Canadian Taxpayers Federation

Western Economic Diversification: 22 YEARS OF PORK BARREL SPENDING

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Canadian Taxpayers Federation

www.taxpayer.com

ABOUT THE CANADIAN TAXPAYERS FEDERATION

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has over 60,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and offices in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Provincial offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published four times a year. An issues and action update called *TaxAction* is regularly sent to supporters. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

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Executive Summary

In 1987, the Government of Canada created a new department, “Western Economic Diversification” (WED), to drive economic development in Western Canada. Since its inception, WED has handed out billions of dollars to thousands of businesses, individuals, government bodies and various other groups through a variety of grant and loan programs.

As other well-intentioned government development agencies have proven to be largely ineffective in the past, the Canadian Taxpayers Federation (CTF) decided to investigate WED’s activities in 2008. Access to Information requests were subsequently filed with WED in order gain insight into the agency’s activities over the last 22 years.

The CTF subsequently received limited details on the 21,340 recipients who have received WED funding since its inception in August of 1987 to December 2008.

After analyzing over two decades of WED data, the CTF discovered that the agency’s track record bears a striking resemblance to other woeful “economic development” programs such as the Atlantic Canada Opportunities Agency (ACOA) and the Canada Economic Development for the Regions of Quebec (CED-Q).

Key Findings:

The CTF came to six major conclusions about WED’s 22-year track record:

1) **Highly Politicized Spending:** The department’s spending levels routinely skyrocket “coincidentally” around federal elections. For legitimate recipients of government funding, this is obviously a frustrating process.
2) **Poor Loan Repayment Rate:** Only 51.8% of taxpayer dollars handed out through loans actually were repaid to the government. Worse yet, over $134-million in loans have been written off since 1987.
3) **Overlap:** There is a significant amount of duplication between WED activities and those of other federal departments and governments. In many cases, WED bureaucrats review a funding request while bureaucrats in other federal departments and levels of government review the same files.
4) **Unaccountable:** Although the department was created to drive economic development in Western Canada, it does not track the number of jobs it has created or the number that have been sustained. In other words, it uses a fingers-crossed, shotgun approach to spending. From funding airport lighting to cemeteries, WED tries to be all things to all people.
5) **Lack of Transparency:** WED often funds organizations and businesses which in turn hand the funds over to other organizations and businesses that they deem to be worthy of support. This makes it difficult for taxpayers to know who is receiving funding and for what purpose. It also allows the department to avoid posting the names of recipients in the ‘proactive disclosure’ section of its website.
6) **Legitimate Recipients:** WED does fund projects that are worthy of taxpayer dollars. For instance, few Canadians would disagree with taxpayer dollars being used to fund cancer research projects. However, appropriate departments, in that instance the department of health, should fund such projects, not through WED’s ‘catch all’ approach.

WED Since 1987 - by the numbers

$4,275,686,753	Approved funding
$3,941,270,010	Disbursed
$3,139,999,208	Disbursed as grants
$801,270,802	Disbursed as loans
$414,659,155	Loan repayments received
$386,611,647	Unpaid loan forced upon taxpayers
$134,925,702	Loans written-off
21,340	Recipients
389	Active lobbyists registered for WED
51.8%	Loan repayment rate
1	Stroke of the pen to save taxpayers millions

Recommendation:

<u>While continuing to fund the most worthy projects through more appropriate government bodies, the department of Western Economic Diversification should be eliminated</u>. It is a politically driven body that largely overlaps services provided by other government entities.

Although WED cannot quantify how many jobs it has actually created or maintained, the fact that only half of all dollars “loaned” out to recipients have returned is a telling sign that governments should not be in the business of picking winners and losers in the market place.

This is an especially troublesome finding as governments across the country are currently looking to engage in stimulus spending through even more “repayable” loans to businesses and other organizations.

Such corporate welfare is not only wasteful, it is simply unfair for a business or its employees to subsidize their competition.

<u>To provide true economic development, the government should use the savings from the elimination of WED to deliver broad based business tax relief</u>. Doing so would leave more money in the hands of those that drive any successful economy – entrepreneurs.

PART I: Introduction

This report analyzes 22 years of various forms of financial assistance through Western Economic Diversification (WED), the federal government's regional development department for Western Canada. The report covers the period from WED's inception – August 4, 1987 – to December 31, 2008. All of the information herein was obtained through Access to Information requests made to WED. Since 1987, WED has approved $4.275-billion in various forms of assistance.

WED's financial assistance comes in all shapes and sizes. Within WED alone, there are 110 different programs that pay out repayable and non-repayable tax dollars to various types of projects.

This paper argues Ottawa's regional development policies are misguided and deeply flawed. Government meddling in the economy in the name of "economic development" is expensive, unequal, unfair, unnecessary and ineffective.

WED's financial assistance programs have created inefficiencies in government, are plagued by slow and paltry repayments, myths of job creation, riddled with politically-motivated objectives and infiltrated by Ottawa's extensive lobbying community. Tax dollars have flowed through a variety of unaccountable third parties - even some of Canada's big banks.

