

Southwestern Ontario Development Fund *Consultation Paper*

Introduction

On November 29, 2011, the McGuinty government introduced the *Attracting Investment and Creating Jobs Act, 2011*. This Act proposes to make the Eastern Ontario Development Fund permanent as well as to establish and make permanent a new Southwestern Ontario Development Fund. These regional economic development funds, combined with other initiatives taken by the government, respond to the challenges facing local communities across Ontario. The two funds are focused on creating jobs and attracting new investment across multiple sectors.

The government intends to continue the Eastern Ontario Development Fund and will meet with stakeholders in the coming months to discuss enhancements to the fund's effectiveness.

The Southwestern Ontario Development Fund will build on the strengths of the region. To this end, the government is embarking on a consultation process aimed at developing a fund that addresses the economic development challenges faced by Southwestern Ontario. This Consultation Paper is intended to guide the discussions in the coming months on the parameters of the fund.

Context

The global economy is facing uncertain times. Ontario has made tremendous progress over the last eight years, but the province is not sheltered from the global economic downturn. As a response to this challenge, the Government of Ontario has taken a number of measures to improve the economy, create jobs, protect and continue to invest in education, while maintaining its commitment to eliminate the deficit. The government's priorities include:

1. Attracting investment and creating jobs

- Since the low point of the recession in May 2009, employment in Ontario has increased by almost 267,000 net new jobs, equal to nearly half of all the new jobs created in Canada.

2. Protecting education

- About 200,000 more students are currently enrolled in postsecondary education or learning a trade than in 2002–03.

3. Protecting Health Care

- Since 2003, about 1.3 million more Ontarians have access to a family doctor, with nearly 2,900 more doctors practising in the province.

4. Eliminating the deficit

- The 2011–12 deficit is currently projected to be \$16.0 billion an improvement of \$0.3 billion compared with the *2011 Budget*.

Economic Profile of Southwestern Ontario

"The fragile global economy has created uncertain times for families in Southwestern Ontario. We're committed to working together with businesses and communities to bring new opportunities and new

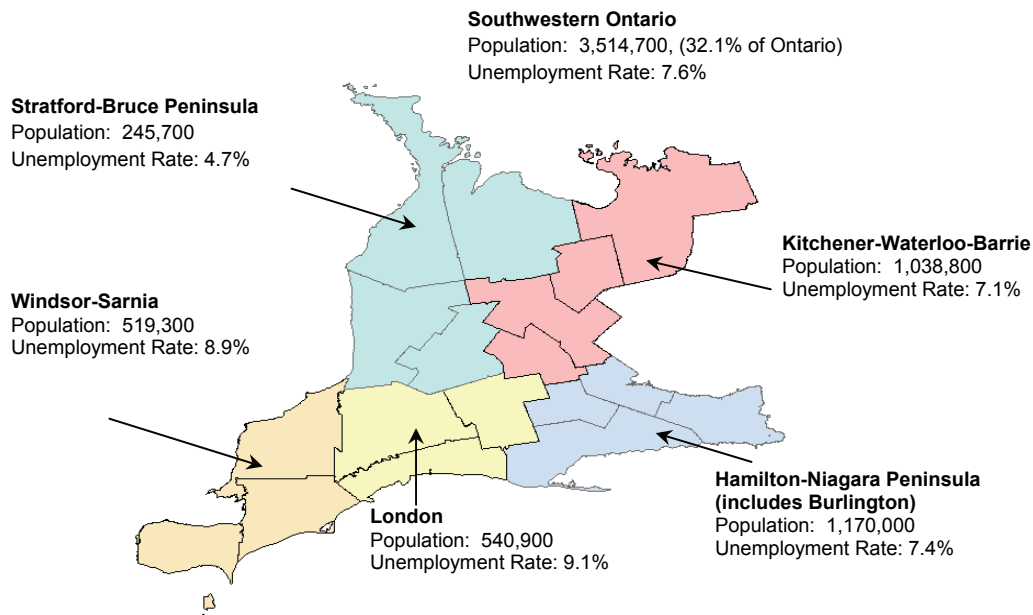
jobs across the region, and the Southwestern Ontario Development Fund would help us to achieve that goal.”

– Dalton McGuinty, November 28, 2011

Southwestern Ontario is home to some of the most innovative and globally competitive companies. Like many parts of Ontario, this region has been significantly impacted over the past decade by challenges such as the high Canadian dollar and increased global competition. In manufacturing, there have been plant closures, including those in the automotive and chemical sectors, which in turn have impacted the related industrial value chains. At the same time, the region has seen areas of growth and investment, such as in the Information and Communication Technology sector in Kitchener-Waterloo and the Interactive Digital Media sector in London. Similarly, the sectors gaining the most jobs over the last ten years in the region were in health care, construction and education. This highlights the process of industrial transition in the region and provides a compelling rationale for the government to ensure continued economic development for this regional economy.

Figure 1: Southwestern Ontario Employment Profile

(Note: The boundaries for the Southwestern Ontario Development Fund have not yet been determined).



Source: Statistics Canada, Labour Force Survey (Cat. no. 71-001-X). Data is for September 2011. Data is 3-month moving average, not adjusted for seasonality.

Consultation Process

The Government of Ontario is initiating an open, inclusive and broad consultation process to incorporate the views and opinions of all regional stakeholders. The consultation process will incorporate advice and feedback from key regional stakeholders on the scope and purpose of the fund. The consultations are necessary to gain an understanding of the key challenges and opportunities in the region. This information will be central to the fund design, administration, eligibility and application process.

