Supplementary Information

Five-Year Report to Parliament 2003–2008

Building a Stronger Economy Together

Atlantic Canada Opportunities Agency
Agence de promotion économique du Canada atlantique

Canada

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Supplementary Information – Five-Year Report to Parliament

Economic Performance in Atlantic Canada 2003–2007

The development of the Atlantic Canadian economy has been influenced by a number of factors over the past five years. International competition from emerging low-cost producers and a high exchange rate have challenged the region's already limited manufacturing base and its seasonal industries. While resource-based industries continue to underpin parts of the economy, there has been diversification into new value-added products and services, and emerging knowledge-based sectors have become part of the region's economic landscape. ACOA has supported the development of several of these sectors as they sought growth opportunities and value-added activities.

ACOA has played a significant role in this success by adapting rapidly to the changing political, social, and economic forces pressing on the region. Through its programming, ACOA has helped each of the Atlantic provinces to capitalize on opportunities related to its strengths.

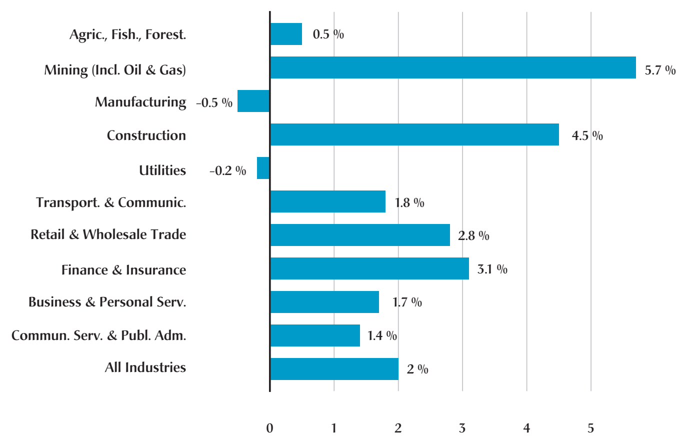
- Newfoundland and Labrador's economy benefited from opportunities associated with its rich oil and mineral resources and expertise in ocean technologies.
- Prince Edward Island pursued further economic diversification through cluster development in the bio-resource, aerospace, information and communications technology, tourism and wind energy sectors.
- In Nova Scotia, the emergence of new industries, including the life sciences, information technology and financial sectors, bodes well for future job creation.
- In New Brunswick, several developments have positioned the province for sustained economic growth, relating to the energy, mining, aquaculture, and business service sectors.

Economic Growth

(This section of the report deals with the five calendar years 2003-2007, using annualized data from Statistics Canada.)

Growth in Atlantic Canada (Real Gross Domestic Product) averaged 2.0% annually between 2003 and 2007, slightly below the national rate of expansion of 2.6%. Economic growth in the region was driven mainly by increased investment in infrastructure, housing, and mineral and energy projects. The retail and wholesale trade, finance and insurance sectors also registered above-average growth during the period. Impacted by the considerable rise in the Canadian dollar and high energy costs, the manufacturing sector underwent significant restructuring, which led to numerous job losses and the closure of several plants in the region. These impacts were felt particularly in the food processing (e.g. fish processing) and forestry (e.g. pulp and paper, and wood products) sectors, with the latter also affected by the downturn in the housing sector in the United States.

Real GDP by Industry, Atlantic Canada, 2003–2007
(average annual percent change)
Source: The Conference Board of Canada.



Newfoundland and Labrador

The Newfoundland and Labrador economy performed well over the past five years, with real GDP increasing by an average of 3.1%. This strong performance was mainly due to significant developments in the mining and oil industries, and the development of expertise in areas such as ocean technologies. The development of the $2.4-billion White Rose offshore oil project and the $2.9-billion-Voisey's Bay nickel, copper and cobalt deposit in northern Labrador fuelled construction activity in the province, and along with gains from iron ore, significantly boosted oil and mineral production during the 2003 to 2007 period.

The value of mineral production in the province has increased substantially in the past several years, due to increased world commodity prices and increased production. ACOA's support of the industry aims to enhance R&D and maximize business opportunities. For example, the Agency committed $23.1 million to Memorial University of Newfoundland to establish an innovation centre in the mining sector with a focus on research related to geosciences and process engineering. The research has resulted in process improvements at Vale Inco's operations in the province, new contract awards related to ore characterization, and progress on commercializing research in areas related to geosciences.

Newfoundland and Labrador produced 134 million barrels of oil in 2007, 14% of total Canadian production. The oil industry provides direct employment for 3,000 people, supports a significant number of local services and supply companies, and is responsible for an estimated 15% of annual real GDP. ACOA works with stakeholders to identify new opportunities, to attract investment and to address challenges related to the exploration and development of Newfoundland and Labrador's oil and gas resources. Some examples of recent ACOA-led studies include: *An Assessment of Atlantic Canada's Offshore vis-à-vis Competing Jurisdictions*, completed in partnership with Natural Resources Canada and Industry Canada, and *Location, Environmental and Other Factors Influencing Exploration and Development of Labrador Gas*, completed in partnership with oil and gas companies with an interest in offshore Labrador.

Newfoundland and Labrador's developing offshore oil industry has also provided a number of research and innovation opportunities for ocean technology industries related to ice management, marine communications and safety challenges. Growth of Newfoundland and Labrador's ocean technology industry has been substantial over the current decade. The number of private sector companies grew from 33 firms with $117 million in sales in 2001, to more than 50 firms with $230 million in sales in 2005. Private sector employment totalled 1,470 people in 2005 – up by more than 65% over 2001 employment numbers. The Agency has worked closely with the National Research Council's Institute of Ocean Technology (NRC-IOT), Memorial University / Marine Institute, the Government of Newfoundland and Labrador and industry players to encourage collaboration and to build a sustainable ocean technology cluster in the province.

Prince Edward Island

Economic growth in Prince Edward Island averaged 2.3% between 2003 and 2007. The services-producing sectors performed well during this period, with the addition of call centres, financial services companies and information technology firms. The province continued to build on its reputation as a leader in the development of renewable energy sources, as significant investments were undertaken to increase wind generating capacity through the addition of new wind farms. ACOA, in collaboration with Natural Resources Canada and Transport Canada, established the Wind Energy Institute of Canada in Prince Edward Island.

