

Working
Paper

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Cooperation and Competition in Region-Building: The Role of Incentives

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Presentation Outline

- Paper Purpose: Levering Opportunities to Enhance Regional Economic Performance

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Levering Opportunities to Enhance Regional Economic Performance

- This paper provides a discussion of incentives and their impact on regional economic performance within British Columbia.
 - Cooperation is introduced as a means of enabling regions to lever opportunities to enhance their economic performance.
 - Ultimately, this paper finds that incentives can be used to foster conditions that cooperative relationships between regions and ultimately enhance the overall economic performance for British Columbia.
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Defining Regional Economic Performance

- The Following two Factors contribute to Economic Performance:
 - Overall Economic Production
 - The value of goods and services produced in a region
 - Overall economic well-being in an area
 - The overall economic welfare in a geographic region
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Regions and Sectors: The Makeup of the BC Economy

- Economic regions and economic sectors are closely linked
- Functional Regions are defined by their degree of internal integration
- Administrative regions are predominantly defined by established geographic boundaries
- **Regions:**
 - Natural factors attract growth and development:
 - Resource availability
 - Population
 - Transportation Costs
 - Economies of Scale
 - The characteristics of regions attract certain economic sectors

Regions and Sectors: The Makeup of the BC Economy

- The following economic **sectors** are drivers of the BC economy:
 - Services
 - Natural Resources
 - Forestry, Mining, Energy
 - Manufacturing
 - Predominantly natural resource related
 - Agriculture
 - Fishing
 - Tourism
 - Other, eg. Construction, film
- Sectoral activity is drawn to certain regions
 - Large urban, small urban, rural
- ~~■ It is possible for an economic sector to span multiple regions~~

The dynamic of Cooperation and Competition

- The BC economy is based on competition
 - Some level of cooperation is important.
 - How much cooperation?
- **Competition** can be advantageous; however too much competition can negatively affect economic performance
- Some key drawbacks of competition on regional development
 - Race to the bottom: Competing jurisdictions lower taxes and regulations to attract investment
 - Economic zones: Business attraction zones that offer little benefit

The dynamic of Cooperation and Competition

- Cooperation allows regions to work together to achieve outcomes that would not be possible through working independently
 - Can create a benefit for regional economic performance
- European experience shows that some sectors are more conducive to regional cooperation:
 - Transportation, Communication, Infrastructure, Energy, Environment, Service Delivery
 - These sectors span multiple regions, creating multi-region interests
 - EU experience shows that cooperation is beneficial economically and politically

The Principles of Cooperation

- Certain elements are conducive to creating a cooperative environment
 - Organizations have shared purposes or goals
 - Sufficient interaction between actors (communication)
 - Cooperation is perceived as positive
 - A third party provides sufficient motivation to cooperate
 - Costs of cooperation are minimal
 - Relative loss of autonomy is acceptable
 - Benefits outweigh the costs
 - Physical landscape is conducive to cooperation
 - Permeable regional boundaries

Using Incentives to Foster Cooperation

- An incentive is designed to induce or motivate behaviour that leads to a desired outcome/output
 - e.g. creates conditions conducive to cooperation
- Incentives can be very specific, therefore targeting incentives to outcomes is very important
 - Key question: Will the gains in economic performance offset the cost of the incentive?
- Incentives can foster cooperation between both functional and administrative regions
- Each incentive can create different outcomes/outputs
 - Useful to use them in concert

Tax Incentives

- Credits and deductions
 - Increase on employment
 - Not particularly targeted
 - A noted exceptions: regional tax exemptions
 - Potential for a race to the bottom
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Infrastructure Incentives: Infrastructure Grants

- Infrastructure attracts investment
 - Grants create infrastructure
 - Conditional Grants
 - Unconditional Grants
 - Increase tax base
 - Grants can be highly targetted
 - Loans are also used to create infrastructure
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Non-Infrastructure Grants

- Venture Capital/Small Business Grants
 - Reward innovation and attract small business
 - Labour, Training and Apprenticeship Grants
 - Helps address employee capacity needs
 - Business Development Planning
 - Business planning can create bottom-up development of economic networks
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In-Kind Incentives

- Non-financial support in addressing regional issues
 - Access to provincial staff expertise and time
 - Many regional staff may not have the staff to address cooperation and economic performance
 - A task team that fosters regional development of cooperation
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Revenue Sharing

- A type of agreement where there is a commitment to maintain a certain level of funding
 - Legislative or regulatory certainty
- A greater level of funding certainty than a grant
- Typically revenues are shared vertically; however it is possible to be done horizontally
- Can be highly targeted and revenue levels can be based on regional indicators

Regulation and Deregulation

- Regulatory environment is just as important at attracting business as the tax environment
- Regulation or deregulation can enhance the capacity for multi-regional agreements
 - Greater local autonomy may increase the desirability and necessity for regionalized cooperation
- Streamlining Permits, Licenses and Approval
 - Business streamlining initiatives between administrative regions are attractive to businesses

Trust Funds

- Trusts are separate budget accounts established to pre-commit resources for specific programs, activities and regions
- Provides a higher level of funding stability than a grant
- They are used extensively by the US federal government
- There are some trusts in BC targeted specifically to developing economic sectors in specific British Columbia regions
 - Northern
 - Southern Interior
 - Coastal

Key Lessons Learned: Incentives are a Tool for Economic Performance

- Regional Cooperation Fosters Regional Economic Performance
- Certain economic sectors are most viable for cooperative initiatives
- Incentives can induce and create conditions that foster cooperation
- Incentives act differently and should be used and targeted accordingly
- Bottom Line: Regional and sectoral development Incentives can foster cooperation and improve economic performance for British Columbia

Thank You

Any Questions?
