily on national government to fund their budgets, they are more likely to see local economic development as a way of addressing social and spatial disparities. Such local development is often more oriented towards public and social sector activities – helping the unemployed into work and finding new sources of entrepreneurship and employment. Here, economic development ... is more about investing in the infrastructure to make private investment more likely, and often requires extensive liaison with higher tiers of government to attract funds.”*

This is not to say that any particular approach is wrong because of the structure or the financing arrangements. Rather, the message here is to understand that financing and structure influence LED priorities, methodologies, activities, and outcomes.<sup>3</sup>

<sup>3</sup> Importantly, it should be pointed out that seldom do LED efforts exist in isolation. That is, seldom do they exist as the only LED or quasi LED effort within a community or region. In fact often times there are other local or regional agencies and authorities with some mandate for LED “type” responsibilities.

## 3.0 HOW IS LED FINANCED IN CANADA

### 3.1 The Importance of Financing

As discussed above, the foundations for a successful local economic development effort require not only a good plan and focused actions but also require that the resident skills and resources of the organization are sufficient to ensure that the necessary actions are adequately undertaken. In terms of resources this means having not simply a large budget or an abundance of skilled professionals, but rather an appropriate balance of physical (infrastructure), financial, human, and technological inputs to maximize the efficiency and effectiveness of development efforts. In this context financing is certainly important to a successful LED effort and arguably in some cases the preeminent requisite, but of course it is not the only input required; nor in some instances is it the most important, i.e. the necessary but not the sufficient condition for success.

The evolution of LED in Canada suggests that there is a firm commitment by the country and individual citizens to support local economic development efforts. For the most part LED efforts need not be continuously defended nor proved as an important value added effort in the goal of enhancing socio-economic well being and quality of life of individual Canadian cities and the citizens who reside therein. And thus, with but a few regional and local exceptions<sup>4</sup>, there are a plethora of programs and initiatives focusing on supporting LED efforts in Canada. Importantly however, while the majority of these programs involve financial support in some form or other, they are time and circumstance specific.

Speaking strictly from a financial perspective, the financing needs of a local economic development effort fall into two broad categories: (1) operations; and (2) programming/services. Added to this mix and despite the generally supportive attitude of citizens and municipal councils to LED, the goal of the majority of LED organizations is to become sustainable through their ability to secure and manage sufficient financial resources that not only enable them to fulfill their mission effectively and consistently over time but do so without excessive dependence on a single funding source.

### 3.2 Financing LED in Canada– Common Typologies

Financial support for selected local economic development efforts might come in a variety of formats, most commonly including: grants; fees for services; in-kind contributions; equity investments; debt/loans; and sponsorships. These terms are defined in the table below:

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<sup>4</sup> In some cases certain LED priorities are superseded by other local priorities and in some cases there are simply not enough financial resources available to fully support all worthy LED initiatives.

Financing Typology	Description
<b>Grants</b>	Grants are non repayable financial contributions. They can be used to fund some aspects of core operations, e.g. to fund selected staff or to purchase selected equipment or to lease space, though they are more likely used to fund selected LED programming streams/initiatives, e.g. to capitalize a micro-credit fund or to undertake research or to develop a business incubator. Grants are the most attractive form of funding for LED activities because besides being non-repayable they can be utilized to leverage the contributions of other funding sources to achieve extraordinary LED objectives. The less than attractive features of this form of financial support includes the following: (1) a lack of certainty from year to year that the programming will continue; (2) a one time only source of funding, (3) the application process is often time consuming and requires a certain expertise in preparation. Granting organizations are most often Federal and/or Provincial Ministries though more recently in Canada a number of Corporations, NGO's and/or Associations have provided grants to LED organizations, e.g. the Northern Development Initiative Trust in British Columbia provides up to \$35,000 annually per municipality to build economic development capacity throughout central and northern British Columbia.
<b>Fees for Service</b>	LED organizations, as with any business, can under contract and for a fee undertake specific local economic development activities on behalf of various customers or clients (governments, corporations, NGO's, individual citizens and the like). Core funding is arguably a fee for service activity, i.e. the City requires a local economic development effort of business attraction and business retention and thus provides funding (fee) for this service either within the administration of the City or externally, i.e. via an economic development authority. LED specific programming can also be fee for service, e.g. providing entrepreneurial training to young entrepreneurs and charging for the seminar. In this instance the profit realized from this fee for service effort might be used to offset core operational costs. LED organizations who participate actively in fee for service efforts (beyond core funding) are often guided by the values of an entrepreneurial culture in order to ensure long term sustainability and success in these efforts.
<b>Equities/Investments</b>	Increasingly LED organizations across Canada are getting more innovative in their efforts to generate sufficient financial resources to undertake a broad array of LED efforts. One such approach has involved the sale of memberships or even the issuance of community development debentures, e.g. the Sky Dragon Community Debentures program in Hamilton Ontario was funded through the issuance of three-year, unsecured debentures of \$1,000 each paying a fixed interest rate of 2% per year. Debentures are not donations – purchasers own equity in the project and were entitled to get their money back, plus interest, upon maturation of the debenture. <sup>5</sup>