The federal government's regional development programs serve neither taxpayers nor the regions they purport to assist and should be scrapped. Ottawa's intervening in the economy through these types of programs obscures real barriers to economic development – a high tax burden and an overly intrusive state. Developing less prosperous, less populated and geographically remote regions requires a more universal and less interventionist approach to ensure long term growth, job creation and investment.

The CTF and Regional Development

The Canadian Taxpayers Federation (CTF) has been an unshakable critic of Ottawa's flawed regional development schemes, pointing out the ineffectiveness of such programs and how and why they fail taxpayers. The following is a highlight of our research and advocacy work to date:

Atlantic Canada Opportunities Agency (ACOA)

In May, 2000, the CTF released a study entitled *ACOA: The Lost Decade: A 10-Year Quantitative Analysis*, which detailed financial assistance authorized by the Atlantic Canada Opportunities Agency (ACOA) to business, labour, organizations, other government agencies and individuals. From 1989-90 through to 1998-99, $2.6-billion of assistance was doled out through 22,867 separate authorizations. The reports findings include:

- 58% of all funds disbursed went to just 4.2% of recipients ($1.5-billion to just 475);
- Transfers to other federal and provincial institutions (some which are not subject to Access to Information or Freedom of Information) accounted for over $277-million or 11% of all funds disbursed;
- Over 72% of all funds disbursed – some $1.9-billion – was in the form of non-repayable grants and contributions;
- National corporate giants including Bombardier, the Royal Bank, Canada Steamship Lines, Canadian Pacific Hotels, the DMR Group, Domtar, Honeywell, IBM Canada, Laidlaw Transit, Pratt & Whitney and Westinghouse all received contributions (another form of grants);
- Big labour including the Canadian Auto Workers union and other provincial labour federations and teachers associations received grants and/or contributions;
- ACOA loaned out $591-million dollars in the last ten years but has written-off the equivalent of 34% of this amount during the same period;
- Over $5-million has been used to fund Chambers of Commerce and other business organizations,
- Over $20-million has been spent on golf courses, snowmobile clubs and other recreational activities; and
- ACOA approved over $20-million in loans even though the agency, according to its own records, has no idea what the funds were to be used for!

Western Economic Diversification (WED)

In November 2000, the CTF released a study entitled *WED: Wasted Effort and Dollars: A 13-Year Quantitative Analysis of Western Economic Diversification.* The document examined financial assistance authorized by WED to businesses, business and industry lobby groups, other levels of government and government agencies and individuals. From 1987-88 to 1999-00, just over $2-billion was awarded though 13,776 separate authorizations. The report's findings include:

- Over 62.7% of all funds disbursed – some $1.25-billion – was in the form of non-repayable grants and contributions (Note: $34-million of this amount was flood relief);

- Transfers to other federal, provincial, post-secondary and municipal institutions (some which are not subject to Access to Information or Freedom of Information) accounted for over $670-million or 33% of all funds disbursed;
- The Who's Who of Western Corporate Canada received $101-million in grants, contributions or loans including companies such as Canadian Pacific Hotels, Domtar, Harris Canada, Ballard Power Systems, Bristol Aerospace, Canadian Airlines, Inex Pharmaceuticals, Sherritt Inc., Western Star Trucks, Canadian National Railways, along with perennial corporate welfare recipients Pratt & Whitney and Bombardier;
- WED loaned out over $132-million in conditionally repayable contributions but had only received $4.5-million in repayments for a paltry 3.4% return on these royalty or level of sales based agreements;
- Over $77-million was allocated to Chambers of Commerce and other business and industry organizations. Indeed, the Chambers of Commerce in all of Western Canada's major cities received funds including the Calgary Chamber of Commerce, Edmonton Chamber of Commerce, Vancouver Board of Trade, Winnipeg Chamber of Commerce and the Saskatoon Chamber of Commerce; and
- Over $3.3-million was distributed to golf courses, fairs, resorts, yacht clubs and wine and food festivals.

Canada Economic Development for the Regions of Quebec (CED-Q)

In June 2005, the CTF released a study entitled *La Belle Province, Same Ugly Story: A 12-Year Quantitative Analysis of Canada Economic Development for the Regions of Quebec (CED-Q).* The report examined financial assistance authorized by CED-Q to businesses, chambers of commerce, government agencies and individuals. From 1989-90 through 2000-01, $1.8-billion was doled out through 8,965 separate authorizations. The report's findings include:

- Over $1.4-billion or 81% of all funds disbursed were in the form of non-repayable contributions and subsidies;
- Over $817-million or 46% of all funds were doled out to small, medium and large Quebec businesses including corporate players such as SR Telecom, Johnson and Johnson, The Royal Bank, Banque National du Canada, Ingersol-Rand Canada and Siemens;
- Close to 10% or $149-million of all handouts were transfers to other federal, provincial and municipal institutions (some which are not subject to Access to Information or Freedom of Information);
- The biggest individual recipient of funds was ski destination Station Mont-Tremblant which received $48.9-million in contributions;
- Associations, unions, chambers of commerce and other organizations received over $154-million - mostly in the form of non-repayable contributions;
- Over $119-million was disbursed to tourism initiatives, golf courses, bicycle manufacturers, festivals and hotels;
- CED-Q contracts contained a "photo-op" clause pointing to the political imperatives of funding decisions that override economic concerns;
- Over $10-million was disbursed through a special program to the 'fashion industry; and
- One-third (33%) of CED-Q's $351-million loan portfolio has been written-off in the past ten years.

