ONTARIO 360

Policy Solutions for Ontario's Prosperity

Attracting 21st Century Investment:

A BLUEPRINT FOR THE CREATION OF INVEST ONTARIO AND INVEST ALBERTA

By Mitchell Davidson[1]

munk school OF GLOBAL AFFAIRS & PUBLIC POLICY

UNIVERSITY OF TORONTO

Issue Statement

Foreign direct investment has long been a major source of economic growth and jobs in Canada. The level of FDI has ebbed and flowed at different times. But the general trend has been generally positive – in fact, the average rate of annual growth of FDI into Canada has been 6 percent since 2000.[2] Although it can be somewhat challenging to analyze the sub-national distribution of FDI, the evidence indicates that Ontario and Alberta have significantly benefited from foreign investment over this period.[3]

The pandemic has, of course, negatively affected capital flows in Ontario, Alberta, and indeed across the global economy. The United Nations Conference on Trade and Development, for instance, initially projected that FDI would fall globally between 5 and 15 percent depending on the duration of the pandemic.[4] It has since reported that FDI in developed countries dropped by almost $300 billion in the first half of 2020 alone – a 49-percent decline that was more than three times the initial projection.[5]

Canada and the provinces, including both Ontario and Alberta, have not escaped this drop in global investment. In the midst of pandemic-induced global uncertainty, both provinces have committed to new arms-length investment attraction agencies, Invest Ontario and Invest Alberta respectively, to help reverse this troubling trend in the short-term and to lay the foundation for growth, innovation, and employment over the long-term.

[1] This paper's research and analysis was supported by Munk School MPP graduate Saif Alnuweiri and Ontario 360 project co-director Sean Speer.

[2] Statistics Canada, Table 36-10-0008-01. https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3610000801.

[3] See for instance Author known, "Ontario a top destination for foreign direct investment," Invest in Ontario, date unknown. https://www.investinontario.com/spotlights/ontario-top-destination-foreign-direct-investment.

[4] UNCTAD, "Investment Trends Monitor: October 2020", (March 2020), Issue 35 https://unctad.org/system/files/information-document/diae_gitm34_coronavirus_8march2020.pdf.

[5] UNCTAD, "Investment Trends Monitor: October 2020", (October 2020), Issue 36, https://unctad.org/system/files/official-document/diaeiainf2020d4_en.pdf/.

In creating these so-called "one-stop shop" investment attraction agencies, both governments are aiming to bring greater coherence and intentionality to their provinces' efforts to attract FDI in general and R&D and product mandates in particular. If implemented properly, these agencies can position the two provinces for higher rates of investment (and in turn employment and innovation) in the short- and long-term, as part of broader plans for post-pandemic recovery.

In this policy paper we examine investment attraction models in peer jurisdictions to better understand the key design and operational questions that the Ontario and Alberta governments must address as they stand up their own investment attraction agencies. We then set out a series of policy and operational recommendations that are divided into two groups: "foundational" and "targeted."

The "foundational" lessons are as follows: governments should establish clear and transparent mandates for these agencies, regularly produce and release holistic performance evaluations, and ensure the right mix of policy tools and personnel for these agencies to effectively function as one-stop shops for investors and businesses.

The "targeted" lessons are as follows: the governments should adopt a model that balances a prioritization of people and firms, targets place-based policies to address regional economic disparity, and considers non-traditional policy levers such as the stock of housing, childcare, and social supports as key determinants of investment.

Decision Context

Although the Governments of Ontario and Alberta are still primarily focused on addressing the immediacy of the pandemic, both have started to set out the broad priorities of their post-pandemic recovery plans. As part of this work, both provinces have announced intentions to establish new investment attraction agencies. The ostensible purpose of Invest Ontario and Invest Alberta is to bring greater coherence and intentionality to government efforts to attract investment in general and R&D and product mandates in particular.

Start with the economic and investment context. Although both provinces have historically been major sources of economic activity and foreign direct investment in the country, their recent performances – even prior to the pandemic – were sluggish.

Research, for instance, shows that Ontario's net capital stock – essentially a measure of the fixed assets in a jurisdiction – increased at a lower rate than the national average between 1980 and 2018.[6] The same analysis found that, between 1990 and 2014, the province ranked eighth among the ten provinces in the growth of non-residential assets.[7]

The story in Alberta is more complicated. Buoyed by high oil and gas prices, the province was a major destination for capital investment for most of this century.[8] Yet, since 2014, Alberta has experienced slowed investment due to a combination of declining oil prices and a general economic slowdown. By 2019, the Province of Alberta had fallen to fourth among the 10 provinces with respect to foreign direct investment.[9]

More generally, the competition for foreign direct investment is getting fiercer. Competing jurisdictions are becoming more sophisticated at tailoring policies and streamlining regulatory approvals in the pursuit of major investments. National and sub-national investment attraction or promotion agencies are frequently part of these efforts.

[6] Steven Globerman and Joel Emes, Capital Investment in Canada's Provinces: A Provincial Report, Fraser Institute, 2020. https://www.fraserinstitute.org/sites/default/files/capital-investment-in-canadas-provinces.pdf.

[7] Ibid.

[8] Ibid.

[9] Author unknown, By the Numbers: Foreign Direct Investment in Canada – FDI Report 2019, Invest in Canada, date unknown. https://fdi2019.investcanada.ca/by-the-numbers#fn1-rf.

An OECD analysis, for instance, identifies 32 investment attraction or promotion agencies across its member countries.[10] Of these, 60 percent are autonomous public agencies, 31 percent are housed within government departments or ministries, and 6 percent are joint public-private agencies. These agencies have a broad set of mandates and purposes but generally their role is to attract and promote inward investment, support regional development, and, in some cases, to bolster exports as well.