<sup>5</sup> The Sky Dragon Community Development Centre (CDC) – is a community centre/eco-building in the downtown core of Hamilton, Ontario. The project in which community debentures were sold involved purchasing a building, renovating it using green building practices and materials, and establishing the following services: 1) an integrated learning centre; 2) studio spaces for dance, martial arts, yoga, meditation, and visual arts classes; 3) a café serving locally grown organic food and fair-trade products; 4) office space for community groups and health and wellness professionals; 5) a media arts / media literacy centre;

<b>Debts (Loans)</b>	For the purpose of individual LED initiatives, e.g. business incubators or other for-profit development endeavors and including those involving social enterprises, there is often available a range of loans/mortgages and the like to finance development and ongoing operations. Organizations such as Community Futures and the Business Development Bank of Canada as well as various Development Trusts are quite active in this field. However, whatever the project, it must demonstrate the capacity to repay the debt without unduly saddling the project nor the sponsor or guarantor, i.e. the LED organization. Conscientious financial planning is therefore essential.
<b>In-kind Contributions</b>	In the quest to secure sufficient financial resources to offset the costs of selected operational efforts and/or programming initiatives, LED organizations in Canada are often able to secure in-kind (non-cash) contributions from a variety of agencies, authorities and individuals. These can range from “donated” meeting rooms from a local business to the assignment of specialists from local enterprises or the local university to assist with selected research investigations or business counseling.
<b>Sponsorship</b>	Canadian Corporations are increasingly getting involved in local economic development through the sponsoring of events and/or initiatives. The most obvious are the partnerships created for sports activities, which for many communities are significant economic growth generators. However, there is a growing trend within Canada for corporate sponsorships to extend into other areas such as the arts and a variety of social causes. For example, the Halifax Region Municipality is currently considering funding for a new library through a corporate sponsor in exchange for selling the naming rights to the facility; and in Drayton Valley, Alberta an Innovation Business Incubator is selling the naming rights to a Corporate sponsor. A social or economic program with a successful corporate sponsorship relationship is not very different from any other well-run local economic development program.
<b>Volunteers<sup>6</sup></b>	Directly and indirectly volunteerism is playing an increasingly important role in local economic development planning and delivery throughout Canada. As noted elsewhere there are four key inputs into the LED process and of these human resources (capacities and capabilities) are a critical determinant of LED success. That being said there is a certain inherent substitutability of these critical inputs and thus when necessary human resources can be acquired at a nominal cost financing availability is enhanced and can be utilized in other critical areas. In Canada attracting volunteers with specific skills, expertise and experience in the community is a valuable way to enhance LED implementation. Volunteers are often used to assist with guiding and organizing LED efforts and occasionally in implementing plans. Their participation often involves sitting on boards and committees; participating in planning events; providing assistance in raising funds; and various other tasks.

7) an art gallery in which local artists can show work; and, 8) space for community groups to hold meetings and for community education classes to occur.

<sup>6</sup> Volunteering is a major source of access to human capital for not-for profits and charitable organizations. In fact, annually 12.5 million Canadians or 46% of the population aged 15 and over; volunteer supplying almost 2.1 billion hours – the equivalent of close to 1.1 million full-time jobs.

### 3.3 Typical Sources of Financing LED in Canada by Typology

The following table indicates the typical sources of financing LED in Canada by typology. A further explanation of these sources with a variety of case study/examples is presented in Section 4, below.

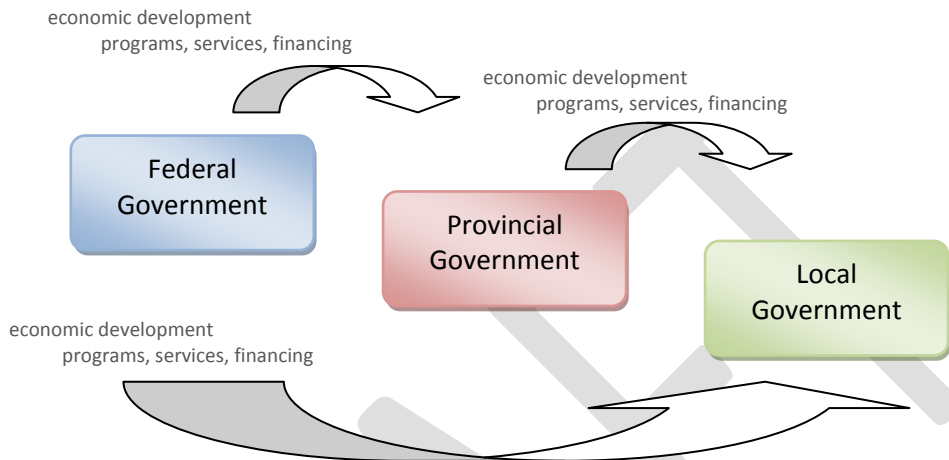
	Grants	Fees	Equity	Debt	In-Kind	Sponsor	Volunteer
Federal Gov't							
Provincial Gov't							
Municipal Gov'ts							
Private Sector							
NGO's							
Other, e.g. individuals							

