



Coastal BC Economic Development

Preliminary Feasibility Assessment and
Lessons Learned From Case Examples

CII Forum

May 27, 2003

Objectives



- Establish whether sustainable economic development in the planning area has a reasonable chance of success
- Enhance the selection and implementation of future economic development investments
- Guide decisions about the institutional structures used to administer and monitor an economic development program

Sustainable economic development



Development that meets the needs of the present without compromising the ability of future generations to meet their own needs*

- Maintain high and stable levels of employment
- Effectively protect the environment and prudently use natural resources
- Promote social progress that recognizes the needs of everyone

* While there are many definitions, this widely used version originated at the World Commission on Environment and Development in 1987. A recent report has been released in Canada that proposes specific indicators of success as well.

Case studies

1. Cases from outside of BC

- Northwest Economic Adjustment Initiative
- Northern Forest (New Hampshire)
- NTFP in Oaxaca (Mexico)
- Fantasy Custom Yachts
- Harvard Project on American Indian Development
- Aid to Artisans
- Appalachian by Design
- Watershed Research and Training Center
- Shorebank Enterprise Pacific
- Coastal Enterprises, Inc (Maine)
- Kentucky Highlands Investment Corporation
- Oregon Country Beef (joint marketing)
- Chico Mendes (NTFP)
- First Nations Development Institute
 - Lane County, OR (tax subsidies)
 - Northern Ventures (Duluth)
 - Self Help Credit Union and Venture Fund (N. Carolina)
 - Mendocino Redwood Company

2. BC cases

- Columbia Basin Trust
- Fisheries Legacy Trust
- Klemtu Tourism
- Pike Island Tours
- Tsimshian Tourism, Inc
- Woodland Flooring, Ltd
- Community Forest Pilot Project
- King Pacific Lodge
- Vancouver Island Association of Wood Processors

3. Partial List of experts interviewed or consulted

- Linda Beltrano (Ministry of Sustainable Resource Management)
- George Lerchs (CFDC Fisheries)
- Richard Porges (Tourism British Columbia)
- Peter Williams (Simon Fraser University)
- Rina Gresiuk (Columbia Basin Trust)
- Peggy Clark (Aspen Institute)
- John Gordon (Yale Forestry)
- Steven Light (Inst for Ag and Trade Policy)
- Hooper Brooks (Surdna Foundation)

Fantasy Custom Yachts

Description

- Manufacturer of custom house boats, located in Appalachian Kentucky
- Location: Monticello, Kentucky; Founded: 1995
- Website: www.fantasycustomyachts.com
- Backed by Kentucky Highlands Investment Corporation



Key Success Factors

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Success metrics

- Profitable after 6-months in business
- Job creation: Employs 185 people after 4 years in business
- Sales: > \$15MM (USD)
- One of the lowest defect rates in the industry through 'employee empowerment' practices
- Invested capital N / A

Obstacles

- Unique conditions in rural areas suggest no one model applies in all areas
- KHIC had to first appeal to entrepreneurs to locate in their service area as the basis for successful businesses
- KHIC has been adaptive to changing policy environments and has been industrious in building partnerships with funders and co-sponsoring service organizations

Woodland Flooring, Ltd

Description

- Value added manufacturing of solid wood flooring from locally (BC) supplied material. An “FSC chain of custody” certified company, and part of a network of manufactures - Vancouver Island Assoc. of Wood Processors
- Location: Vancouver Island (Comox); Founded: 1999; 7 full time employees
- Website: www.woodlandflooring.com



Key Success Factors

- Funding from Community Futures (who also funded other value added manufacturing companies)
- Quickly adapting the business plan and expanding the operation to solve supply problems
- Access to high-end consumers and markets
- Partnering with a supplier (in Central BC) who gets a good price premium from Woodlands, in consideration of consistent and quality raw material and favorable payment terms

Success metrics

- Revenue generation ~ \$600,000
- Very high job creation for the amount of saw logs required (up to 30X jobs per m3 of jobs compared to logging industry norms)
- Job creation = 7 FTE
- Total investment capital ~ \$500,000 (approximately \$71,000/FTE)
- Approximately 40% of capital was for equipment; 30% Inventory; 30% other working capital