The basic policy justification for investment attraction or promotion agencies is a market failure with regards to information asymmetries. The idea is that international investors may not have adequate information, including operational and capital costs, business supply chains, and the policy environment, on particular locales. These investment attraction or promotion agencies can thus provide specialized information to prospective investors.

But their role has evolved over time from merely informational to a much more active pursuit of inward investment. This active model can take various forms including promotional and branding exercises and policy levers (such as business support programs, specialized training, or tax preferences) to induce greenfield and brownfield investment in a particular jurisdiction.

The evidence on the utility of these agencies remains an underexplored policy question. An OECD study, which reviewed the policy literature on the topic, finds that the overall consensus is that they can contribute to positive outcomes but that it depends a great deal on the organizational mandate, structure, and purpose.[11] As the study concludes: “One size does not fit all.” We will reflect some of this analysis in the next section of the paper.

The Ontario and Alberta governments, in this context, have announced intentions to establish new provincial agencies.

As of now, only some aspects of the operational plans and policy mandates of Invest Ontario and Invest Alberta have been announced. In Ontario, the government has identified key sectors it intends to target and has been clear about its intent to have Invest Ontario function as a “one-stop shop” for prospective investors and businesses to learn about and possibly access Ontario’s various business support programs and offerings. The regulations necessary to create the agency have been filed.

[10] Author unknown, Mapping of Investment Promotion Agencies in OECD Countries, 2018. http://www.oecd.org/investment/investment-policy/mapping-of-investment-promotion-agencies-in-OECD-countries.pdf.

[11] Ibid.

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In Alberta, the government has emphasized that Invest Alberta will focus on attracting foreign investment through aggressive and proactive communications to prospective investors and businesses.[12] The provincial government has passed founding legislation to place a priority on what it describes as high-value and high-impact investments.

The Alberta statute describes high-value investment as "an investment that is reasonably expected to perform better relative to other investments in the economic sector that the investment relates to" and high-impact investment as "an investment that is reasonably expected to support significant job creation or economic growth relative to other investments in the economic sector or region of the province that the investment relates to."[13]

Notwithstanding these initial steps, there remain many questions about the strategic mandate of these organizations, the resources they will be provided with, how they will work across ministries, or the broader investment attraction policies for which they will be responsible as part of an overall, coherent agenda for investment attraction.

The upshot: both provinces are at a formative moment in the operational and policy lives of these new agencies. The choices that policymakers make on these different considerations – including with respect to agency mandates and operational roles and responsibilities – will ultimately determine their effectiveness.

[12] Paige Parsons, "Alberta government proposes new agency to woo foreign investment," CBC.ca, July 7, 2020. https://www.cbc.ca/news/canada/edmonton/legislation-introduced-to-create-alberta-foreign-investment-attraction-agency-1.5640940.

[13] Legislative Assembly of Alberta, Bill C-33: Alberta Investment Attraction Act, 2020. https://docs.assembly.ab.ca/LADDAR_files/docs/bills/bill/legislature_30/session_2/20200225_bill-033.pdf.

Decision Considerations

In order to inform and guide these choices, we have examined the policy literature as well as different investment attraction models in peer jurisdictions to better understand how they work and what lessons may be drawn for Ontario and Alberta. Before we set out these lessons including what we describe as "foundational" and "targeted" recommendations (see next section), it is important to outline the key operational and policy choices that Ontario and Alberta policymakers face.

Our research points to four common characteristics associated with effective models for investment attraction or promotion agencies:[14]

1. **Clear Mandate** – An agency's mandate must be independent of government with a clear mission and authority to execute on it.
2. **Personnel** – Effective agencies tend to have a direct infusion of private sector personnel who can understand investors and speak the language of business.
3. **Accountability** – A regular and transparent evaluation framework is necessary that includes internal and public reporting on activities and outcomes.
4. **Policy Flexibility** – These agencies need to have a diverse toolbox of policy levers and instruments that can be adapted to fit the unique needs of individual businesses or sectors.

It is worth unpacking these considerations for provincial policymakers. Carefully thinking through these four design and operational considerations will be key to ensuring that Invest Ontario and Invest Alberta are able to produce positive outcomes for these provinces.

[14] These four characteristics are drawn from international research including: Author unknown, Mapping of Investment Promotion Agencies in OECD Countries, 2018. http://www.oecd.org/investment/investment-policy/mapping-of-investment-promotion-agencies-in-OECD-countries.pdf; David Moloney and Sandra Octaviani, Investment Attraction: Learning from "Best Practice" Jurisdictions, Lawrence National Centre for Policy and Management (University of Western), 2016. investment-attraction-learning-from-best-practice-jurisdictions.pdf (uwo.ca); Jacques Morisset, Does a Country Need a Promotion Agency to Attract Foreign Direct Investment? A Small Analytical Model Applied to 58 Countries, World Bank, 2003. https://openknowledge.worldbank.org/bitstream/handle/10986/18230/multi0page.pdf?sequence=1&isAllowed=y.

Clear mandate

The first step when creating an investment attraction agency is to provide it with a clear, concise, and direct mandate to guide its day-to-day activities. Our research finds that these mandates can vary widely depending on the goals of the government. Often times they also have multiple mandates. For example, within investment promotion agencies in OECD countries, more than half have mandates to promote innovation or exports, half have been given mandates to specifically prioritize regional economic development, 44 percent have been directed to focus on green investment, and 41 percent have mandates to stimulate domestic investment more generally.[15]

This is a key founding question for Ontario and Alberta policymakers: should these agencies have sectoral priorities or regional development mandates or a more neutral, pro-investment orientation?