ACOA has also played an integral role in creating a bioscience cluster within the province. The Agency's investments have been the key to enabling private and public sector R&D institutions to develop the expertise and experience needed to promote this cluster. Development of new pharmaceutical products, sustainable production methods for marine biocompounds, development of erosion-resistant protective coatings for the aerospace industry, development of vaccines, the creation of new food and skin-care products using nutriscience, and health research for human neurodegenerative diseases are a few examples of the dynamic growth in this emerging sector.

The aerospace industry in Prince Edward Island has evolved in large part due to the creation of Slemon Park Corporation. Since its evolution in the early 1990s, this industry has become the province's second-largest producer of total exports, representing close to $200 million in annual sales. Local companies like MDS-Prad and Atlantic Turbines International Inc. have been industry leaders in the knowledge-based economy. Leading-edge R&D has positioned MDS-Prad as one of the world's premier sources of protective coating products. With its development of world-class engine repair techniques, Atlantic Turbines International has become an industry leader in the areas of gas turbine engine maintenance and restoration.

Prince Edward Island's information technology cluster continues to strengthen thanks to the sum of its parts. Today's savvy entrepreneurs realize that innovative technology has proven to be the equalizer when it comes to delivering products and services worldwide. Business location has become irrelevant. ACOA's Atlantic Innovation Fund has enabled entrepreneurs to develop commercially viable software to assist local governments and utilities in running their operations more efficiently; to create user-friendly and reliable e-health software for health providers in Canada and around the world; and to design multi-functional software applications for radiological information and imagery.

Nova Scotia

The Nova Scotia economy experienced moderate growth during the 2003 to 2007 period, averaging 1.4%. This growth was mainly driven by a growing service sector and strengthening retail sales. Within the services-producing sector, for example, significant expansion occurred in the financial services sector, as several offshore financial companies expanded or established operations in Halifax. ACOA contributed to this development through the Trade and Investment component of the Atlantic Investment Partnership. The Agency invested in several international banks and IT companies that have created jobs in Nova Scotia.

Nova Scotia's manufacturing sector has been impacted significantly by the rising dollar causing a loss of competitive position in the global market. However, the development of emerging sectors illustrates the progress being made in the region; these sectors include: information and communications technologies; biotechnology, life sciences and bioresources; aerospace and defence; advanced manufacturing; and marine technologies. Aerospace, in particular, is a bright spot in Nova Scotia, as firms are expanding and new projects are being developed.

Traditional resource-based industries are undergoing significant changes. For example, new value-added products in both the wood and food processing industries have allowed them to become much more export intensive.

The transformation of Nova Scotia's traditionally resource-based economy to an innovative and globally competitive, knowledge-based economy is ongoing, but poses many major social and economic challenges. For example, many of Nova Scotia's foundational industries (fisheries, forestry, agriculture and tourism) are struggling to adjust to rapidly increasing competition from other exporting countries. Success in these areas will depend largely on their ability to innovate and to increase productivity.

Rural areas, in particular, will be affected by the effects of slow population growth and an aging population. These will combine to constrain the capacity for rural communities to maintain and increase economic expansion. More effort will be needed to ensure an adequate supply of labour.

ACOA has made significant investments in the research and development sectors of the Nova Scotia economy. Through investments by the Atlantic Innovation Fund, ACOA has facilitated public-private partnerships to develop technology that has high commercialization potential. In addition, ACOA has invested funds from the Business Development Program to help companies acquire new technology and adopt more productive methodologies. This will continue to be the focus of ACOA going forward.

ACOA is a partner to companies and researchers in the life sciences sector and has supported several projects in these areas. The Nova Scotia Life Sciences Asset Map estimates that, in 2005, there were approximately 50 core life sciences companies in Nova Scotia with close to 500 products competing in the global marketplace. Collectively, these products generated more than $181 million in sales, most of these in the sub-sectors of functional foods and neutraceuticals, pharmaceuticals and agriculture. Virtually all of the province's products in the life sciences are exported, with four major companies responsible for more than 85% of total sales.

New Brunswick

The New Brunswick economy was confronted with various challenges between 2003 and 2007, particularly those faced by the forest and non-energy manufacturing sectors due to the appreciation of the Canadian dollar and the slowdown in the U.S. economy. Despite these challenges, New Brunswick's economy performed well, reflecting its growing diversity.

Between 2003 and 2007, the New Brunswick economy grew by an average of 2.0% per year. Investment has been the principal driver of growth during the past five years, with two megaprojects dominating investment in non-residential construction: the Point Lepreau refurbishment project and the construction of the Canaport LNG terminal in Saint John. In 2007, overall, capital investment reached $6.0 billion, a 5.4% increase over 2006 and the highest level on record.

With strong gains in the information technology, finance and insurance, as well as the retail and wholesale trade sectors, the province's services-producing industries played a major part in economic growth.

While the economy has performed well overall, economic growth and expansion is unequally distributed throughout the province. New Brunswick's rural communities continue to face significant challenges including exposure to serious disruptions due to trade disputes, resource rationalization, a higher Canadian dollar, and higher commodity prices.

ACOA has made strategic investments in New Brunswick's key economic sectors to facilitate full participation in the province's current economic expansion. For example, ACOA has made critical investments in New Brunswick's aquaculture industry, which focus on innovation and technology, productivity and business skills development, and capacity building and marketing. These investments have led to employment creation and diversification of the region's rural and coastal communities.

ACOA also created the Chaleur-Restigouche Initiative, a three-year effort to assist SMEs in the northeast region of New Brunswick to adjust to the closure of the Brunswick Mine and Smelter, as well as the downturn in the forestry sector. Among its notable accomplishments, ACOA undertook extensive assessments of 149 potential SME clients, which led to projects with 40 SMES to develop new products, find new national and international markets, and improve their management skills – particularly in the areas of trade and innovation.