PART II: A Primer on Regional Development

What is Regional Development?

The federal government's regional development agencies provide aid and programs aimed at improving the economies of less prosperous regions and eliminating regional disparities. Funding is provided through Western Economic Diversification (WED), Canada Economic Development for Quebec Regions (CEDQ), Federal Economic Development Initiative for Northern Ontario (FedNor) and Atlantic Canada Opportunities Agency (ACOA).

Why Regional Development Schemes are Bad Policy

i) Regional development schemes based on subsidies to businesses are inherently unfair, run contrary to open and free markets and contribute to a culture of dependency.

Business subsidies create an uneven playing field as money is diverted away from successful companies to less successful, but connected ones. Worse yet, many other firms in the same region and their workers who do not receive government grants, end up subsidizing their government-supported competitors through their taxes. Moreover, companies and organizations become so reliant on government assistance they build expectations of handouts into their financial plans. This has the perverse effect of directing resources to less productive investment projects, slowing economic growth and development rather than enhancing it.

ii) Regional development schemes are an ineffective job creation tool.

Although contribution agreements rarely, if ever require the creation or retention of jobs, news releases from regional agencies will often offer job numbers for most of its undertakings. Proponents of regional development assistance make claims of job creation to justify providing recipients with tax dollars, yet the very companies that receive financial assistance continue to eliminate jobs.

iii) Regional development creates inefficiencies in government by creating duplication and overlap between, and with, existing government departments.

Many of the projects and activities funded by regional agencies might otherwise fall within the mandate of other departments such as Canadian Heritage, Indian and Northern Affairs, National Research Council, Transport Canada, Environment Canada, National Resources, Human Resources, or Health Canada. This overlap and duplication is further proof that regional agencies should be scrapped.

iv) Regional development schemes lack adequate transparency and accountability.

There has been progress with new measures taken to increase transparency and accountability in all government departments: e.g. the *Federal Accountability Act*, and proactive disclosure rules requiring federal department websites to contain certain information detailing travel expenses, contracts, as well as grants and contributions.

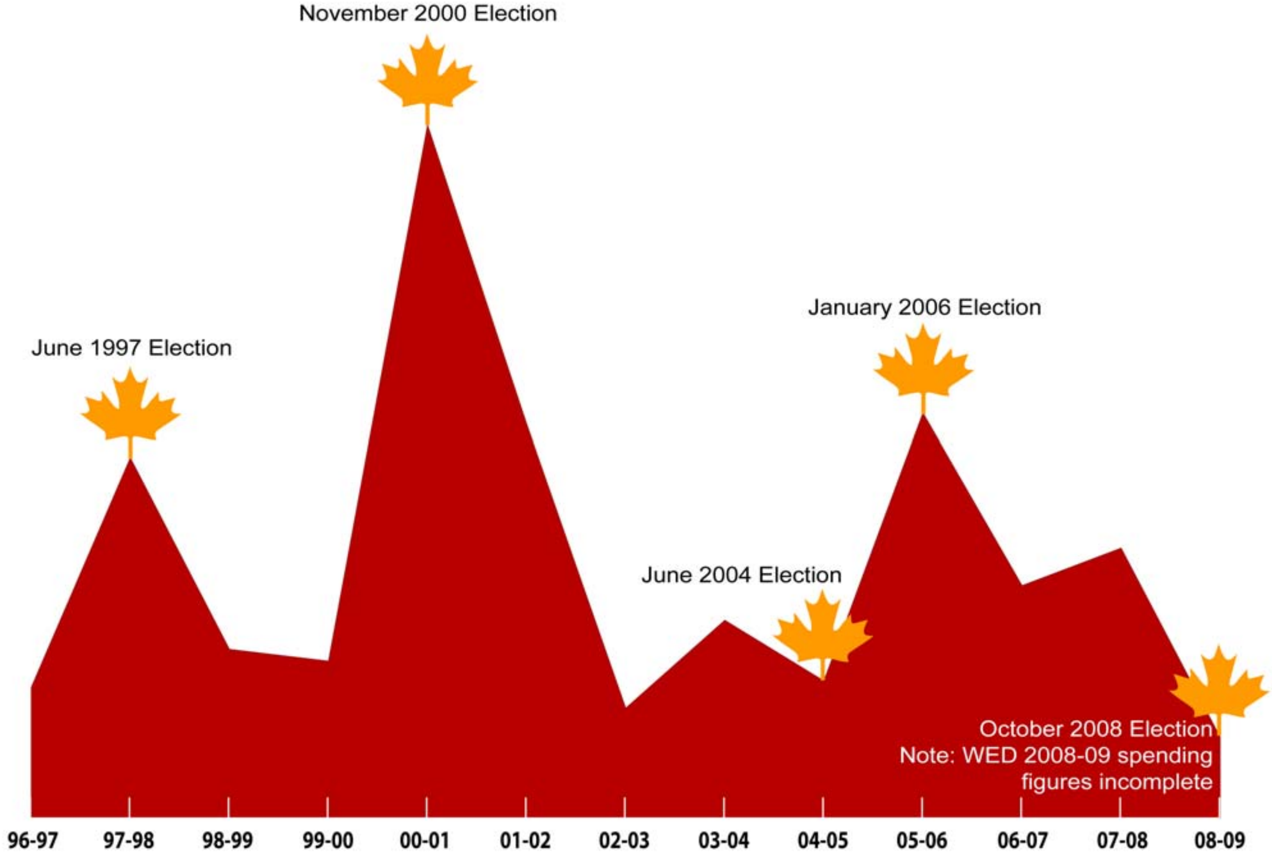
While two of Canada's four regional development agencies (WED and FedNor) no longer provide direct subsidies to businesses, tax dollars continue to flow to businesses and organizations through delegated arrangements with third parties, which are not subject to federal disclosure and accountability rules. Unlike federal departments and related agencies, these entities are not required to disclose travel and hospitality expenses, contracts, or grant and contribution awards on their websites. Similarly, most are not subject to Ottawa's *Access to Information Act*.