## 4.0 SOURCES OF LED FINANCING IN CANADA

### 4.1 The Role of Governments in LED Financing in Canada

Local economic development in Canada has been and still is the direct and/or indirect responsibility of all levels of government. Today for the most part the three levels of government work collaboratively to finance and further economic development on a national, provincial and municipal level. The current federal government framework with the establishment of economic development departments that further empower provincial, regional and municipal initiatives and programs has facilitated a broader dispersion of the benefits of economic development throughout Canada than the narrow top down approaches of the past. The premise of governmental involvement in LED implies that economic development as a government activity must include an effort to encourage

private investment in a particular jurisdiction for the purposes of generating or retaining jobs, expanding the tax base, and increasing the general level of economic well-being. Canada's Constitution divides the responsibilities of government into federal and provincial/territorial jurisdictions. Municipalities in turn are subject to Provincial legislation. For further information on these relationships and programming we would refer the reader to the document The Evolution of Local Economic Development in Canada – A Review Of Concepts, Applications And Best Practices.



## 4.2 Government of Canada (Federal Government)

As was noted in the document: The Evolution of Local Economic Development in Canada – A Review Of Concepts, Applications And Best Practices, over the past twenty to thirty plus years the Government of Canada has consistently devolved a number of responsibilities onto the Provinces who subsequently have pushed these responsibilities down onto municipalities. In some cases this offloading of responsibilities is in keeping with the authorities assigned within Canada's Constitution. In other cases these devolutions of selected authorities was a concerned response to provincial and local requests to have a more significant voice in setting provincial and local priorities. Then again, in many other cases offloading is simply a matter of shifting the burden of program delivery costs. Regardless a number of important components of national economic development, specifically matters focussing "broadly" on local economic development, have been effectively pushed down on to the Provinces and onto individual municipalities themselves.

That being said the Government of Canada today has assumed a significant role in supporting municipal or local economic development via a variety of programming initiatives. In fact the magnitude of Federal support to economic development programming has grown significantly over the past five years and currently represents in excess of \$12.5 billion per year or roughly 12.1% of all Federal Government spending. This spending is delivered through approximately twenty eight separate Federal Government Ministries or Departments. Of course not all of this funding is allocated to local economic development efforts but there are a significant number of programs that offer some form of financing to municipalities from which they can pursue selected local economic development activities. The following examples provide some insights into selected programming methodologies as delivered by various Federal Government agencies and authorities.

## CASE EXAMPLE 1:

### *The Community Adjustment Fund (CAF)*

**DEFINITION/OVERVIEW:** The Community Adjustment Fund (CAF) provides funding support to address the short-term economic needs of Canadian communities impacted by the global recession. CAF is part of Canada's Economic Action Plan. Through CAF, the Government of Canada committed to support activities such as science and technology initiatives, community transition plans that foster economic development and other measures that promote economic diversification. The Federal government distributes services and funds through established federal agencies for each of Canada's major economic regions. Funding priority is given to projects in rural, single-industry communities that: generate immediate employment; create the most near-term employment per dollar of federal investment; leverage funds from provinces, territories and other funding partners; build on partnership arrangements already in place and existing programs; and provide a legacy of longer-term ecological and/or economic benefits.

**FUNDING TYPOLOGY:** Direct grant and in kind support, i.e. also includes technical assistance in developing/implementing programming.

**ELIGIBLE RECIPIENTS:** Eligible recipients are Canadian communities and non-profit locally-based organizations.

## CASE EXAMPLE 2:

### *Industry Canada Business Tools and Resources (Small Business Research and Policy)*

**DEFINITION/OVERVIEW:** The Small Business Research and Policy website includes an extensive collection of Industry Canada research on small business and entrepreneurship, together with links to other sites and comprehensive statistics on Canadian small businesses.

**FUNDING TYPOLOGY:** In kind support and Sponsorships, i.e. technical assistance to assist in business counselling and sponsorship funding for the hosting of seminars and workshops to assist SME start-ups

**ELIGIBLE RECIPIENTS:** Open to all Canadians but of special interest to LED authorities and agencies.



### CASE EXAMPLE 3:

#### *Rural Secretariat, Community Development Program*

**DEFINITION/OVERVIEW:** Building Rural and Northern Partnerships - The Community Development Program offers a limited amount of funding to assist rural and northern regions to obtain information and access/develop the expertise, tools and processes needed: to respond to rural and northern challenges and opportunities; and to become more competitive by collaborating regionally, building on their local assets and developing unused potential.