Answering such a question requires that provincial policymakers consider the interaction with federal initiatives as well as their own broader economic strategies. Thus far, both provincial governments have signaled a combination of sectoral and regional priorities. That is not uncommon among investment attraction or promotion agencies in other jurisdictions. But it is important that these agencies do not become undisciplined or unfocused given the scarcity of organizational attention, political capital, and public resources. It is important therefore to think carefully about the types of investments (including sectoral or regional considerations) that they will target.

Going hand-in-hand with objectives of the agencies, Ontario and Alberta must set in place clear definitions (and in turn metrics) for success. These can and should take the form of specific objectives and targets by which senior leaders and the agencies as a whole can be evaluated.

Key performance indicators (KPIs) can also help to embed important values within the culture of the organization and help to orient programs and priorities in a world of limited resources. Should these governments prioritize investment in economically-distressed regions and communities? Should they focus on traditional sectors such as automotive or instead target new and emerging industries? Is greenfield investment the key priority or should brownfield projects get equal attention?

[15] Author unknown, Mapping of Investment Promotion Agencies in OECD Countries, 2018. http://www.oecd.org/investment/investment-policy/mapping-of-investment-promotion-agencies-in-OECD-countries.pdf

The answers to these questions ought to be reflected in KPIs that guide and shape the agencies' activities and in so doing root the agencies in their respective mandates.

As part of a clear mandate, the evidence from elsewhere points to the benefits of having autonomy from the government. As a World Bank study that evaluated the effectiveness of 58 investment attraction agencies observed: "[Foreign direct investment flows] are significantly lower in countries where the IPA is part of a ministry in contrast to being an autonomous body or a joint private-public institution."[16] The sense from this research is that organizational independence is crucial for ensuring that an agency's work is shaped by its mandate and accompanying KPIs rather than political considerations.

The mandate is also important for building buy-in and support across ministries. This is core to the purpose and utility of such an agency. The Ontario government, for instance, has described Invest Ontario as a "one-stop shop" for prospective investors and businesses but this will only work if the entire government is committed to the initiative.[17]

Researchers at Western University's Ivey Business School have observed that this has been an obstacle in past efforts to coordinate investment attraction efforts at the national and provincial levels. As they put it: "[Canada and Ontario] have strong value propositions and deep technical expertise across governments but are not systematically harnessing that expertise and lack comprehensive coordination or strategic targeting mechanisms to drive and support FDI attraction."[18] A clear mandate can help to animate and organize a government-wide agenda around investment attraction led by the independent agencies.

[16] Jacques Morisset, Does a Country Need a Promotion Agency to Attract Foreign Direct Investment? A Small Analytical Model Applied to 58 Countries, World Bank, 2003. https://openknowledge.worldbank.org/bitstream/handle/10986/18230/multi0page.pdf?sequence=1&isAllowed=y

[17] Geoff Zochodne, "Ford government prepared to invest in firms as part of Ontario's recovery plans: Minister," Financial Post, July 14, 2020. https://financialpost.com/news/economy/ford-government-prepared-to-invest-in-firms-as-part-of-ontarios-recovery-plans-minister.

[18] David Moloney and Sandra Octaviani, Investment Attraction: Learning from "Best Practice" Jurisdictions, Lawrence National Centre for Policy and Management (University of Western), 2016. investment-attraction-learning-from-best-practice-jurisdictions.pdf (uwo.ca).

Personnel

One of the lessons from elsewhere is that effective agencies tend to have a mix of skillsets and backgrounds represented in their personnel. That Ontario and Alberta have established these agencies outside of the core of government should permit them to draw on diverse groups of staff, including those with private sector experience.[19] This could be useful for infusing the organizations with a clear understanding of the factors that influence investment decisions as well as for bringing unique and different perspectives to day-to-day operations.

A broader body of scholarship points to the benefits of having a diverse mix of personnel in general and private sector experience in particular. As an example, the Utah government's investment attraction agency contracts out its "firm recruitment" activities to private sector actors who are more likely to "speak the language of business."[20] The World Bank study cited above, more generally, observes that "the higher the number of private members, the greater IPA effectiveness."[21]

Another key personnel consideration is with respect to provincial staff located in trade offices around the globe. Alberta operates 13 international offices.[22] Ontario has, through either Agents-General or Trade and Investment Offices, 16 international offices.[23] Successful models that we analyzed tend to have these types of offices and their staffs report to their investment attraction offices. The Alberta government has announced its intention to follow this approach with the exception of primarily advocacy positions in Ottawa and Washington D.C.[24] Ontario has yet to make such a declaration. The evidence suggests that doing so would increase the operational capacity and effectiveness of Invest Ontario.

[19] Author unknown, Mapping of Investment Promotion Agencies in OECD Countries, 2018. http://www.oecd.org/investment/investment-policy/mapping-of-investment-promotion-agencies-in-OECD-countries.pdf.

[20] David Moloney and Sandra Octaviani, Investment Attraction: Learning from "Best Practice" Jurisdictions, Lawrence National Centre for Policy and Management (University of Western), 2016. investment-attraction-learning-from-best-practice-jurisdictions.pdf (uwo.ca).

[21] Jacques Morisset, Does a Country Need a Promotion Agency to Attract Foreign Direct Investment? A Small Analytical Model Applied to 58 Countries, World Bank, 2003. https://openknowledge.worldbank.org/bitstream/handle/10986/18230/multi0page.pdf?sequence=1&isAllowed=y

[22] Government of Alberta, Alberta International Offices, date unknown. https://investalberta.ca/about-invest-alberta/alberta-international-offices/.

[23] Government of Ontario, International Trade and Investment Offices, date unknown. https://www.investinontario.com/international-trade-and-investment-offices.