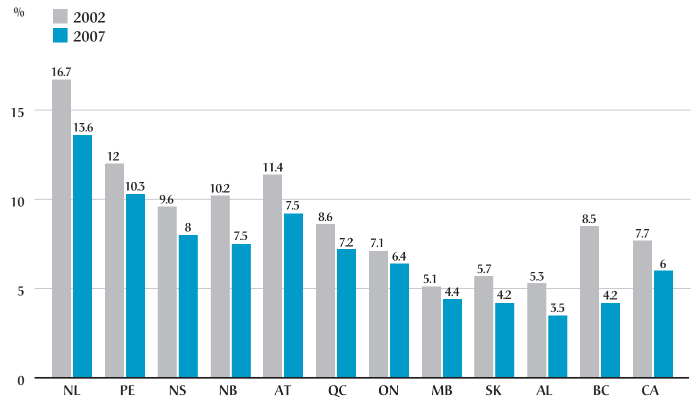
In New Brunswick, ACOA will continue to facilitate full participation in the economy by making investments that build and capitalize on local capacity, foster economic diversification, and help communities transition beyond traditional economic activity.

Labour Market

Benefiting from sustained economic growth, Atlantic Canada's labour market improved significantly between 2002 and 2007. While below the national annual average of 2.0%, employment growth in the region averaged 1.1% over the past five years, as nearly 60,000 more people were employed in Atlantic Canada in 2007 than in 2002. The unemployment rate fell steadily, from 11.4% in 2002 to 9.2% in 2007, attaining its lowest level in over 30 years. The region's participation and employment rates improved during the period and stood at record levels in 2007. While the region's labour market still underperforms the national labour market, these indicators are becoming closer to Canadian averages.

Unemployment Rates, 2002 and 2007

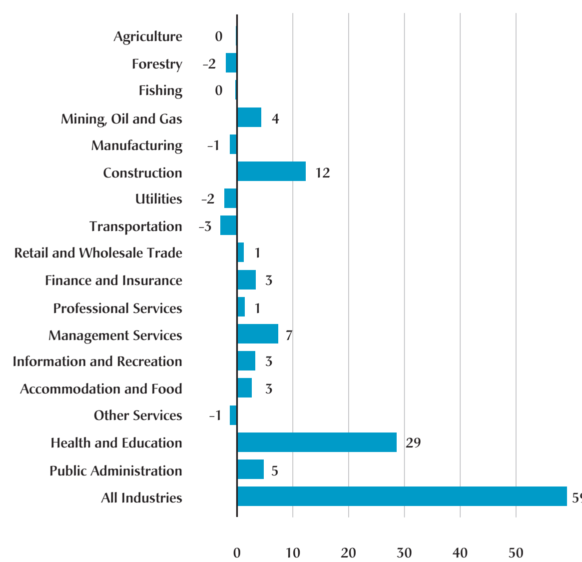
Source: Statistics Canada – Labour Force Survey.



Employment growth in the region over the past five years occurred mainly in construction, mining and oil and gas extraction, management services (e.g. call centres), education (e.g. post-secondary institutions), health care and social assistance, and public administration (e.g. provincial and local governments).

Net Employment Change by Industry Atlantic Canada, 2002–2007
(000s)

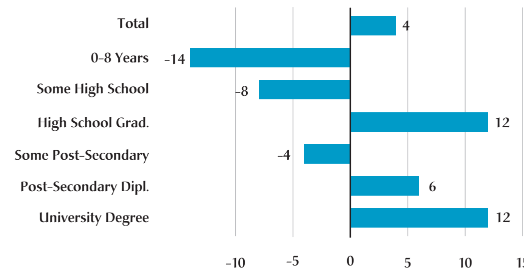
Source: Statistics Canada, Labour Force Survey.



The temporary or permanent closure of facilities led to a decline in manufacturing employment, which also translated into employment losses in the forestry, utilities and transportation industries. These sectors are highly dependent on manufacturing activity. Most of the job decline in manufacturing was in food processing, wood and pulp and paper products, and transportation equipment, while employment grew significantly in refined petroleum products and plastics and rubber products.

During the 2002-2006 period, most jobs in Atlantic Canada required an increasing level of skill. All of the employment growth in Atlantic Canada during this period occurred among workers who had a high school diploma or higher levels of education, with significant growth observed for those possessing university degrees. Those workers who had not completed a high school education found the labour market prospects unfavourable, as employment declined for these groups.

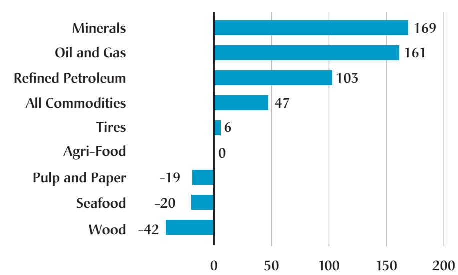
Employment by Educational Attainment Atlantic Canada, 2002–2006
(percentage change)
Source: Statistics Canada, Labour Force Survey.



Exports

Given a small domestic market, exports are key to economic growth in Atlantic Canada. The region's exports of goods and services in 2006 stood at $30 billion, accounting for 35% of the region's GDP. Commodity exports from Atlantic Canada rose by 47% between 2002 and 2007, considerably stronger than the national increase of 14%. Gains in the region were mainly due to increased exports of refined petroleum products, crude oil and minerals (e.g. iron ore, nickel, copper), which benefited from higher prices and the addition of new production capacity (e.g. White Rose, Voisey's Bay).

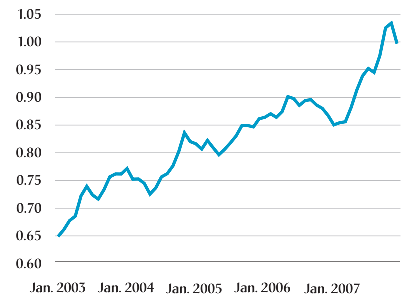
Commodity Exports, Atlantic Canada, 2002–2007
(Percentage Change)
Source: Statistics Canada, Canadian International Merchandise Trade.



Exports to the United States, the main destination for the region's products, rose by 43% between 2002 and 2007, but the U.S. market declined somewhat in importance during the period. In 2007, 81% of exports from Atlantic Canada were destined for the United States, down from 83% in 2002.

The Canadian dollar's considerable rise against the U.S. dollar over the past five years affected the global competitiveness of the region's manufacturing and resource-based firms. The Canadian dollar had appreciated by 55% or $0.36 since the end of 2002, attaining parity with the U.S. dollar in late September 2007 and setting a modern-day record ($1.10) in November 2007. Although the dollar recently declined, it continues to pose a downside risk to exports and to overall economic growth in Atlantic Canada.