**FUNDING TYPOLOGY:** Grant with regional partnering as a pre-condition.

**ELIGIBLE RECIPIENTS:** Eligible recipients are Canadian Northern communities and non-profit locally-based organizations.

### CASE EXAMPLE 4:

#### *Invest Canada-Community Initiatives*

**DEFINITION/OVERVIEW:** The Invest Canada-Community Initiatives Program is one of the three components of the Global Commerce Support Program established in December 2008 by the Federal Government of Canada. It was designed to help Canadian communities attract, retain and expand foreign direct investment by providing financial support ranging from \$3,000 to \$300,000. The program is premised on matching funds of up to 50 percent of eligible expenses.

**FUNDING TYPOLOGY:** Direct grant usually in a partnering arrangement.

**ELIGIBLE RECIPIENTS:** Eligible recipients are Canadian communities and non-profit locally-based organizations.

**NOTABLE OBSERVATIONS:** Foreign Direct Investment according to the Canadian Constitution falls within the purview of the Federal Government. In an effort to realize Canada's full development potential and build a sustainable future a healthy stream of foreign direct investment is critical. Clearly the task of attracting FDI is a complex and significant undertaking; and from a programming perspective one in which the Federal Government is well served by community/municipal participation in the exercise.

### 4.3 Provincial Governments

As noted in the document The Evolution of Local Economic Development in Canada – A Review Of Concepts, Applications And Best Practices under the Constitution, provincial governments in Canada have a broad range of powers and jurisdictions in respect of property and civil rights; the administration of justice; natural resources and the environment; education; health; and welfare. Provincial governments also play a significant part in financing provincial, regional and local economic development most visibly through public investments in transportation, hospitals and health care facilities, educational systems, social programming and other initiatives that impact directly on the well being of provincial residents. Most importantly, relative to the topic at hand, municipalities exist pursuant to the jurisdiction of provincial legislation.

The allocation of provincial budget resources to the financing of local economic development varies by province. Those provinces blessed with an abundance of natural resources wealth (Alberta, Saskatchewan and British Columbia) or highly industrialized economies (Ontario) tend to devote the most money to promote and facilitate sustainable LED efforts. In many cases provincial governments work to leverage the programs and funding provided by the federal government to maximize the scope and depth of potential economic benefits for their constituents. Further, in most provinces other than within major urban enclaves there is an emphasis on building broad regional collaborations of communities, perhaps in part to ensure that funding is more broadly dispersed. The following examples highlight a number of provincially driven measures that support local economic development.<sup>7</sup>

#### CASE EXAMPLE 5:

#### Rural Alberta's Development Fund

**DEFINITION/OVERVIEW:** Rural Alberta's Development Fund is a not-for-profit company incorporated in 2006. Its mandate is to fulfill a commitment by the Government of Alberta to support communities, regional alliances, government departments and not-for-profit organizations in kick-starting community-building projects that will contribute to the growth and prosperity of rural Alberta. The Fund will consider a wide spectrum of projects but, they must respond to one or more of the following activity areas or pillars: economic growth; community capacity, quality of life and infrastructure; rural health delivery; learning and skill development

**FUNDING TYPOLOGY:** Grants, Sponsorships and In Kind Contributions.

**ELIGIBLE RECIPIENTS:** Eligible recipients are Alberta rural communities and non-profit LED organizations.

<sup>7</sup> As expected there is a significant array of provincial departments, ministries and programs that effect local economic development in some form or another throughout every region and province of Canada. Unfortunately at any point in time selected programs, services, departments and agencies are being created and/or being phased out and as such the information contained in this section of the report is somewhat limited. Nonetheless we have intended to be as accurate and comprehensive as possible noting that there are doubtless changes that have already occurred since the information was collected. Having said that, the intent of this section is to present the scope and breadth of programming rather than the narrow specifics of any single program or ministry for that matter.

## CASE EXAMPLE 6:

### Manitoba Ministry of Housing Grand West Manitoba

**DEFINITION/OVERVIEW:** The Manitoba provincial government created a program to support municipal and regional activities that foster local development efforts. The local economic developers of the thirty (30) surrounding communities created an inter-municipal cooperation partnership that allowed them to pool their financial and human resources in order to apply to the provincial program. The core elements of that partnership included: development of a three year marketing strategy to attract new residents/businesses; the development of a regional brand and the implementation of the marketing activities.

**FUNDING TYPOLOGY:** \$200, 000 Grant with regional partnering as a pre-condition.

**ELIGIBLE RECIPIENTS:** Eligible recipients are Manitoba communities and non-profit LED organizations..

**NOTABLE OBSERVATIONS:** The Manitoba Government of the one hand and the thirty participating communities realized that singly they were not able to rectify the erosion of their populations and only through working collaboratively could they compete effectively. Further, in terms of regional collaborations, the partnership worked between the communities because it was structured in equitably.