[24] Paige Parsons, "Alberta government proposes new agency to woo foreign investment," CBC.ca, July 7, 2020. https://www.cbc.ca/news/canada/edmonton/legislation-introduced-to-create-alberta-foreign-investment-attraction-agency-1.5640940.

Accountability

Evaluating the impact of these agencies and their activities is crucial for identifying best practices, allocating resources, and maintaining accountability with the government, legislature, and taxpayers. Two-thirds of all OECD investment promotion agencies have dedicated evaluation units imbedded within them. They tend to rely on a series of output indicators, including financial indicators, client satisfaction, job creation, and FDI rates, to measure their effectiveness.[25]

This is an important point: too often in the past Canadian programs targeting business investment have been heavily focused on input metrics such as dollars spent, businesses supported, and so on, and have neglected outcome-based metrics such as business expenditure on research and development or number of patents. Ontario's Auditor General, for instance, has critiqued the provincial government for its lack of evaluation or use of outcome-based metrics.[26]

An effective evaluation framework must draw on a range of metrics to regularly assess its effectiveness, improve its programming, and regularly report to the government and taxpayers. Our research indicates that evaluation and reporting should use a mix of methodologies in order to rely as much as possible on quantitative measures and limit the use of qualitative self-reporting. These can include: stakeholder surveys, interviews with agency employees, client and non-client feedback, case studies, benchmarking, financial inputs, third-party reviews, and evaluations using raw performance data. The key is to create a sufficiently robust evaluation process such that the agency is evaluated not just on how well it met its objectives but also that analysis is drawn out to understand if those objectives need to be adjusted.

[25] Author unknown, Mapping of Investment Promotion Agencies in OECD Countries, 2018. http://www.oecd.org/investment/investment-policy/mapping-of-investment-promotion-agencies-in-OECD-countries.pdf.

[26] Office of the Auditor General of Ontario, 2015 Annual Report. https://www.auditor.on.ca/en/content/annualreports/arreports/en15/2015AR_en_final.pdf.

Policy flexibility

When it comes to policy tools, the main question is whether these investment attraction agencies will assume primary responsibility for the pre-existing suite of programs and policies relevant to attracting R&D and product mandates or whether these will remain housed across different ministries. The full list of programs is too long to list here but it would ostensibly include regional or industry specific tax credits, grants, loans, COVID-19 assistance programs, innovation specific pilots and programs, vouchers, municipally run community improvement programs, and even individually negotiated packages.

In other jurisdictions, investment attraction agencies have tended to assume responsibility for delivering most or all business support programs. This gives them the flexibility and discretion to move expeditiously and present a comprehensive policy package to prospective investors.

This is an important point to emphasize: one of the negative effects of distributing various policies and programs across siloed ministries is that it can be difficult to have a holistic view of the range of measures that can influence investment decisions. Consolidating programs and policies in an investment attraction agency can therefore provide a fuller, more comprehensive policy and programmatic offering to would-be investors.

Given that these investment attraction agencies will ostensibly have an arm's-length relationship to the government, consolidating business support programs within them can also reduce the role of politics in determining which businesses or industries are ultimately supported. This could help a great deal in Ontario in particular, where the province's business support programs have been the subject of criticism.

In 2015, Ontario's Auditor General found that 80 percent of business supports were given out "to selective companies invited to apply…but [the government] could not provide the criteria it used to identify the businesses it invited to apply, or a list of those whose applications were unsuccessful." The Auditor also found that $1.45 billion had been handed out to companies by nine different ministries that were not overseen by a single central body for consistency in the execution of an overall business support strategy.[27]

[27] Ibid.

In response to these criticisms, the current government committed to wind down business support programs including the Jobs and Prosperity Fund, which is one of the province's flagship business support programs. It has not reformed or eliminated the program thus far. The creation of Invest Ontario could help to mitigate many of the issues raised by the Auditor General, including strengthening transparency and evaluation, given that the agency will need to publicly report on a regular basis.

Both the Ontario and Alberta governments will also need to determine what authority the agencies have with respect to other policy levers that are currently distributed across various ministries. Although it is impractical to have them assume policy responsibility for any or all areas influencing investment, it is important that other ministries see their policymaking as part of an overall investment attraction strategy. The whole purpose of this initiative is to break down siloes and establish a coherent, government-wide agenda – hence the description as a "one-stop shop." This will not ultimately be successful if ministry X or ministry Y does not see itself as part of a government-wide agenda.

In practice, this will require a combination of leadership and internal clarity as well as a potential role for the investment attraction agencies to input regular feedback from businesses and investors into government policymaking. It is not that they should necessarily have a veto over the policymaking process within other ministries. But they will ostensibly collect useful data and evidence that other ministries should be incorporating into their own mandates.

On a separate yet related point: how the investment attraction agencies think about their strategies will need to evolve based on successes and failures as well as the changing economic and technological landscape. Take the pandemic for instance. There was growing competition for investment and domestic production prior to the pandemic. These pressures have only grown in light of concerns about the resilience of supply chains and the case for reshoring.

These new provincial agencies could play a key role in helping to strengthen Ontario's and Alberta's domestic capacities in strategic sectors and regarding production. A big part of this ought to be carried out, where possible, in conjunction with neighbouring states. Our proximity to the U.S. market should make Ontario and Alberta attractive to prospective investors who want to access the North American market.

For example, provisions in the United States Canada Mexico Agreement, more commonly referred to as the new NAFTA, require that 75 percent of a vehicle must be made in North America for that vehicle to qualify for sale in the continental market.[28] For international automakers that are not currently manufacturing in North America, like the French manufacturer Renault, they will need to open facilities in one of the three countries if they wish to access the North American market, which remains the world's largest. The same logic holds for auto parts manufacturers looking to expand.