v) Regional development schemes serve largely as slush funds, used for vote-buying and other politically-motivated purposes.

Quite often, regional development schemes, which come with a designated cabinet minister, give the federal government visibility in a given area which is useful politically but does not lead to greater "development."

Consider the "coincidental" correlation between elections and increased WED assistance:

Graph 1: "Coincidental" Spending Spikes and Federal Elections



PART III: Grants Gone Wild: What's up for Grabs in the West?

WED Quick Facts

Based on Access to Information requests which cover WED from its inception in August, 1987 to December 2008, the following findings have been revealed:

- Since its inception, WED has approved $4.275-billion in total financial assistance;
- Of that, $3.45-billion, or 80% are non-repayable grants and contributions;
- $824-million is either repayable or conditionally-repayable; and
- There are a total of 21,340 separate authorizations through 110 different programs

WED Handouts by Fiscal Year

Table 1 – WED Assistance, 1987 to 2008

	Total Approved ($)	Total Grants ($)	% Grants	Total Loans ($)	% Loans
1986-87	16,583,191	10,926,060	65.9%	5,657,131	34.1%
1987-88	87,267,414	78,707,108	90.2%	8,560,307	9.8%
1988-89	109,468,009	39,160,396	35.8%	70,307,612	64.2%
1989-90	158,119,208	30,255,524	19.1%	127,863,684	80.9%
1990-91	148,924,136	44,369,446	29.8%	104,554,690	70.2%
1991-92	122,348,372	37,502,322	30.7%	84,846,050	69.3%
1992-93	154,462,540	30,344,160	19.6%	124,118,380	80.4%
1993-94	90,735,288	21,278,975	23.5%	69,456,313	76.5%
1994-95	613,339,023	559,841,047	91.3%	53,497,975	8.7%
1995-96	361,728,781	291,376,043	80.6%	70,352,738	19.4%
1996-97	94,523,956	65,622,438	69.4%	28,901,518	30.6%
1997-98	260,550,962	247,457,342	95.0%	13,093,620	5.0%
1998-99	122,104,433	110,881,924	90.8%	11,222,509	9.2%
1999-00	113,597,020	109,327,331	96.2%	4,269,689	3.8%
2000-01	500,749,198	483,275,601	96.5%	17,473,598	3.5%
2001-02	284,685,940	283,460,940	99.6%	1,225,000	0.4%
2002-03	79,537,133	78,345,685	98.5%	1,191,448	1.5%
2003-04	143,109,070	139,601,570	97.5%	3,507,500	2.5%
2004-05	99,259,855	98,599,185	99.3%	660,670	0.7%
2005-06	292,638,287	290,273,155	99.2%	2,365,132	0.8%
2006-07	168,148,666	159,215,666	94.7%	8,933,000	5.3%
2007-08	195,303,377	195,240,877	100.0%	62,500	0.0%
2008-09	58,502,894	46,849,244	80.1%	11,653,650	19.9%
Totals	**$4,275,686,752**	**$3,451,912,040**	**80.7%**	**$823,774,713**	**19.3%**

Source: Access to Information

Note: Totals may not add up due to rounding

Table 2 – WED Handouts by Province

Province	Total Assistance	Number of Authorizations	% of WED Total
Alberta	$1,166,570,801	5,634	27.2
British Columbia	$1,578,883,724	6,135	37.0
Manitoba	$921,454,438	5,006	21.6
Saskatchewan	$608,627,790	4,564	14.2
TOTAL:	$4.275-billion	21,340	100.0

Source: Access to Information

SECTION IV: Inefficiency 101

Duplication and Overlap Between Departments: WED is Not Needed

One recurring trend in looking at WED's financial assistance programs is the widespread redundancy that exists between WED and other government departments, agencies and organizations. Many of the projects and activities funded by WED fall within the mandate of other departments such as Canadian Heritage, Indian and Northern Affairs, Transport Canada, Environment Canada, National Resources, Human Resources and Health Canada. Yet, WED hands out money right along with these departments and in some cases, recipients receive tax dollars from both the regional development agency *and* a specific federal department.