Exchange Rate Canada / United States
Monthly Average (Noon)
Source: Bank of Canada, Financial Markets Department.



Market conditions for commodities trading in U.S. dollars deteriorated significantly during the period. The forestry sector did not enjoy the higher commodity prices experienced by the petroleum and mining industries, resulting in lower export volumes and values for wood and pulp and paper products. Similar results were felt in the seafood industry.

Due to the strength of the Canadian dollar against the U.S. dollar, markets outside the United States became increasingly important to the region's producers. Export growth to Germany, China, the United Kingdom, Finland, Chile and Spain was significant during the 2002 to 2007 period. These regions have provided markets for manufactured value-added products. While representing only a small part of overall exports, shipments of these products have increased, with significant growth occurring in primary metals, aerospace components, chemicals, computer and electronic products, industrial machinery and plastic products.

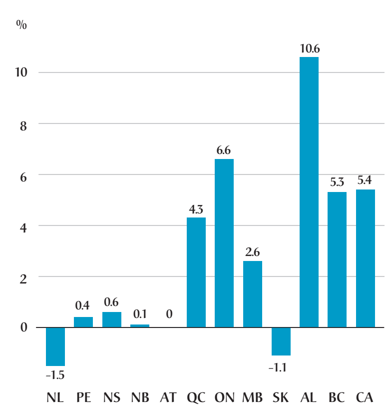
Structural Challenges in the Economy of Atlantic Canada

Despite its recent progress, Atlantic Canada continues to face challenges in improving the region's standard of living. Innovation, research and development spending, and technology adoption – key factors in improving the region's low levels of productivity – remain below the national average. Atlantic Canada is Canada's most rural region, characterized by declining population levels and a lack of employment opportunities. The labour supply is threatened by a high level of out-migration, declining birth rates and low immigration levels.

Demographics

Population Change 2001–2006

Source: Statistics Canada, Census of Canada.



The population of Atlantic Canada has remained unchanged since 2001, falling slightly (by 950 persons or .04%) from 2,285,729 in 2001 to 2,284,779 in 2006. The population of Canada increased by 5.4% during this same period. Atlantic Canada's share of the Canadian population fell from 7.6% in 2001 to 7.2% in 2006.

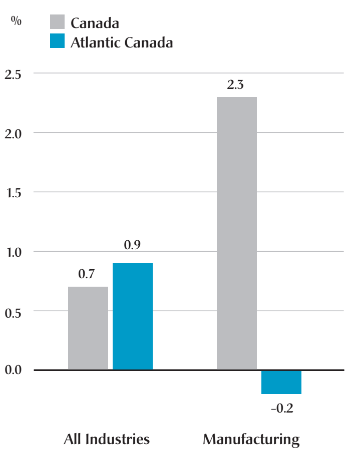
Between 2001 and 2006 New Brunswick, Prince Edward Island and Nova Scotia experienced small population increases; however, Newfoundland and Labrador experienced a population decline. New Brunswick's population increased by 0.1% or 499, Prince Edward Island's population increased by 0.4% or 557, and Nova Scotia's population increased by 0.6% or 5,455. The population of Newfoundland and Labrador fell by 1.5% or 7,461.

The region continues to be more rural than the rest of the country, but that reality is changing as people leave slower growth regions, such as Cape Breton, northern New Brunswick and outports in Newfoundland and Labrador, for major metropolitan areas such as Halifax, Moncton and St. John's. Over the 2001 to 2006 period, the population in the seven major urban areas in Atlantic Canada increased by 3.1%, while it fell by 2.6% in the rest of the region.

The lack of population growth in Atlantic Canada is largely due to out-migration, especially of young people leaving the region in search of employment, particularly to Alberta. In addition, the region has attracted relatively few immigrants. During the 2002-2006 period, Atlantic Canada averaged only 1.5% of new immigrants to Canada.

Productivity

Productivity Growth, 2003–2007
(average annual percent change)
Source: Statistics Canada – Labour Force Survey.



Productivity growth is the most important source of long-term economic growth and is the key determinant of long-run trends in both absolute and relative living standards.

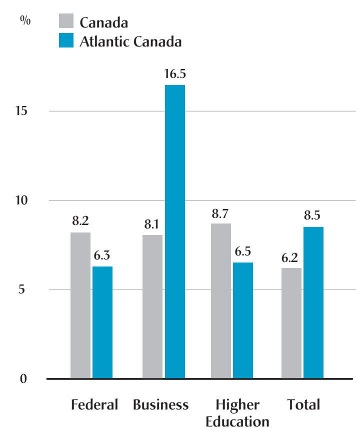
Productivity growth in Atlantic Canada kept pace with national gains over the 2003 to 2007 period. Growth in labour productivity averaged 0.9% in Atlantic Canada over this period, compared with 0.7% for Canada. Despite this progress, regional labour productivity remained at 86% of the national level in 2007. Facing a rising currency and high energy costs, productivity in the region's key manufacturing sector deteriorated over the five-year period, and stood at 74% of the Canadian average in 2007.

Productivity levels in Atlantic Canada are related to the industrial structure of the region. Atlantic Canada's economy has a relatively small and narrow manufacturing base, accounting for 10% of the economy, compared with 15% for the nation. There are a few large producers, but the majority of firms are small. Natural resource-based industries account for a greater portion of the Atlantic Canadian economy and certain primary resource activities are seasonal, which leaves capital unused for parts of the year, thereby reducing productivity levels.

Research and development levels in the region are much lower than national levels. In 2005, total expenditures on R&D in Atlantic Canada, as a percentage of GDP, were 1.3%, compared with 2.0% for Canada. Business expenditures on R&D, as a percentage of GDP in the region, were 0.3% in 2005, compared with the national figure of 1.0%. Over the 2001 to 2005 period, per capita expenditures on R&D in Atlantic Canada averaged 46% of the Canadian total. The region is also more reliant on the public sector for R&D, including government and higher education institutions, than is the Canadian average. The business sector funds 27% of all R&D activity in Atlantic Canada, compared with the national figure of 48%.