In fact, in December 2020, an Indian auto parts company, Plastic Component Industries, announced they would open their first North American facility in Ontario, citing the move as one that is "expanding the company's product development into the North American market."[29] Capitalizing on Canada's—and thereby Ontario's and Alberta's—unique global market access could pay immediate dividends for these new agencies. The task at hand for agencies like Invest Ontario is to facilitate the entire investment process, from the initial investor query to signing an agreement to constructing new facilities in the province, all under a single roof.

In the longer term, these agencies will also need to consider the rise of digital first companies that may not open traditional office headquarters or that create products that exist entirely in the cloud or online. Though this trend may have been underway for years, the pandemic has accelerated the growth of e-commerce and increased technological demands via remote work, requiring new forms of thinking about investment attraction and economic growth. Relocating a company that does not have an office is a uniquely 21st century problem that Invest Ontario and Invest Alberta will soon find themselves tasked with solving.

All told, both Ontario and Alberta are establishing their respective investment attraction agencies at a critical moment. The competition for investment will only be heightened in the aftermath of the pandemic. To attract investors, these agencies will need to be established with clear mandates, key performance metrics that are routinely evaluated, relationships with existing and potential employers, a new organizational structure for existing international offices, and a clear yet broad set of policy levers.

[28] Office of the United States Trade Representative, "United States-Mexico-Canada trade fact sheet: Rebalancing trade to support manufacturing," date unknown. https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/fact-sheets/rebalancing.

[29] Global News Wire press release, "Indian automotive parts company expanding operations to Ontario, Canada," December 9, 2020. http://www.globenewswire.com/news-release/2020/12/09/2142446/0/en/Indian-Automotive-Parts-Company-Expanding-Operations-to-Ontario-Canada.html.

Policy Recommendations

Many of the decisions outlined above require serious considerations by policymakers that reflect the unique opportunities and challenges in Ontario and Alberta. In this paper, we will not purport to define what those priorities and values should be. Instead, we will focus on policy recommendations that can be adopted by both governments irrespective of the mandates and priorities of Invest Ontario or Invest Alberta.

As part of this, we have sought to distinguish between what we refer to as "foundational" recommendations and "targeted" recommendations. The former are institutional and policy recommendations that transcend context or priorities. These are the big macro institutional design questions that will cross jurisdictions or circumstances. The latter refers to the unique particularities of a jurisdiction including political priorities such as rural economic development. These are micro considerations that may come to express themselves differently in Ontario and Alberta.

Although these recommendations generally apply to both provinces, the emphasis is on the Province of Ontario given Ontario 360's mandate and our own personal experience.

Foundational recommendations

As previously mentioned, the mandate of each organization and its objectives will need to be clarified and settled on before agency operations officially launch. The Ontario government has announced some sectoral priorities but otherwise has yet to outline the overall mandate and strategy for Invest Ontario. The Alberta plan, by contrast, is more fully developed including the broader goals and early operational details of its new investment attraction agency. There are big issues therefore that the Ontario government will need to address as part of its institution building.

1. As discussed above, the lesson from elsewhere is that staffing is key to organizational effectiveness. In particular, it is important that there is coherence across different parts of investment attraction efforts. The Ontario government should therefore follow Alberta's example and create a structure where its international trade offices report to Invest Ontario. If these offices remain outside of Invest Ontario's structure (and reporting to the Minister of Economic Development directly), the purpose of a one-stop shop for investment attraction, regulatory approvals and permits, and financial assistance may well be fundamentally compromised.

   By combining forces, Ontario can ensure seamless communications to prospective leads, have greater on-the-ground expertise as soon as the agency is formally created, harness the power of consolidated programming and expertise, and create an easier and more transparent evaluation process. Politically speaking, the international offices have been the subject of controversial appointments in recent years and rooting them inside a broader network with increased accountability and key performance metrics will help depoliticize these positions without compromising on performance.

2. As part of this organizational focus, the Ontario government should ensure as many pre-existing business support and incentive programs as possible are consolidated into the Ministry of Economic Development, Job Creation, and Trade (MEDJCT) and in turn the purview of Invest Ontario. The disparate mix of these programs across multiple ministries (nine in the case of the Government of Ontario) harms their effectiveness and will invariably make it challenging for the investment attraction agency to respond expeditiously and in customized ways to prospective investment opportunities.[30] Simply put, without the ability to alter or adjust business attraction programs on a case-by-case basis, Invest Ontario would be relegated to little more than an operation that that distributes literature and phone numbers.

   We recognize, however, that shifting programs from one ministry to another can create both internal political issues (in the zero-sum world of ministry budgets) as well as potential operational challenges. To help solve for these risks, two options could be implemented. If a full transfer of a program occurs, MEDJCT

[30] Office of the Auditor General of Ontario, 2015 Annual Report News Release. https://www.auditor.on.ca/en/content/news/15_newsreleases/2015news_3.04.pdf.

should return the administrative savings to the ministry that is relinquishing control of the program. Not only will this create a more efficient agency, it will also reduce administration costs which, according to the Auditor General, could be as much as $80 million annually.[31]

If transferring a program outright creates too many problems to overcome, the parent ministry could maintain control of a business support program (such as the Ministry of Energy retaining control over the Northern Industrial Energy Program) but might earmark a share of the program for Invest Ontario to dedicate for its purposes.

To be clear, any consolidation within MEDJCT should only apply to direct subsidy programs such as grant, loan, or price reduction programs. Any program that offers a tax holiday or tax credit should continue to be administered by the Ministry of Finance given the larger complexities and customer base that is affected by changes to taxation policy.