For example, St. Eugene Mission Resort and Casino in Cranbrook, British Columbia, owned by the Ktunaxa Kinbasket Tribal Council is a good example of how handouts are spread around government departments and how difficult it can be to track who provided what. This business received millions in assistance from no less than three departments: Indian and Northern Affairs, WED, and Aboriginal Business Canada, (an arm of Industry Canada) to compete with other resorts.

Table 3 – Financial Assistance to St. Eugene Mission Resort and Casino

Date	Type of Assistance	Department/Agency	Amount ($)
22-Mar-96	Contribution	WED	400,000
1-Nov-97	Contribution	WED	2,653,000
n/a	n/a	Indian and Northern Affairs	3,000,000
Jan-98	Contribution	Industry Canada	250,000
Jul-98	Contribution	Industry Canada	200,000
Jan-00	Contribution	Industry Canada	30,915
Mar-01	Contribution	Industry Canada	1,275,000
Jun-01	Contribution	Industry Canada	65,000
Mar-02	Loan Guarantee	Industry Canada	7,058,000
Nov-03	Loan Guarantee	Industry Canada	Undisclosed
Feb-04	Loan Guarantee	Industry Canada	Undisclosed
		Total	**$14,931,915**

Source: Access to Information and Department News Releases

Another example of duplication and overlap is the Petroleum Technology Alliance of Canada (PTAC), a "not-for-profit association that facilitates collaborative research and technology development." PTAC received $1.05-million from WED in November 2006 to "develop and implement environmental technologies in the oil and gas industry." In 2002-03, PTAC received another $738,000 from WED. Yet they also received money through Natural Resources Canada.

Kissing Cousins: Why is a Federally-Funded Foundation Lobbying WED?!

One particularly bizarre relationship is that between WED and the Canadian Foundation for Innovation (CFI). CFI is fully funded by Industry Canada, and has received some $3.65-billion since 1998. CFI is not subject to Ottawa's proactive disclosure rules, and only recently was added to its Access to Information regime. According to the Lobbyist Registration System, CFI lobbies WED and other government departments and agencies. Additionally, WED has paid thousands of dollars for preparation of proposals to CFI on behalf of various universities.

A check of WED's handouts versus those of CFI shows that both are funding some of the same organizations:

1. CFI funding to establish the B.C. Cancer Research Centre, could be as high $27.8-million, and was approved in 2000. According to our consolidated listing, Western Diversification has already contributed some $16.1-million to the B.C. Cancer Agency and B.C. Cancer Foundation;
2. The CFI list shows $9.97-million going to the University of Alberta's Alberta Institute, while WED has contributed another $8.8-million; and
3. During 1999, CFI approved $56.4-million for the University of Saskatchewan's Canadian Light Source. WED has provided another $32.5-million over the following eight years, either directly to Canadian Light Source, or via the University (with reference to Light Source in the description). Further, according to information provided to the Office of the Commissioner of Lobbying, Canadian Light Source received an additional $16.6-million from other federal sources during the last year alone: National Research Council ($3-million), Canadian Institutes of Health Research ($2-million), Natural Sciences and Engineering Research Council ($11.6-million).

There are countless other examples of organizations and associations that receive money from WED and departments such as Canadian Heritage, Human Resources and Social Development, etc. In effect, WED is like a collection of government departments, a "catch-all" agency that is into anything and everything – all in the name of economic development. It's anybody's guess as to whether each federal department is cross-referencing with WED to determine how much money each should award a given recipient.

One also has to wonder who is better qualified to determine who and what should receive public money and how much. Isn't the Department of Indian Affairs best suited to dealing with aboriginal issues? Aren't officials within Environment Canada more qualified than WED bureaucrats in determining which environmental projects should receive public money? Surely, WED doesn't have experts on every project it funds? Money for everything – from everywhere – is not efficient government.

Duplication and overlap does not serve taxpayers or projects and recipients that are actually worthy of government funding. This is yet another reason why WED and all regional development agencies should be scrapped.

SECTION V: "Loans," Giveaways and Money Down the Drain

What's Repayable and What's Not?

When trying to figure out how much public money is supposed to eventually re-enter government coffers once it goes out the door, it is useful to note the difference between two terms – "repayable" and "conditionally-repayable." Repayable means that the funding is subject to a fixed repayment schedule, while conditionally repayable contributions may be repayable in part or whole.

Of the $4.275-billion approved through WED since its inception, over 80% of WED's financial assistance is non-repayable or free money by another name. It is even more shocking when one looks at how much of the repayable funding is paid back, who receives it, and (in the case of third-party arrangements) whether WED actually knows who the ultimate recipient might be.