## CASE EXAMPLE 7:

### Neighbourhoods Alive

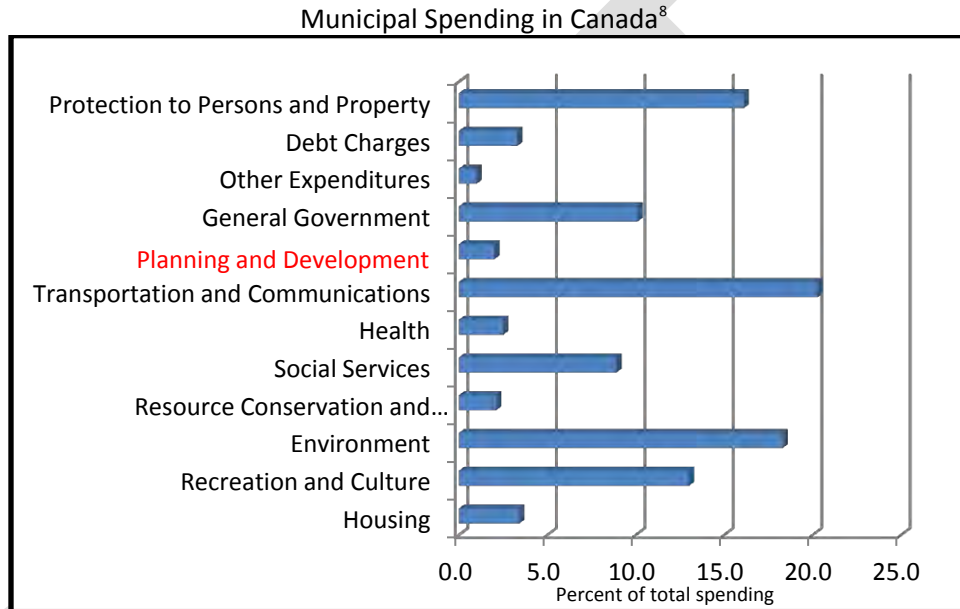
**DEFINITION/OVERVIEW:** Neighbourhoods Alive! provides community organizations in designated neighbourhoods with the support they need to rebuild their neighbourhoods. Neighbourhoods Alive! is a long-term, community-based, social and economic development strategy that recognizes that building healthy neighbourhoods requires more than an investment in bricks and mortar. As a result, Neighbourhoods Alive! supports and encourages community-driven revitalization efforts in designated neighbourhoods in a number of key areas including: housing and physical improvements; employment and training; education and recreation and, safety and crime prevention

**FUNDING TYPOLOGY:** Grants with in-kind technical assistance.

**ELIGIBLE RECIPIENTS:** Eligible recipients are Manitoba communities, community groups, businesses and LED organizations.

## 4.4 Municipal Governments

In Canada powers are granted to municipal level governments through provincial legislation, most commonly referred to as The Municipal Act. Pursuant to this Act municipal governments in Canada have a broad range of responsibilities typically including the development and maintenance of civic infrastructure (roads, sewer and water), transit, emergency services (fire and police), libraries, parks and recreation, social services, urban planning and local economic development. The following chart illustrates typical municipal expenditure patterns/priorities by sector.



Source: Federation of Canadian Municipalities

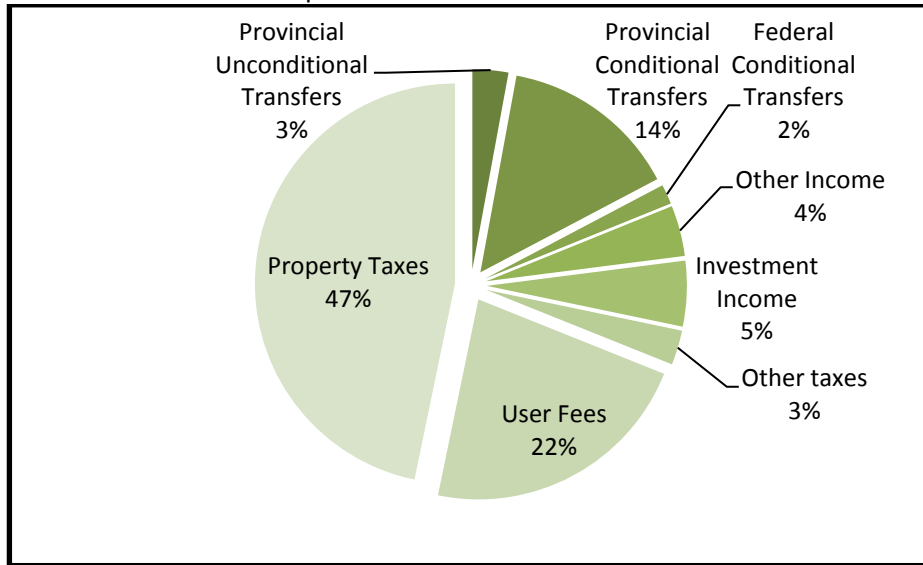
Expenditures on local economic development are typically aggregated in to the Planning and Development function within municipal operations (highlighted in red, above).