3. It will be important that the Ontario government establish a transparent evaluation and reporting framework for Invest Ontario. Michigan's model may be worth adopting. Its economic development agency divides the state into ten distinct geographic regions (see appendix), each of which reports its metrics individually. These metrics include the total level of funding from the private and public sectors for new projects, the number of jobs committed, and the specific incentives used to attract these companies.[32]

   By organizing on a regional basis, the Ontario agency could be easily evaluated on its performance in each corner of the province, thereby ensuring organizational attention and outside investment does not concentrate in only one or two regions. This type of reporting mechanism helps to mitigate perceptions of political favouritism and would help to create a structural legacy that ensures investment is not narrowly concentrated in the Greater Golden Horseshoe.

[31] Office of the Auditor General of Ontario, 2015 Annual Report. https://www.auditor.on.ca/en/content/annualreports/arreports/en15/2015AR_en_final.pdf.

[32] Michigan Economic Development Corporation, "Project Map," Accessed December 2020. https://puremi.ch/2JdiU6I.

Michigan is even poised to go further in its public reporting. In 2020, five separate pieces of bipartisan legislation were introduced in the State legislature and Senate to expand disclosures. The proposed changes include:

- Requiring the state's economic development corporation to publicly disclose when a company fails to meet the terms of its agreement or asks for changes to its agreement.
- A provision to transfer all funds from a failed agreement to general revenue instead of going out to another company.
- Requiring the agency to publicly disclose an agreement 10 days prior to signing it instead of the current practice of posting it after it is signed.
- Legislating a requirement to reduce incentives paid to businesses if they fail to meet commitments like job creation targets.
- Restoring public disclosure requirements for companies receiving tax credits from the state.[33]

Some of these possible reforms are relevant for Ontario policymakers. Although the government currently reports on which firms receive support from provincial programs, it releases few other details such as performance commitments reflected in contribution agreements or penalties for failing to meet those commitments. It also does not report on if or how it enforces penalties for non-compliant firms. There is a balancing act here given that some public disclosures may be commercially sensitive, but in overall terms, the goal ought to involve mandated transparency requirements given the use of public funds.

4. As part of Invest Ontario's offerings, the agency ought to lean into Canada's significant free-trade network. This should involve developing competencies in the jurisdictions where Canada has free trade agreements and proactively advising Ontario-based companies on opportunities to leverage the country's competitive advantage in this regard. If the agency did something as simple as produce documents with detailed sectoral advice on leveraging Canada's free trade networks, it could be a useful calling card in its investment attraction efforts and better support firms that invest in Ontario on an ongoing basis.

[33] Scott McClallen, "Legislators want transparency, accountability for state subsidized business deals," February 10, 2020. https://www.thecentersquare.com/michigan/legislators-want-transparency-accountability-for-state-subsidized-business-deals/article_783e49a2-4c2f-11ea-841a-c3bfbbf99f11.html.

Targeted recommendations

A key consideration for the Ontario and Alberta governments is the extent to which the new investment attraction agencies balance province-wide versus regionalized priorities. Another way to put it is this: provincial policymakers must decide whether the primary goal is to promote overall economic efficiency or address regional economic disparities which have grown significantly in recent years.

Consider, for instance, that between January 2008 and August 2019, nearly 90 percent of all net new job creation in Ontario was in Toronto and Ottawa.[34] Although it is too early to know, there is reason to believe that the pandemic may only hasten further urban agglomeration of investment and jobs. Research by McKinsey, for instance, shows that rural and Northern parts of the United States are the most susceptible to automation.[35] To the extent that the pandemic accelerates the trend towards automation and digitization, it may only lead to further geographic disparity among different regions and between urban centres and rural areas.

The Ontario government responded to the province's growing urban-rural divide in March 2020 by enacting a new Regional Opportunities Tax Credit that gives businesses a 10 percent refundable tax credit applied to their corporate tax liability if they make a qualifying investment in a rural or Northern community.[36] It is too early to know whether this policy will be an effective tool for pulling investment into rural and economically-distressed parts of the province. But it is certainly the type of policy intervention that will be needed if provincial governments are to push back against the pre-pandemic trend towards urban agglomeration.

Several U.S. states currently offer financial incentives for creating new jobs, with some states targeting incentives for investments made specifically in rural or economically distressed communities. In Ohio, for instance, the state government offers a non-refundable personal income tax credit to those who inject equity to

[34] Speer et al., "To fight regional economic disparity, Ontario needs Opportunity Zones," November 14, 2019. https://www.theglobeandmail.com/opinion/article-to-fight-regional-economic-disparity-ontario-needs-opportunity-zones/.

[35] Dua e al., The future of work in America: People and places, today and tomorrow, McKinsey Consulting Group, July 11, 2019. https://www.mckinsey.com/featured-insights/future-of-work/the-future-of-work-in-america-people-and-places-today-and-tomorrow#.

[36] PwC, "Tax Insights: 2020 Ontario Economic and Fiscal Update – Tax Highlights," March 25, 2020. tinyurl.com/3lcyogqe.

acquire an ownership share of an Ohio small businesses.[37] Other relevant examples include a New Jersey tax credit where businesses receive between $500 and $5,000 in tax credits for every job created.[38] In Alabama, a jobs credit provides up to a three-percent cash rebate of an employee's gross payroll – for as long as a decade, with additional bonuses for hiring veterans or locating the company in certain economically distressed counties.[39]

Previous Ontario 360 research has highlighted the potential of the Opportunity Zone model to pull private capital into economically-distressed communities.[40] The potential combination of Opportunity Zones and these new investment attraction agencies could be helpful for rural and economically-distressed parts of Alberta and Ontario. But it is important to note that the pursuit of Opportunity Zones would require cooperation from the federal government to implement.