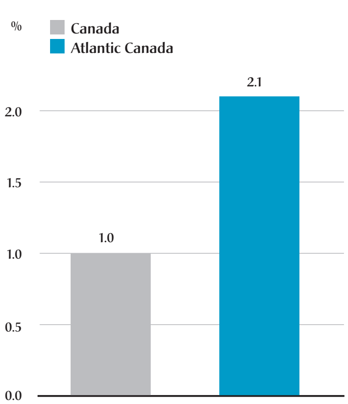
While research and development efforts in the region remain lower than national levels; they have improved significantly over the past few years. Between 2000 and 2005, expenditures on R&D in Atlantic Canada rose by an annual average of 8.5%, ahead of the national increase of 6.2%. Most of the improvement in the region was due to funding from the private sector, as business spending on R&D rose by an average of 16.5% during the 2001-2005 period, more than the double the national average rate of increase.

R&D Funding Growth by Sector 2001–2005
(average annual percent change)
Source: Statistics Canada.



Investment is a critical element of productivity improvement. Increases in machinery and equipment investment enable firms to adopt the latest technologies and processes, resulting generally in a more efficient use of labour resources and a greater level of output. Machinery and equipment investment per worker in Atlantic Canada averaged 86% of the Canadian total during the 2002-2006 period. The situation improved over the period, as spending on machinery and equipment per worker grew by an average of 2.1% in the region, double the national increase.

Machinery and Equipment Investment Per Worker, 2002–2006
(average annual percent change)
Source: Conference Board of Canada.



A number of the factors that contribute to lower levels of productivity in Atlantic Canada relative to the national economy are being addressed by ACOA's strategy for economic development in the region. These include the need to increase innovative activity, R&D spending, levels of business skills, trade exposure and investments in machinery and equipment (technology adoption), as well as improvements to economic infrastructure.

ACOA's Impact

This section investigates ACOA's impact on the firms it has supported through its programs and on the economy in Atlantic Canada.

The analysis is twofold. First, a comparative analysis of economic performance is carried out between ACOA clients and comparable firms[1]. Secondly, an economic impact analysis estimates the economic benefits of ACOA's programs in Atlantic Canada.

Comparative Analysis of Impacts

This section gauges how ACOA's programs are affecting the firms that receive support. Results from these firms are compared with results of other firms in the region as a way of controlling for a changing environment, as both groups are affected by the same economic conditions. The comparative analysis is carried out on small and medium-sized enterprises (SMEs). While some definitions of SMEs are based on the size of revenues, the most intuitive definition, and the one used in this analysis, is based on employment. For this analysis, an SME is defined as a firm employing fewer than 100 workers. When applying this definition, SMEs represent the vast majority of ACOA clients. In fact, almost 95% of ACOA clients are defined as SMEs.

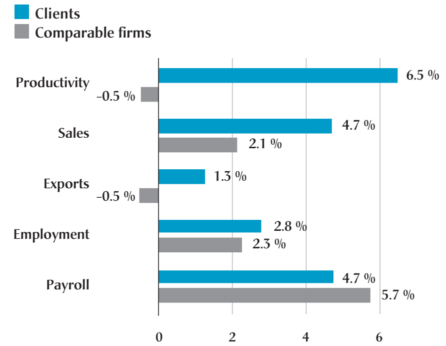
1 The analysis is carried out by comparing "ACOA clients" to "comparable firms". Comparable firms are firms that are of similar age, sector and geography but did not receive direct monetary contribution from the Agency.

Key Performance Indicators

The first chart, Key Performance Indicators, provides a profile of the performance results between ACOA clients and comparable firms in Atlantic Canada. Comparisons are shown of the annual average growth rate for:

- Productivity;
- Sales;
- Exports;
- Employment (excludes public administration); and
- Payroll (excludes public administration).

Key Performance Indicators
Average Annual Growth Rate
(Percentage Change)
Source: Statistics Canada.



Note: The period covered for Employment and Payroll is from 1995 to 2005; Exports is from 2000 to 2005; and Sales and Productivity is from 2001 to 2005. The comparison is done on SMEs only, with the exception of Exports for which all firms are included.

Productivity and Sales

One of ACOA's key priorities is helping SMEs increase productivity and improve their competitive position. Whether it is for a new business or the expansion or modernization of an existing one, the Agency invests in companies thereby enabling them to make process improvements, reduce waste reduction, acquire new technology, train their workers and develop managerial skills. Stronger businesses result in new investments in the region and contribute to employment creation and increased earned income.

> Productivity increased by 6.4% for ACOA clients, while comparable firms experienced a decline.

Labour productivity, which is estimated using the inflation-adjusted sales per worker, experienced stalwart growth from 2001 to 2005. More specifically, productivity increased by 6.4% per year for ACOA clients while comparable firms experienced a decline of 0.5%. Moreover, sales by small and medium-sized ACOA clients have increased at a solid rate from 2001 to 2005, rising by an average of 4.7% per year. Comparable firms have averaged only 2.1% sales growth during the same time period.

Exports

According to Statistics Canada data, exports by small and medium-sized ACOA clients increased from $537 million in 2000 to $959 million in 2005. This represents an average growth in exports of 12.3% per year. Exports for comparable firms declined from $1.1 billion to $811 million during the same time period, falling by an average of 5.9% annually. ACOA plays an important role in terms of exports by SMEs, as ACOA clients accounted for 54% of exports by all of Atlantic Canada's SMEs in 2005.

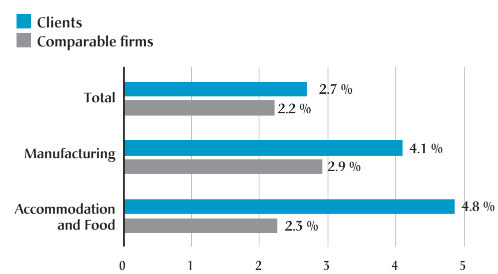
From 2000 to 2005, the key export market for ACOA client SMEs was the United States. Almost 90% of exports from ACOA clients were shipped south of the border, while only 10% of exports were destined for other international markets. Comparable firms had a more diversified portfolio, with about 75% of their goods going to the United States and 25% exported to other international markets.

Employment and Payroll (excluding the public administration sector)

Employment in small and medium-sized ACOA clients is estimated to have grown by an average of 2.7% per year from1995 to 2005, while employment for comparable firms only grew by 2.2%.