The funding for these activities is derived from municipal budget revenues which are typically derived from eight key sources, with property and related taxes and user fees representing the most significant components. The following chart illustrates by percentage contribution the relative importance of each of the broad categories of “typical” sources of municipal revenues<sup>9</sup>:

<sup>8</sup> This table and the one following (Municipal Sources of Revenue) are based on 2007 information. While dated the percentage distributions by category remain a fair enough representation of current circumstances to render the subsequent observations valid.

<sup>9</sup> Enid Slack, Institute on Municipal Finance and Governance, Presentation to Canadian National Summit on Municipal Governance, July 11, 2005.

Municipal Sources of Revenue in Canada



Source: Federation of Canadian Municipalities

Within these eight broad categories not all municipalities have the same access to the same taxing or revenue generating methodologies or opportunities. The following table compares municipal revenue options across Canadian provinces<sup>10</sup>:

Province/Territory Revenue Source	British Columbia	Alberta	Manitoba	Quebec	Nova Scotia	Ontario	Other provinces and Territories
Property tax	✓	✓	✓	✓	✓	✓	✓
Sales tax	✓						
Hotel/motel tax	✓	✓	✓	✓	✓	✓	✓
Business tax	✓	✓		✓			
Fuel tax	✓	✓	✓	✓		✓	
License fees							
Income tax: individual and corporate			✓				
Development charges	✓	✓				✓	
Tax-exempt municipal bonds						✓	
Tax incentives							
Grants to corporations							
Borrow money	✓	✓	✓	✓	✓	✓	✓

Source: Federation of Canadian Municipalities

<sup>10</sup> While most provinces charge a provincial sales tax, British Columbia is the only province which its legislation provides that the province share retail sales tax revenues with the municipalities.

The following case study is one example of an increasingly popular revenue modality utilized by municipalities in the provinces of Quebec and British Columbia to enhance municipal revenues - in this case for a specific LED purpose.

### CASE EXAMPLE 8:

#### Hotel Room Tax - Richmond BC

**OVERVIEW:** Some municipalities in British Columbia and Quebec have chosen to add an additional tax to the cost of temporary lodging (hotel/motel) in an effort to raise funds in order to support LED activities that particularly benefit the hospitality industry. By way of example the City of Richmond in British Columbia has added a compulsory 2% municipal tax to all temporary lodging (Hotel Room Tax Regulation for the City of Richmond). The prescribed purpose for this tax is to generate revenues for the City of Richmond from which a comprehensive "tourism marketing, programs and projects" might be funded and implemented.

The concept is based on the following premise: the tax hotels collect and then remit to the municipality will be spent in broadly supporting overall local economic development via support to the tourism sector AND the payees of this tax (hotels and motels) will also benefit as a result of a stronger tourism sector in particular and local economy generally.

While not the fundamental focus of this paper, there is significant irony in a review of municipal revenues and expenditures from a local economic development perspective. Clearly LED is not the most significant line item on the expenditures side, being a sub-component of Planning and Development which in aggregate represents a modest 2.1% of overall municipal expenditures. Yet on the revenue side, the outputs of successful LED efforts play a decidedly significant role in respect to such important revenue streams as property taxes; and in numerous other revenue generating modalities including: business licenses and taxes; hotel/motel taxes; fuel taxes; and development charges, which contrary to the case example presented above, need not be tied directly to the funding of selected LED initiatives.