Table 4 – WED's Approved Repayable and Conditionally Repayable Financial Assistance, 1987 to 2008

Repayable Amount	Conditionally Repayable Amount	Total	Total Repayments	Percentage Repaid
$619,789,038	$181,481,764	$801,270,802	$414,659,155	**51.8%**

Source: Access to Information

Repayment Record by Program

Table 5 – WED's Repayment Record by Program, 1987 to 2008

Program	Total Loans ($)	Repayable Loans ($)	Conditionally Repayable Loans ($)	Sum of Repayments ($)	% Repaid
Alberta Partnership Agreement	158,750	-	158,750	-	0.0%
Community Futures - Capitalization	2,985,000	2,985,000	-	-	0.0%
Community Futures - Operating Funds	69,380,000	69,365,000	15,000	2,305	0.0%
ERDA – Audit*	3,899,876	3,899,876	-	3,660,648	93.9%
ERDA - Industrial Development Assistance*	474,424	474,424	-	475,738	100.3%
ERDA - Industrial Diversification*	16,139,378	16,139,378	-	12,003,113	74.4%
ERDA – Modernization*	4,364,390	4,364,390	-	3,964,390	90.8%
Industrial Regional Development Program	8,981,683	2,757,249	6,224,434	2,488,740	27.7%
Jobs and Economic Recovery Initiative - Canada-Manitoba Flood Agreement	441,021	441,021	-	459,803	104.3%
Loan & Investment Program	51,186,613	-	51,186,613	7,275,057	14.2%
MB Partnership Agreement	2,457,958	457,958	2,000,000	75,000	3.1%
Pacific Salmon Fishery	5,460,000	5,460,000	-	-	0.0%
Service Delivery Network	4,018,559	-	4,018,559	6,386	0.2%
Small Business Incentives - Aquiculture Incentives	360,053	360,053	-	584,226	162.3%
Small Business Incentives - Small Manufacturers Incentives	1,733,999	1,733,999	-	1,553,650	89.6%
Strategic Initiative - Aerospace Initiative	1,170,000	-	1,170,000	-	0.0%
Strategic Initiative - Capital and SME	2,000,000	-	2,000,000	200,000	10.0%
Strategic Initiative - Transportation	563,678	563,678	-	-	0.0%
Strategic Initiatives Program	13,429,528	4,890,056	8,539,472	1,974,972	14.7%
Western Diversification Program	589,474,205	498,957,423	90,516,782	373,262,350	63.3%
Western Internet Marketing Program	56,678	38,082	18,596	31,000	54.7%
Western Transp. Industrial Development Program - Commercial Operations	7,051,556	6,901,451	150,105	6,649,900	94.3%
Womens Enterprise Centres	15,483,453	-	15,483,453	-	0.0%
TOTAL	**$801,270,802**	**$619,789,038**	**$181,481,764**	**$ 414,659,155**	**51.8%**

Source: Access to Information

Note: ERDA is abbreviated for "Economic & Regional Development Agreement"

Money Gone Forever – WED's Write-offs

Table 6 – WED Write-offs by Program, 1991 to 2008

Sub-Program	Sum of Write-offs ($)
B.C. Partnership Agreement	495,626
Industrial Diversification - Contributions	1,203,611
Economic & Regional Dev. Agreement - Modernization	400,000
Enterprise Development Program - Innovation	43,761
Export Readiness (International Trade Personnel Program)	5,750
Industrial Regional Development Program	565,124
Jobs and Economic Recovery Initiative - Business Recovery (Inc. Restart) Can-Manitoba Flood Agreement	306,373
Jobs and Economic Recovery Business Resumption (Canada-Manitoba Flood Agreement)	125,625
Manitoba Partnership Agreement	507,157
Regional Development Incentives Act (RDIP)	1,326,823
Strategic Initiative - Transportation	610,516
Strategic Initiatives Program	1,846,163
Western Diversification Program	127,250,440
Western Internet Marketing Program	20,177
Western Transportation Industrial Development Program - Commercial Operations	218,556
TOTAL	**$134,925,702**

Source: Access to Information

SECTION VI: Ducking Transparency and Accountability

Loans and Lenders

The only way the public can track who and what projects receive public money is to submit countless Access to Information requests or constantly troll the news release section of government websites. But what about when there is no way to track the money at all? Such is the case with WED's practice of loaning money to third-parties who in turn hand it off elsewhere – all away from the watchful eye of the taxpayer. Apart from Federal Crown Corporations, none come under Ottawa's Access to Information legislation and none are subject to its Proactive Disclosure policy.

One such example is a program WED created in 1994, called the "Capital Markets & SME Financing Program." The only contribution ever approved under this program was a $2-million conditionally-repayable contribution to the Crocus Investment Fund, a Labour Sponsored Investment Fund (LSIF) in Manitoba. The public was told the fund would invest in small to medium sized companies. Some 13 years later, repayments to WED from Crocus amount to $200,000 or 10%, the fund seems to have disappeared and Crocus is widely regarded as a government backed boondoggle.

Unfortunately, WED didn't learn from the Crocus boondoggle as it recently approved two more "conditionally-repayable" loans to additional venture capital funds. The Golden Opportunities Fund of Manitoba received $6.25-million and iNovia Capital Inc. (Alberta) received $5-million.

WED has also given millions in so-called "repayable loans" to Federal Crown Corporations such as Business Development Canada (BDC) and Farm Credit Canada (FCC), along with financial giants Toronto Dominion Bank and Royal Bank of Canada. Not even WED knows who eventually received the money.