Job gains were particularly significant in the manufacturing sector and in accommodation and food services for ACOA clients. In fact, employment growth in the manufacturing sector averaged 4.1% per year over the 10-year period and represented more than half of the job gains registered by ACOA clients. Employment for comparable firms in the manufacturing sector increased at a slower pace, coming in at an average of 2.9% per year. Moreover, net job gains for ACOA clients operating in the manufacturing sector were higher than comparable firms.

Employment: Average Annual Growth in SMEs (1995–2005)
(Percentage Change)
Source: Statistics Canada.



Employment in the accommodation and food services sector grew by an average of 4.9% per year from 1995 to 2005 for ACOA clients. On the other hand, job growth was weaker for comparable firms operating in this sector, averaging 2.2% per year over the same time period.

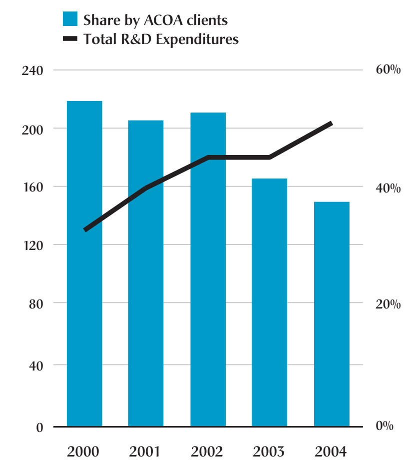
While employment growth for ACOA clients outpaced comparable firms, payroll growth did not ensue as payroll for ACOA clients expanded by one percentage point less than payroll for comparable firms. More specifically, payroll expanded by an average of 4.7% per year from 1995 to 2005 for ACOA clients while payroll for comparable firms increased by 5.7% for the same time period.

Research and Development

Research and development (R&D) is vital to increasing an economy's competitiveness, as it leads to increases in productivity and the commercialization of new products.

From 2000 to 2004, spending on industrial R&D in Atlantic Canada grew from $132 million to $204 million, representing an average increase of 11.5% per year and outpacing national R&D expenditure growth. R&D expenditures by ACOA clients peaked at $95 million in 2002, before posting a decline in the next couple of years. R&D expenditures by comparable firms increased sharply during the 2000 to 2004 period, reaching $127 million in 2004. Still, according to Statistics Canada, spending on industrial R&D by ACOA clients represents a significant share of total R&D spending in Atlantic Canada, equalling 38% in 2004.

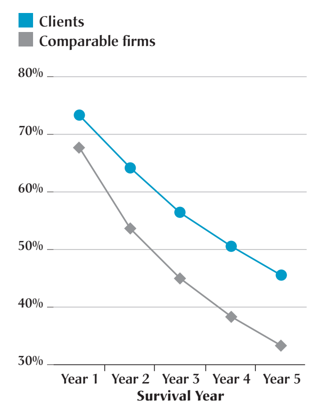
Total Business Enterprise Research & Development Expenditures
(million $)
Source: Statistics Canada – Labour Force Survey.



Business Survival Rate

A company's survival depends on many factors including the age of the business, location and size. In Atlantic Canada, 87% of firms are in the small size category (fewer than 20 workers); 80% of ACOA's start-up clients fall into this category. The impact of ACOA programming is evident. The business survival rate for ACOA clients in the small category is 46% after the crucial fifth year following start-up. In the absence of ACOA support, the business survival rate would have been 13 percentage points lower.

Business Survival Rate: Small Firms (fewer than 20 workers)
Source: Statistics Canada.

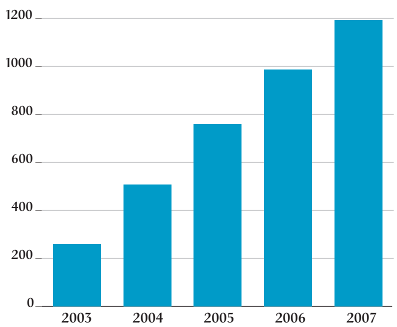


The economic impact analysis estimates the economic benefits of ACOA's programs in Atlantic Canada. The results are obtained through investment expenditures from commercial projects as well as the creation of jobs directly related to these projects. These are called direct impacts, as they can be attributed to specific projects. Through ACOA's direct support to business, the creation of jobs can be used to estimate the indirect and induced impact on the economies of the four Atlantic provinces. In the analysis, the jobs are translated into a measure of value-added output by economic sector. From the value-added output, the economic impact is estimated using econometric models developed by The Conference Board of Canada for each Atlantic province. In this manner, direct, indirect and induced macro-economic effects – in particular the impact on gross domestic product (GDP), employment, wages and tax revenues – are estimated.

Gross Domestic Product

It is estimated that real GDP is $1.2 billion higher (in constant 1997 dollars) in 2007 than it would have been in the absence of ACOA's expenditures in direct support of businesses. (Real GDP is the inflation-adjusted value added of products and services produced in a given year in an economy.)

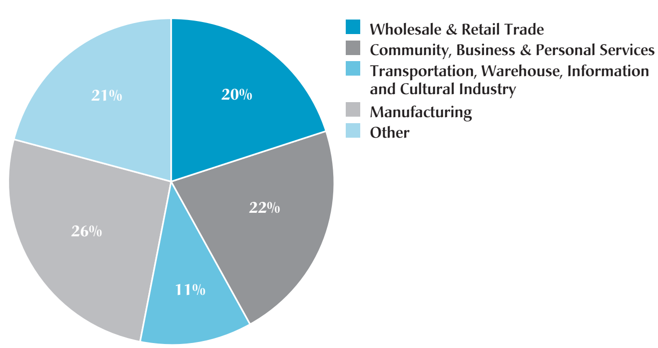
Total Impact on GDP
($ millions 1997)
Sources: Simulations by the Atlantic Canada Opportunities Agency; The Conference Board of Canada economic models.



The main sector affected by the Agency's support is manufacturing. In fact, about 50% of commercial projects supported by ACOA were in the manufacturing sector. Consequently, manufacturing output is $312 million higher in 2007 in Atlantic Canada than it would have been without the ACOA's support.