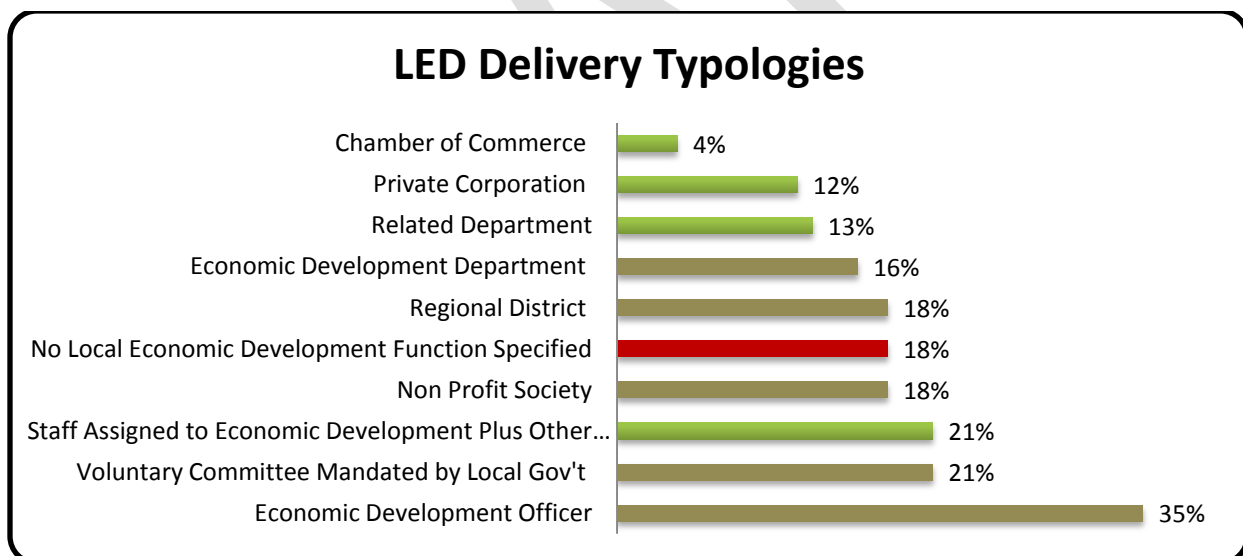
#### 4.4.I Financing LED – The Municipal Government Context

In truth throughout the majority of Canadian communities there is a diminishing amount of financial resources from which to fund activities and meet responsibilities. This situation is exacerbated by the almost exponential increase in citizen demands for more services and better services. Funding

local economic development efforts within this milieu is often a hard sell<sup>11</sup> in part because while most citizens and the leaders they elect might appreciate the long-term importance of having an effective LED effort, they are more focused on the immediacy of infrastructure, social services, housing and policing. Arguably these factors have an influence on the enabling environment though it begs the question of what comes first. To complicate matters the typical municipal electoral cycle (3-4 years) tends to argue against many longer term local economic development plans.

Financing local economic development is also a function how it is delivered and vice versa.

We have previously asserted that local governments have been playing a role in economic development planning for quite some time. But perhaps most importantly it should be pointed out that the level of significance or commitment varies greatly across the local government landscape. While there is a trend toward local governments assuming more formal economic development roles, there is still a large discrepancy in the level of participation between municipalities. This discrepancy reflects the evolving and voluntary nature of economic development as a local government service. In fact, there are municipalities that do not necessarily take an active role in local economic development activities at all, i.e. where the responsibility and delivery of local economic development programming is being assumed by some other local/regional authorities and agencies. The chart below illustrates the range and frequency of different LED delivery typologies in the Province of British Columbia:



<sup>11</sup> Despite being a difficult sell, 75 percent of local governments in Canada have a budget for economic development and 97 percent of local governments expect their future funding levels to remain the same or increase. The fact that only three percent expect a decrease in funding underscores at least at some level a long term commitment to local economic development within the local government agenda.

Clearly as noted in the chart above, those municipalities that do undertake LED activities are using an increasing range of innovative strategies to overcome/manage the function properly in an era of limited resources including:

- engaging in advocacy and relationship building<sup>12</sup> with other partners and other levels of government;
- developing new economic development strategies<sup>1314</sup> or refining existing ones; and/or
- working more diligently at fund leveraging in order to self-fund LED activities in their regions.

## 5.0 LOOKING BEYOND THE FINANCES

*The real voyage of discovery consists not in seeking new lands, but in seeing with new eyes.*

*Marcel Proust*

It is abundantly clear that there is a finite and limited source of financing within every municipality in Canada from which to address the range of local economic development challenges and opportunities. As such, on occasion where time is the more scarce of commodities, there is a necessity to look to other resources and/or other modalities or approaches to help achieve LED success.

In some cases there are no solutions to the financing shortfall. In other cases, however the solution lies in how the problem or opportunity is perceived and how it might alternatively be approached.

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<sup>12</sup> There are many benefits to bringing together a range of actors in collaborative arrangements. Collaborative arrangements often help break down bureaucratic barriers and respond quickly to problems and opportunities. Successful collaborations can generate increased trust that can affect economic activity beyond the specific innovation initiative. The basic benefit provided by collaboration arises from “*the recognition that no single party can achieve the same objectives of a project alone*” [Kwass and Siegel 1995: 16].

<sup>13</sup> An increasing number of local governments in Canada are involved in regional economic development alliances. Sharing of costs and the leveraging of additional resources are the primary arguments in favour of a regional approach. The resources of a combined regional entity are often more than any of the individual entities could fund on their own. This is particularly true of small communities.

<sup>14</sup> While still not a common approach, many municipalities in Canada are developing their own community enterprises. The premise of this innovative modality is to create more revenue for the municipality and at the same time create jobs.