As an alternative, the Ontario government could expand on existing programs, like the Regional Opportunities Tax Credit, by offering enhanced tax credits or tax deferrals and forgiveness for qualifying investments. A so-called "tax holiday" program for investments in rural or economically-distressed places could be significant given the province's ability to forgive corporate income taxes, employer health taxes, education property taxes, and municipal property taxes (though the province should reimburse municipalities as appropriate).

A medium-term tax holiday packaged with offers to reduce regulatory barriers, forgive a portion of the tax deferred after a set period of time, provide existing energy supports, and/or offer traditional grants and loans through existing programs may be sufficient to pull investment into rural or economically-distressed part of the provinces. It is important to note that a "tax holiday" would have little incremental fiscal cost given the Ontario government would not realize any tax revenue if the company never chose to locate in Ontario in the first place. Therefore, if a few protections were put in place, such as forcing a company to repay the benefits accrued if they closed their operations within a certain period of time, the costs incurred to implement a program would not leave the province any worse off.

[37] Ohio Development Services Agency, "Invest Ohio Program," date unknown. https://development.ohio.gov/bs/bs_investohio.htm.

[38] New Jersey Economic Development Authority, "Grow NJ Assistance Program," date unknown. https://www.njeda.com/financing_incentives/programs/grow_nj.

[39] State of Alabama, "State of Alabama Jobs Act Incentives and Tax Abatements", (2016) https://docplayer.net/20841110-State-of-alabama-jobs-act-incentives-tax-abatements.html.

[40] Speer et al., Opportunity Zones: An Opportunity for Ontario, November 13, 2019. https://on360.ca/policy-papers/opportunity-zones-an-opportunity-for-ontario/.

Each of these programs are similar in their own way to Opportunity Zones in that they leverage the power of tax policy to attract private capital and create jobs in underserviced communities. Ontario and Alberta should move in this direction, preferably through a scalable program like Opportunity Zones, in conjunction with the creation of their investment attraction agencies, in order to harness their full potential.

In addition to creating the case for place-based investment attraction, the pandemic has also brought attention to the relative mobility of knowledge-based workers. These workers no longer need to be in close proximity to their place of employment. Statistics Canada, for instance, estimates that as much as 40 percent of the Canadian labour force is in jobs that can be performed from home using "telework."[41]

This represents a huge opportunity for rural and economically-distressed communities. It basically increases the potential for these workers (many of whom are highly-skilled and high-income earners) to relocate to rural communities with better qualities of life and in turn to help to reverse the brain-drain that has plagued rural communities for decades. Policymakers elsewhere are jumping on this opportunity. In Tulsa, Oklahoma, for instance, the local government is offering $10,000 to 250 employed individuals who can work remotely. They must be approved, move to Tulsa within 6 months, and live there for at least a year.[42] In Kansas, the state government offers income tax breaks to students who move to rural parts of the state after graduation. In Maine, a similar program exists dubbed the 'Rural Return Scholarship.'[43]

This concept is not necessarily new to Ontario or Canada. Smooth Rock Falls, a small Northern Ontario town, once offered residential housing lots for sale for just $500. By the end of the program, 24 families moved to town and one previously local family returned.[44] In Canada, 11 communities participate in the Rural and Northern Immigration Pilot to attract qualified individuals to their communities,

[41] Zechuan Deng, René Morissette and Derek Messacar, Running the economy remotely: Potential for working from home during and after COVID-19, Statistics Canada, May 28, 2020. https://www150.statcan.gc.ca/n1/pub/45-28-0001/2020001/article/00026-eng.htm.

[42] Grace Dean, "Tulsa, Oklahoma, is paying remote workers $10,000 to move there for a year," Business Insider, November 25, 2020. tinyurl.com/1fqavr4c.

[43] Marsha Mercer, "Rather than Lure Employers, Some Rural Areas Try to Attract Workers - One at a Time," Seattle Times, January 11, 2019. https://www.seattletimes.com/business/rather-than-lure-employers-some-rural-areas-try-to-attract-workers-one-at-a-time/.

[44] Town of Smooth Rock Falls, "Smooth Rock Falls Reviving After Offering $500 Lots," November 28, 2018. https://www.smoothrockfalls.ca/media/smooth-rock-falls-reviving-offering-500-lots/.

but there could be greater uptake of the program if there were financial supports for people seeking to move out of urban centres.

These programs, however, highlight a new avenue of possibility for traditional investment attraction activities: attract a critical mass of talent and the jobs will follow. This approach would represent a significant departure from the traditional investment attraction process. It would require rethinking the relevant policy tools from tax preferences to support for housing, childcare, and social programs. The goal would be to make Ontario and Alberta more livable and attractive to talented, dynamic people. As a previous Ontario 360 paper observed, the factors of economic growth and investment are evolving, and Ontario and Alberta policymakers ought to evolve accordingly as they stand up their investment attraction agencies. If coupled with more traditional business support programs, this more contemporary approach could provide Ontario and Alberta with a unique opportunity to create a more holistic strategy to attract both employers and employees.

The move to a more digitized economy has also increased the number of companies involved in the development of intellectual property. Leveraging Ontario's world class universities and colleges is an attractive proposal for the parts of the provincial economy that the government is targeting with Invest Ontario: technology, life sciences, and advanced manufacturing. As Ontario courts these companies, it must protect the intellectual property that is produced within the province. This could be in the form of pre-negotiated exclusivity rights over intellectual property created at its institutions, but this type of catch-all provision is unlikely to be accepted by a targeted company. Instead, the focus could turn to negotiating a return on investment for the revenue generated by leveraging Ontario's intellectual property.