Other sectors showing significant results are the community, business and personal services; wholesale and retail trade; and transportation, warehousing, information and cultural industry. While ACOA's support was not primarily directed at these sectors, the indirect and induced effects of projects in other sectors contributed to the increase in output from these sectors. The indirect impact is generated in industries that supply or provide services to businesses that receive ACOA assistance. The induced impact is generated from the increase in expenditures by individuals that are directly or indirectly employed as a result of ACOA assistance. More specifically, total personal income in the region was $1 billion higher in 2007, leading to an increase of $745 million in consumer spending.

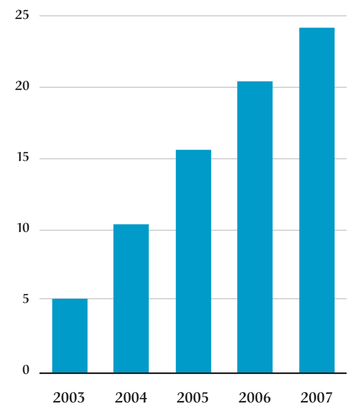
Share of Total GDP Impact by Sector (2007)
Source: Simulations by the Atlantic Canada Opportunities Agency; the Conference Board of Canada econometric models.



Employment

Total employment in the Atlantic provinces was almost 25,000 higher (including direct, indirect and induced employment gains) in 2007 than it would have been without ACOA's direct support to businesses over the previous five years. The employment numbers shown are gross estimates and do not take into consideration the net job gains or losses as a result of economic conditions.

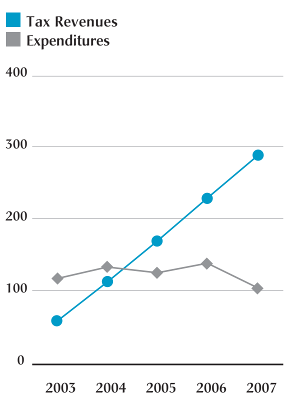
Impact on Total Employment (000s)
Source: Simulations by the Atlantic Canada Opportunities Agency; The Conference Board of Canada econometric models.



Return to Taxpayers

From 2003 to 2007, expenditures[2] of about $622 million have produced tax revenues of over $865 million; furthermore, over the five-year period, direct ACOA support to businesses for commercial projects produced increases of over $7 in GDP gains for every dollar of ACOA expenditure.

Tax Revenues Resulting from ACOA Expenditures ($ millions)
Source: Simulations by the Atlantic Canada Opportunities Agency; The Conference Board of Canada econometric models.



The figure shown includes personal income taxes on wages earned by employees and sales taxes on purchases made by companies and individuals. Note that these tax revenues do not include corporate income taxes which, for technical reasons, cannot be estimated by the econometric models developed by The Conference Board of Canada. In the interest of producing conservative estimates, possible savings to the government in employment insurance payments and social assistance due to the additional employment created by ACOA clients have not been included.

Hypotheses

For a description of the methodology and approach used in estimating the economic impact analysis of ACOA programming on Atlantic Canada's economy, as reported in this Five-Year Report to Parliament, visit ACOA's website. It is important, however, to note several features and hypotheses used for these estimates.

1. Jobs actually created from successful projects are used to calculate benefits. Estimated jobs created at the firm level are tracked through ACOA's client database.

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2 Expenditures are the sum of spending under commercial projects from ACOA programs, including the Community Futures Program and the SEED Capital ConneXion Program for Young Entrepreneurs.

2. Jobs maintained, although they do produce real economic benefits, are not included because of difficulties in providing a reliable measure of economic impact.
3. Capital expenditures, broken down into construction, and machinery and equipment, are used to estimate the economic impacts. It is important for expenditures to be segregated because the impact differs by category.
4. Incremental projects are used in the estimation of the economic benefits. Incremental projects are projects that would not have occurred in the absence of the financial assistance made available by ACOA.
5. Benefits include direct employment gains by ACOA clients, plus indirect and induced employment as estimated by the econometric models. The indirect impact is generated through the purchasing of goods and services from suppliers by ACOA clients. Induced impacts occur as incomes associated with direct and indirect employment gains are spent and re-spent throughout the economy.

Model Limitations

The economic impact analysis estimates the benefits of the Agency's programs in Atlantic Canada, but not all of the benefits can be incorporated in an econometric model. While approximately 35% of ACOA's spending over 2003-2008 was directed to commercial projects, such as business start-ups, expansions and modernization, the remaining share of the Agency's spending was directed to non-commercial projects. Examples of these projects include partnerships with universities and research centres, and infrastructure investments. The economic benefits of these projects are not quantified and are not incorporated in the results of the analysis.

Management Agenda

Overall Management Approach – Managing for Results and Accountability

Over the last five years, the Agency made results-based management and accountability the cornerstones of its management agenda. The Agency has invested in developing and implementing the Management, Resources and Results Structure (MRRS), a government-wide framework designed to integrate financial and non-financial information in a way that links results to resources. A key component of the MRRS is the Program Activity Architecture (PAA), which outlines the Agency's activities and how they will lead to expected results and longer term societal impacts in Atlantic Canada. The PAA has been the foundation for the Agency's integrated planning of human resources and financial resources, and reporting to Parliament. It also supports ACOA managers in making decisions to improve program effectiveness and strengthen accountability.

A testimony to ACOA's overall efforts to strengthen its management agenda can be found in the Agency's annual Management and Accountability Framework (MAF) assessment[3] by the Treasury Board Portfolio. Since 2006, ACOA has been ranked among the leaders in the Government of Canada, and has also been commended for bringing overall improvements to its management agenda.

3 The MAF is one of the major instruments used by central agencies and departments to promote, coordinate and measure departmental management capabilities and practices.

Specific Elements of ACOA's Management Agenda

Citizen-focused Service and *ACOA Direct*

Continuous improvement in client service has always been a critical issue for the Agency, considering the nature of its business. During 2006-2007, ACOA's third corporate client satisfaction survey was completed with an 84% satisfaction rating being achieved. These results demonstrate that the Agency, to a large degree, understands and meets its clients' needs.

The Agency continues to review performance standards for project approval under various programming activities. The Agency is re-aligning its efforts and plans to introduce service standards in the context of the forthcoming Treasury Board Service Policy Framework. In June 2006, the President of the Treasury Board commissioned an independent panel "to recommend measures to make the delivery of grant and contribution programs more efficient, while ensuring greater accountability." The Report of the Independent Blue Ribbon Panel on Grants and Contributions highlighted ACOA as a success story for best practices in managing grants and contributions.