*The concept of innovation often is defined as the creation or generation of new ideas. But this conceptualization is too narrow. While innovation does refer to the creation of new ideas, it also involves the application of existing ideas in unique ways or to different fields. It is the creative application of ideas that results in new techniques to solve the next generation of LED issues.*

The creation of new ideas or the application of existing ideas can assume many forms. The following case study is but one approach that has been used.

### CASE EXAMPLE 9:

#### *Vision North Okanagan*

**OVERVIEW:** In December 2008 a local not for profit organization expressed an interest in promoting, supporting and facilitating economic development within its municipality. In part, this position reflected a very real concern that the history of LED efforts to date and the prospects for the future were not all that they could be. As such the organization was looking to provide leadership, mobilize the community and be a catalyst in the pursuit of local economic development. *The organization saw itself as an action oriented, solution focused, and locally driven alliance of concerned citizens, development professionals and organizations committed to proactive local economic development.* It saw as its purpose the creation of an environment for sustainable socio-economic progress. It proposed to achieve this end by identifying and responding to key opportunities and issues by bringing the right partners and resources to the table to maximize the effectiveness of development efforts.

**APPROACH:** When it comes to traditional forms of economic development, this model is exceedingly unique. Its strength lies in its approach. Specifically, in the first instance the work of *the organization* was primarily done by volunteer ad hoc Action Teams comprised of individuals who were committed to solving a particular challenge or investigating a specific opportunity. In the second instance, the myriad of economic development issues, initiatives, opportunities, and challenges are approached in bite size pieces; thus large and/or complex issues (e.g. diversification) are approached with small, manageable and incremental solutions.

In practice when an issue or problem is identified or brought forward to the *organization's* members (Council), an Action Team is created. The task of the Action Team is to research, problem solve and delineate pragmatic opportunities for action or intervention. Key players for the Action Teams are recruited from the community/region based on their skills, knowledge, interests, commitment and connections necessary to realistically define a solution(s). Action Teams are created ad hoc or include already established organizations in the community. Once a solution(s) is reached, the Action Team disbands.

## CASE EXAMPLE 9: ...continued....

### Vision North Okanagan

#### SAMPLE OF RECENT INITIATIVES/SUCSESSES:

<p><b>Agriculture</b></p> <ul style="list-style-type: none"> <li>- research completed on: opportunities for and realization of an agriculture “cluster”.</li> <li>- research completed on year round farmers market.</li> </ul>	<p><b>Tourism</b></p> <ul style="list-style-type: none"> <li>- research completed on impact/feasibility value and implementation of a hotel tax for marketing.</li> <li>- Completion of a new Visitors Centre.</li> </ul>
<p><b>Business/People Attraction</b></p> <ul style="list-style-type: none"> <li>- Developed a toolkit i.e. website, brochures, contact point.</li> <li>- Implemented a welcoming communities’ initiative for new comers to the community (immigrants).</li> </ul>	<p><b>Manufacturing</b></p> <ul style="list-style-type: none"> <li>- research completed, the development of composite cluster underway.</li> <li>- research completed, the development of marine manufacturing cluster.</li> </ul>

## 5.0 FINAL THOUGHTS

LED is not new. It has a rich heritage in Canada that extends to the social reform movements of the early 20th century. Such movements took shape in response to major dislocations associated with the rise of industrial capitalism – economic and social challenges that bear more than a passing resemblance to those we face today. Like LED, these movements sought to create societies that are both economically viable and socially just.

In financing LED in Canada there is a stark reality that there is an ever growing of gap between what a municipality is able to afford regarding program and service delivery and the demands, or perhaps more appropriately, the longer term needs of its citizens.

In Canada today when it comes to financing the varying needs of local economic development our research has shown that:

### LED FINANCING IN CANADA - CONCLUSIONS

- The economic development budgets of local governments are modest.
- An increasing number of communities are leveraging local government investment in economic development by sharing overhead costs with other organizations or by pooling funds with adjacent jurisdictions.
- Nearly all core funding for economic development is derived from local government.
- Some municipalities have dedicated revenues to funding specific economic development initiatives, i.e. business licenses, hotel/motel taxes and the like.
- Project funding is available from various government agencies, relative to which a number of challenges remain.

and relative to LED funding challenges external to the local municipality:

### LED FUNDING CHALLENGES

- a. lack of funding sources for specific community development undertakings;
- b. Lack of funding initiatives that provide seed money to support the first steps of a community development process;
- c. Short-term and low-risk approaches to loans and grants by funders;
- d. Confusing and challenging eligibility criteria of government grants and programs;
- e. Limited ability of community development organizations to match funds or make down payments;
- f. Lack of local experience with fundraising; and
- g. Significant competition for limited financial resources available.

What we have also found in our research is that one thing holds steady, successful communities have the capacity to adjust continually to changing circumstances. These communities identify and cultivate their assets, engage in collaborative processes and encourage an entrepreneurial mindset that fosters commitment and innovation to the challenges of promoting sustainable local economic development.