Similarly, some $60-million in "conditionally-repayable" contributions were provided to selected credit unions and other lending organizations by WED. Not surprisingly, only $6-million or 10% has been repaid to date. Who received the funds? Once again, it's anybody's guess.

Further, WED has provided millions more in "repayable" and "conditionally-repayable" funding to Community Futures organizations to the tune of $72-million yet repayments are less than 1%. Again, recipients are unknown.

These organizations live on tax dollars, but operate below the accountability radar. One effort to track tax dollars handed out through a similar arrangement is highlighted in Chapter V of the Information Commissioner's Annual Report for 2000-01. In this instance, the question dealt with funds that flowed to Business Development Corporations (BDCs) by ACOA, WED's counterpart in Atlantic Canada. ACOA and the BDCs argued that the right of access applies only to records "under the control of a government institution." The report goes on to say that "For the purposes of the Access to Information Act, ACOA is a government institution, BDCs are not," and "Even though BDCs receive their funds from ACOA, the BDCs are not accountable to ACOA for their loan decisions." Translation: Back off taxpayer – it's your money – but it's none of your business who we give it to.

Taxpayers should not accept these practices. Aside from paltry repayments, there is a greater issue of transparency and accountability. While BDC and FCC fall under the *Access to Information Act*, you will not ever be able to file a request to find out who or what is receiving tax dollars from banks, credit unions, Community Futures groups, or any other third-party organization that is delegated to dole out public funds. Further, they continue to hand out tax dollars alongside government departments. Canadians want more – not less – accountability and transparency and this is further proof that WED fails taxpayers and needs to be scrapped.

SECTION VII: Good Old Fashioned Pork Barreling

Grit or Tory – Same Old Story

One of the more shameful practices surrounding Ottawa's regional development and corporate welfare programs is how politicians use tax dollars to buy votes. The Liberals were masters at this, regularly dropping billions in pre-election spending benders (see chart on page 9). Despite alleged long-standing opposition to this practice during the Liberal reign, the Conservatives too have been guilty of playing politics with tax dollars during elections. A June 2006, *CanWest* news story stated that the Conservative government has continued to dole out subsidy money in Atlantic Canada, Quebec and the West since taking office. During the June 2006 Nova Scotia provincial election, then Foreign Affairs Minister and Minister of the Atlantic Canada Opportunities Agency (ACOA) Peter MacKay stated that electing a Progressive Conservative candidate would mean easier access to ACOA's funding. "He's going to come knocking and we're going to deliver," said Minister MacKay. Grit or Tory, it's the same old story.

The Omnipresence of Lobbyists

When billions are up for grabs for nearly every project under the sun, it is no surprise to find lobbyists circling in large packs. Lobbyists are the politically-connected insiders who help companies and projects access public money. WED is no exception. In fact, it is the most-lobbied regional agency, with some 389 active registrations, according to the federal government's Lobbyists Registration System.

Table 7 – Number of Lobbyist Registrations by Regional Agency

Agency	# of Lobbyist Registrations
Atlantic Canada Opportunities Agency	225
Canada Economic Development for the Quebec Region	228
Western Economic Diversification	389

Source: Office of the Commissioner of Lobbying" Registrations as of March 31, 2009

Jobs, Jobs, Jobs?

Politicians, recipients, and defenders of Ottawa's regional development schemes always talk about how handouts are creating jobs. Well, how many new jobs did WED's $4-billion create? Don't ask! Unlike their federal regional development agency counterparts in Quebec and Atlantic Canada, WED stopped counting jobs in 1995 when their numbers (42,000 at the time) were challenged by the auditor general. CTF requests for job numbers always get the same response: "Western Economic Diversification does not track estimated jobs created or estimated jobs maintained."

However, a posting on WED's website claims that since 1995, Western Canada's Community Futures organizations have created or maintained 60,000 jobs in western communities. As these organizations continue to be funded by WED, the department often quotes Community Futures' job numbers. But as indicated in the auditor general's 2001 report, "WED has no procedures for assessing the accuracy of these assertions or auditing the results claimed, for example, numbers of jobs created or maintained by CFDC activities."

In reality, government officials are no better at creating jobs than they are at picking winners and losers in the private sector, or lottery numbers. Talk of job creation looks good in news releases and is talked-up by politicians but there is no basis for such claims in reality.

SECTION VIII: Conservatives and Regional Development

The Conservatives in Opposition

Two of the Conservative Party of Canada's legacy parties – the Reform Party and the Canadian Alliance – advocated scrapping regional development agencies in favour of lower taxes. They rightly pointed out that more often that not, handouts were politicized and that regional development schemes were inherently unfair.

As leader of the Canadian Alliance, Stephen Harper pledged to do away with the Atlantic Canada Opportunities Agency (ACOA) and other regional development agencies in 2002. Yet, by 2004, he simply promised reforms that would de-politicize regional development. In June, of that year, Stephen Harper promised a new approach to economic development:

"The new Conservative Party will take a different approach to economic growth than the Liberals. First, we believe in low-tax solutions, not high spending solutions. I think we need to create a lower tax regime and that will create more jobs over time."[1]

At the March 2005 Conservative Policy Convention, delegates voted to maintain all regional development agencies and this has remained Conservative policy. At the 2005 policy convention, New Brunswick MP Greg Thompson told delegates and the media that scrapping ACOA would cost him votes. Losing votes was obviously not a risk the Conservative Party was willing to take. This helps explain why handouts from all regional development agencies have continued to flow now that the Conservatives are in control of the purse strings.