"Over the last decade or so, the Atlantic Canada Opportunities Agency (ACOA) has significantly changed the way it does business. A fundamental decision was made to move from a 'project-based' approach to a 'client-based' approach. Each client is now assigned to a lead officer who manages all projects or dealings with that client. One of the key objectives was to shift the focus to managing the entire exposure with a client, as opposed to focusing on individual projects; this also resulted in significant improvements to client service.

A risk management framework was also developed to enable efficient management of the portfolio, maximize recovery, and provide more resources to fund future projects. Each client is now rated based on a five-tier risk gradation system (the rating is adjusted as circumstances change) to ensure that the level of monitoring and reporting done by ACOA is appropriate to the level of risk; this approach ensures the best use of Agency resources and reduces the administrative burden on low-risk accounts.

ACOA was able to streamline its claim process by introducing a compliance risk assessment to determine the selection of payment methods and the degree of verification required. As part of this streamlined process, applicants are no longer required to submit invoices, receipts and cancelled cheques in most cases. Post-payment audits are conducted on a 'sample' basis, as well as on the basis of accounts that have been flagged because of specific concerns. This has significantly reduced the administrative burden for both clients and ACOA.

The Agency has developed a client relationship management system and has automated various work tools and processes to improve portfolio management and better serve its clients. Some features include direct deposit, pre-authorized debits (for repayment) and automated monthly credit report updates with email notification to the lead officer on any negative activity."

From Red Tape to Clear Results – The Report of the Independent Blue Ribbon Panel on Grants and Contributions, December 2006, tabled in Parliament in February 2007.

In the spring of 2005, ACOA introduced a new Internet-based client portal. *ACOA Direct* allows clients to do business with the Agency electronically via the Government of Canada's Secure Channel – rated one of the most secure networks in the world. Like Internet banking, clients can log on to see their account profiles, repayment schedule and the status of their claims for payment. *ACOA Direct* provides clients with the ability to review up-to-the-minute information about their projects with ACOA from anywhere in the world, at a time and place of their choosing, and in the official language of their choice. The system enables the clients to access more services as they become available. *ACOA Direct* was recognized with a distinction award for innovative service delivery at the Government Technology Exhibition and Conference (GTEC) Awards in the fall of 2005.

Information Management

The Agency's progress in information management has been recognized internationally. ACOA was invited to Oxford University in September 2007 to present its work on Identity Management (a broad administrative area that deals with controlling individual access to resources within systems by associating user rights and restrictions with established identity). The Agency was also invited to present this work at the Conference of Asian Chief Information Officers in Singapore in 2006, where ACOA's presentation was voted best of the conference. In June 2007, the Agency's Records Management strategy using new technology was profiled in Microsoft's *Momentum* magazine.

Risk Management

In 2001, Treasury Board Secretariat developed the Integrated Risk Management Framework (IRMF), aimed at strengthening risk management practices within the Public Service of Canada. ACOA includes robust and continual risk management in project evaluation and control, as highlighted by the *Blue Ribbon Panel on Grants and Contributions*, noted previously. Further work on identifying existing and emerging risks to the Agency's programs and operations was conducted in the fall of 2004 and an IRMF was approved by ACOA's Executive Committee in May 2005.

To recognize the continuing importance of risk in the Agency's management framework, a Chief Risk Officer was appointed in the fall of 2006. A comprehensive review of risk issues and associated mitigating measures was undertaken and an updated Corporate Risk Profile was approved in January 2008.

Public Service Renewal

ACOA's vision is to continue to have the knowledge, skills and excellence to effectively deliver on its mandate, strategic outcomes, business objectives and Government of Canada priorities. From a human resources perspective, the Agency's focus is on excellence and development as part of its public service renewal strategy. The goal is to ensure that all employees have the necessary training, opportunities and support to ensure the achievement of personal, professional and strategic business goals. ACOA also wants to ensure that employees have the right skill sets, leadership capabilities and knowledge to maintain excellence in policy development and the delivery of programs and services.

In the 2005 Public Service Employee Survey, 76% of ACOA employees reported that they have opportunities to develop skills (11% higher than the public service average) and 75% felt that the Agency supports career development (19% higher than the public service average).

The Agency has been encouraging employees to identify their learning objectives and career development aspirations. In June 2007, the Agency released its Policy on Learning, Training and Development to help create a learning culture within the Agency.

Values and Ethics

The Agency is making a concerted effort to obtain employee feedback on issues related to values and ethics. ACOA is working to ensure that employees are informed of the Informal Conflict Management System and how to disclose information. The Treasury Board Secretariat commended ACOA for achieving good performance regarding the extent to which it maintains and promotes accessible avenues for disclosure of wrongdoing. The 2005 Public Service Survey results indicated that 77% of ACOA employees felt they knew where to go if faced with an ethical dilemma/value conflict (9% above the public service average); and 47% felt they could initiate a formal redress process without fear of reprisal (same as the public service average).

Employment Equity and Official Languages

Representation and inclusion are fundamental characteristics of the Public Service of Canada. ACOA has implemented a five-year plan to ensure it is fully compliant with legislation and policies in these areas. The plan provides an overview of ACOA representation in all four designated groups (persons with disabilities, Aboriginals, visible minorities and women), and identifies under-representation in comparison to external market workforce availability, while describing actions to address the issues identified in the employment system review.

ACOA has a strong framework and governance structure to support the use of official languages. The Agency has an official language committee comprising senior management champions, Section 41 (of the *Official Languages Act*) representatives and human resources representatives. Proactive measures taken by the Agency create an environment conducive to using both official languages. The results of the 2001 Public Service Employee Survey indicated that ACOA is ranked first for providing its employees with work tools in the language of their choice. In addition to language training, the Agency offers employees the option of undertaking full-time language studies as part of its own professional development program.

Growing Green

ACOA is committed to sustainable development by helping to develop more competitive, resource-efficient and sustainable businesses and communities. This includes finding ways to minimize the environmental impact of economic development by supporting businesses that practice “smart growth”– keeping a balance between economic growth and environmental and societal considerations. ACOA also supports sustainable communities through programs and services at the local level and investments in green community infrastructure projects (notably water and sewer improvements) under the Infrastructure Canada Program.