At Dalhousie University in Halifax, electric car-maker Tesla joined forces with the university to produce a groundbreaking 'million mile' electric car battery that has a range life superior to any other battery created to date. Despite the invention's ability to help Tesla create a virtual monopoly in a multi-billion-dollar electric vehicle space, it appears Dalhousie University and the province of Nova Scotia will receive little to no additional financial benefit for their work beyond the original amount dedicated to fund the research itself.[45]

[45] Norihiko Shirouzu and Paul Lienert, "Exclusive: Tesla's secret batteries aim to rework the math for electric cars and the grid," Reuters, May 14, 2020. https://www.reuters.com/article/us-autos-tesla-batteries-exclusive-idUSKBN22Q1WC.

This trend is consistent with other instances across the country. A recent report from AUTM, a group that tracks the returns of academic work around the globe, shows that Canadian universities only made $54.4 million in licensing income from their intellectual property, despite some $4.5 billion being spent on research and development in their facilities in 2018.[46] That 1.2 percent return is down from 2017, showing that Canada's universities are heading in the wrong direction.[47]

As Invest Ontario targets firms in technology related fields, it will need to ensure it is deriving proper value-for-money from their intellectual property. In the Tesla case, if Dalhousie University secured just a small percentage of total revenues created from its contribution, it would have likely generated enough of an income stream to become self-sufficient. A recent expert panel report to the Ontario government chaired by noted Canadian businessman Jim Balsillie raised this issue, stating "…the knowledge created on Ontario campuses is often left on academic shelves or licensed and/or sold at a development stage that significantly limits the returns to Ontario's economy."[48] If the Ontario government is keen on providing financial support to companies to come to Ontario, it should negotiate a share of revenues from their intellectual property generated, even if just to recoup the original investment made.

[46] "Catherine McIntyre, "Income from IP declining at Canadian universities even as governments push for better returns on R&D," The Logic, January 19, 2021. https://thelogic.co/news/income-from-ip-declining-at-canadian-universities-even-as-governments-push-for-better-returns-on-rd/.

[47] Ibid.

[48] Expert Panel on Intellectual Property, Report: Intellectual Property in Ontario's Innovation Ecosystem, February 2020. https://files.ontario.ca/books/expert-panel-report-intellectual-property-2020-02-20_0.pdf.

Conclusion

The Ontario and Alberta governments have announced plans to establish investment attraction agencies. The timing is right – especially as these governments develop their post-pandemic recovery plans. Restoring FDI to pre-pandemic levels will be crucial to economic growth, innovation, and jobs.

This Ontario 360 policy paper has sought to inform and guide these governments as they seek to operationalize Invest Ontario and Invest Alberta. It has drawn on academic scholarship and international best practices – including peer jurisdictions such as Ohio and Michigan – to set out key "foundational" and "targeted" recommendations for Ontario and Alberta policymakers.

The "foundational" lessons are as follows: governments should establish clear and transparent mandates for these agencies, regularly produce and release holistic performance evaluations, and ensure the right mix of policy tools and personnel for these agencies to effectively function as one-stop shops for investors and businesses.

The "targeted" lessons are as follows: balance a prioritization of people and firms, target place-based policies to address regional economic disparity, and consider non-traditional policy levers such as the stock of housing, childcare, and social supports as key determinants of investment.

Appendix –

Michigan Economic Development Corporation (MEDC) Regional Reporting[49]

Region 1 – Upper Peninsula (FY2020, 2021)
Total Projects: 70
Jobs Committed: 50
Total Public Support: $18,255,560
Total Private Support: $8,790,691

Region 2 – Northwest (FY2017-2021)
Total Projects: 192
Jobs Committed: 455
Total Public Support: $58,784,765
Total Private Support: $287,844,643

Region 3 – Northeast (FY2017-2021)
Total Projects: 52
Jobs Committed: 300
Total Public Support: $21,826,244
Total Private Support: $116,686,819

Region 4 – West Michigan (FY2017-2021)
Total Projects: 864
Jobs Committed: 9,516
Total Public Support: $420,679,804
Total Private Support: $2,288,985,974

Region 5 – East Central (FY2017-2021)
Total Projects: 243
Jobs Committed: 1,795
Total Public Support: $420,679,804
Total Private Support: $2,288,985,974

[49] Michigan Economic Development Corporation, "Project Map," Accessed December 2020. https://puremi.ch/2JdiU6I.

Region 6 – East Michigan (FY2017-2021)
Total Projects: 253
Jobs Committed: 3,001
Total Public Support: $110,149,391
Total Private Support: $524,841,165

Region 7 – South Central (FY2017-2021)
Total Projects: 142
Jobs Committed: 2,625
Total Public Support: $270,611,328
Total Private Support: $1,241,494,087

Region 8 – Southwest (FY2017-2021)
Total Projects: 293
Jobs Committed: 2,499
Total Public Support: $346,358,401
Total Private Support: $2,248,427,185

Region 9 – Southeast Michigan (FY2017-2021)
Total Projects: 412
Jobs Committed: 3,942
Total Public Support: $351,080,982
Total Private Support: $1,388,558,470

Region 10 – Detroit Metro (FY2017-2021)
Total Projects: 1,021
Jobs Committed: 55,661
Total Public Support: $6,524,812,228
Total Private Support: $20,911,082,572

ONTARIO 360

Mitchell Davidson is the Executive Director of the StrategyCorp Institute of Public Policy and Economy. In this role, he brings a unique cross-section of public policy experience and political expertise from his nearly six years at Queen's Park, culminating as Executive Director of Policy to the Premier of Ontario. Mitchell was recently named a Global Fellow for the Woodrow Wilson Center's Canada Institute.

For more information about Ontario 360 and its objectives contact:

Sean Speer
Project Co-Director
sean.speer@utoronto.ca

Drew Fagan
Project Co-Director
drew.fagan@utoronto.ca

on360.ca