Handouts under the Harper Government

With Conservatives now in control of the treasury, regional development assistance has continued unabated. In 2006-07, the first full fiscal year of the Conservative government, handouts from WED totaled $165-million. The duplication and overlap between departments has continued, repayments still trickle in at a snail's pace, accountability issues persist, and Conservative insiders have replaced Liberal insiders on the lobbying front. In short, it is business as usual when it comes to regional development.

One bright spot is the recognition by the Conservative government that taxpayers have a right to know how much money has been repaid by recipients across the waterfront of federal handout programs. Whether its regularly posting recipient repayments from Technology Partnerships Canada (TPC), formerly the Industry department's flagship corporate welfare program, or no longer stifling Access to Information requests for repayment numbers from regional development agencies, much improvement has been made in ensuring information flows to those who have a right to see how public money is spent, namely, taxpayers.

[1] Conservative Party of Canada press release, June 1, 2004.

SECTION IX: Putting Regional Development on a Better Path

The Link between Low Taxes and Economic Growth

In the new global economy, job and wealth creation will depend on how competitive a jurisdiction is vis-à-vis other jurisdictions. Low taxes, open markets and less regulation will all lead to economic growth. No example proves this point better than Ireland.

In November 2005, the Washington-based Cato Institute reported that Ireland has the second-highest per capita income and the lowest overall tax burden in the European Union. This is due to its pro-market reforms, especially reducing its tax burden.

Governments in Canada should stop trying to achieve regional development through handouts, loans and other government programs. A much better approach is to remove the barriers that impede growth: high taxes, and excess government regulation and intervention for all businesses – not just the politically-connected or in strategically important ridings – and not at the expense of other businesses that are profitable and competing successfully.

The same recipe that will spur Canada in the global economy can spur regional development at home. It is time to bring fairness back to regional development to achieve real results.

SECTION X: CONCLUSION

Over a 22 year period, Western Economic Diversification has approved $4.275-billion in assistance. This has swollen the size of government and created duplication and overlap between departments. Research shows many projects receive money from WED *and* other federal ministries and agencies. Do these departments talk to each other about how much each is going to dole out to a particular recipient or are recipients simply being clever by applying for funding from multiple sources? No one knows. These types of inefficiencies abound throughout WED and it isn't fair to those paying for it all taxpayers.

While 80% of assistance through WED is not repayable, what does get repaid to public coffers – like many of Ottawa's other financial assistance programs – trickles in at a snail's pace. In some cases, money is written-off completely and gone forever. Paltry repayment records which plague the federal government will continue as long as Ottawa continues to provide so-called "loans" to everyone and everything.

Worse still, in some cases, the federal government does an end-run around transparency and accountability by giving public money to third-party lenders such as banks who then dole-out the money to recipients. Why are taxpayers on the hook for potentially risky loans handed out by third-parties that are shielded from Access to Information and proactive disclosure regulations? This is not a suitable role for government nor is it appropriate in a time when Canadians want more – not less – accountability and transparency from their governments and politicians.

Where billions are up for grabs it should come as no surprise that politicians of all stripes want to maintain regional development schemes. It is interesting to note that Conservative Cabinet Minister Greg Thompson from New Brunswick appealed to delegates at the Conservative Party's policy convention to maintain ACOA (and presumably all regional development schemes) because failure to do so would cost him votes - not that these schemes were helping create jobs to foster economic growth and provide value to taxpayers. It would simply be a vote-loser to abandon these agencies.

That is the real reason these schemes exist and why politicians and bureaucrats want to maintain the status quo. They allow the federal government to be visible in a given region and make it appear as though the government actually can help create jobs and growth. It's never bad optics for a politician to appear on the scene announcing vast sums of money for a given project. Unfortunately, all politicians find regional development agencies useful for political reasons and as long as these schemes exist, you can be sure lobbyists will be circling in abundance peddling their influence to politicians who will be happily cutting ribbon after ribbon in an effort to show they are "doing something" to create jobs and economic growth.

If regional development agencies were effective wouldn't we see greater parity from coast-to-coast?   Obviously this is not the case.

Grants inhibit a region, any region, from discovering viable economic opportunities that are profitable and sustainable. Grants create incentives to get "easy money" rather than find sensible alternatives that may actually turn a profit and contribute to the tax base. In other instances it may make more sense for people to move. In either instance, creating incentives for people to stay in unsustainable economic activities is folly.

What role should the state play in regional development? Governments in Canada must work together to ensure barriers to growth are removed across provincial borders and internationally. Open trade policies, low taxes and minimal interference will help sharpen Canada's competitive edge in all its regions and strengthen our long term competitive position. The proper role for government is to recognize its limitations and loosen its distorting economic grip. Regional development will come no other way.