How to Get Involved

Consultations will take place from December 2011 to February 2012. The government plans to hold four consultation sessions in Windsor/Sarnia, Kitchener-Waterloo, London/St.Thomas and Owen Sound.

Each consultation will include regional stakeholders and members of the general public, including, but not limited to:

- Regional economic development associations and local chambers of commerce
- Municipal and community representatives
- Non-profit organizations
- Individual business leaders, industry and trade associations.

Written submissions

For those unable to attend a consultation meeting, the Ministry of Economic Development and Innovation will accept written submissions by all interested parties at: swodf@ontario.ca

Consultation Questions

Fund Objectives

The overarching objectives of the fund are to create jobs and attract investment. Direct support to business can be used to target specific investment and job creation activities at the firm level, but in certain cases community organizations may lead projects that serve a broader interest.

Should the fund focus exclusively on providing direct support to businesses? Should some funding be provided to community organizations?

Type of Assistance

Grants and repayable loans

Prior economic development funds have employed both grants and repayable loans to leverage economic growth in regions. While grants provide the most direct form of stimulus to accelerate economic growth, the current fiscal climate and limited spending power of the government would favour repayable loans.

Grants may be necessary to encourage cluster effects in new, high-growth industries, and establish supply-chain networks. Recent evidence has indicated that only direct funding – mainly through grants – is capable of driving innovation to allow small and medium enterprises to grow into larger, competitive firms (*Innovation Canada: A Call to Action – Expert Panel Report, 2011*). However, the fiscal capacity of the government to dispense large amounts of grant funding is limited. Repayable loans would ensure that public funds were secured against assets, impose fiscal responsibility on recipients, and deliver value-for-money for Ontario taxpayers.

Should the Fund provide only grants, or should there be a mix of grants and loans? Should two funding streams be available? That is, one for community, regional economic development and industry associations, and the other for businesses.

Coordination of Funds

Implementing a cap on the level of support that can be offered to one recipient is a way to ensure that there can be many beneficiaries of the fund. This encourages diversity and balance in the type of project supported by the fund (e.g., projects by sector, business size, and market maturity). It can also ensure the funding of innovative and emergent business models. At the same time, it can prevent the funding of larger-scale, multi-stakeholder projects to achieve multiple goals through one overarching initiative.

The Government of Ontario has a number of economic development programs and funding mechanisms from multiple ministries and provincial agencies for which a single project may be eligible. Project proponents are not discouraged from applying to multiple funding sources. However the government intends to ensure that projects receiving support from other programs - such as the Feed-in-Tariff program and energy generation projects - are excluded from consideration.

What is an appropriate amount of project funding support by the province? Should funding from other sources be allowed? Should there be funding caps?

Eligibility Thresholds

Geographical area

The boundaries for the Southwestern Ontario Development Fund are not yet determined. (Note: Projects in the Greater Toronto Area will not be eligible.)

Minimum number of employees

Mandating the fund to target some of its investments towards firms of a specific size might prevent competition between different-sized organizations. In addition, proposals from different sized firms may need to be evaluated differently due to their unique characteristics.

Minimum investment value

Attracting business investment to the province and leveraging business investment to create jobs, improve productivity and increase innovation is a priority for the government. A minimum threshold for investment might help ensure that the fund attracts firms and organizations with a certain level of stability, but smaller projects from emerging firms may also hold great potential.

Job creation

Job creation remains a priority for the government, and a key indicator of economic well-being. The region's unemployment statistics point to a need for improvement in this area. Setting a threshold for minimum number of jobs that each investment must create can anchor growth in the region. Alternatively, high-value, high-growth industries, which are characterized by efficiency and productivity, may also be worth supporting.

What should be the geographical limits for the fund? How many employees should a company have in order to be eligible for funding? What is the minimum project investment value to be eligible for funding? How many jobs must be created (direct or indirect) by the project to be eligible for funding? In addition to job and investment targets, what other metrics should be considered when evaluating proposals?

Applicants & Review

The government is open to applications from all qualifying entities to the Southwestern Ontario Development Fund. The government also intends to use direct marketing and lead generation activities to consider additional opportunities. All applicants will be entitled to a formal response from the Government of Ontario – confirming receipt and further accepting or denying the application – as in accordance with the Government of Ontario’s service guarantee.

All applications and leads will be reviewed and evaluated by the Ministry of Economic Development and Innovation to ensure the completion of due diligence prior to the evaluation of funding recommendations by a committee of senior Ministry executives.

Priority sector focus

The eligibility of applicants should be aligned with federal and provincial priority sectors to ensure that the region benefits from other initiatives in progress to help develop a 21st century economy. These sectors (e.g. advanced manufacturing, life sciences, etc.) typically represent high-value, high-growth areas where broader public sector players can provide support (e.g., educational and research institutions, infrastructure development, technology investment).

Net benefit

In order to ensure that the project is of net benefit to Ontario and to Canada, the fund mandate could be designed to disqualify relocation projects from elsewhere in the province and country. The fund is intended to be incremental in nature and not for ongoing business.

Costs

The eligibility of project costs can include, but are not limited to, activities such as:

- Co-investing with business (capital investments, infrastructure, technology acquisition)
- Not-for-profit organizations (training, marketing, incubation, cluster support)
- Community initiatives (labour market survey, strategy development, regional collaboration)

<p>What priority sectors should the fund concentrate on for the region? Are there specific expenses that should be considered to be included in the fund? What specific expenses should be disallowed in the fund?</p>
--

Contact Information

For further information please contact:

Bonnie O’Neill

Manager - REGIONAL ECONOMIC DEVELOPMENT PROGRAMS

Phone: **1-866-909-9951**

Email: swodf@ontario.ca