Obstacles

- Initial capitalization of \$50,000. Unreliable supply chain led to much larger capital investment (\$500,000) and bringing all operations in-house
- Continuity of timber supply has been a continual challenge (The larger forest product companies keep their supply for vertically integrated operations)
- Remaining solvent while identifying target market and proving viability as a supplier

Caveats

- Although our research covered many cases, there are many others worldwide that may warrant further investigation
- Because there was significant consistency in the lessons learned from both successful and less-successful cases the lessons learned from cases are quite likely to be sound
- However, in this phase the team worked with very limited data regarding the specific situation on the BC coast. Thus, the findings regarding feasibility of economic development on the coast and application of the lessons learned require thorough review as more details become available
- Nonetheless, the team has established findings on these matters for discussion to help move the process forward

Findings

- 1. Achieving a foundation for a sustainable economy on the BC coast appears feasible** using the proposed conservation finance funding of \$150 million CAD (\$100 million USD) as core financing to be enhanced with other funds, and assuming that the forestry and marine markets offer ample profit potential in light of market conditions and changing practices
- 2. Choosing and financing the specific investments that can build a sustainable economy will be quite difficult, but heeding five lessons can maximize success.** The majority of such efforts fail, and lessons learned from both successes and failures highlight the importance of a dispassionate and businesslike approach
- 3. Strong institutional mechanisms are crucial.** These must function independently and provide substantial external support without undermining local entrepreneurship and commitment
- 4. Next steps** include detailed work on pilot programs and institutional design

Agenda

1. Achieving a sustainable economy on the BC coast appears feasible assuming that the forestry and marine markets offer ample profit potential in light of market conditions and changing practices

- About 2,200 new local FTE jobs are required to develop a robust economy. These include First Nations jobs (on and off reserve) as well as non-First Nations jobs.
- About 1,500 core jobs are needed. Forestry and marine resources appear likely to support this number of positions; Service, artisan, and part-time jobs will account for the remaining 700 positions
- Financing per job could average from \$75,000-\$300,000 CAD (\$50,000-\$200,000 USD) per job. This would make \$150 million CAD (\$100 million USD) of conservation financing at minimum a solid foundation of funding for the effort

2. Choosing and financing the specific investments to build a sustainable economy is quite difficult, but heeding five lessons can maximize success

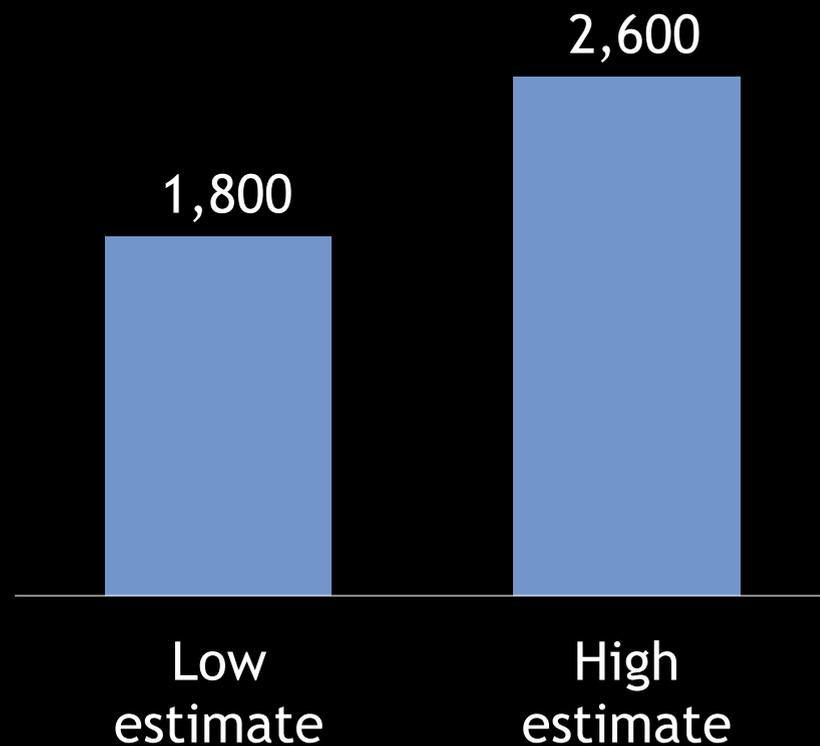
3. Strong institutional mechanisms are crucial

4. Next steps

New FTEs required

Estimate

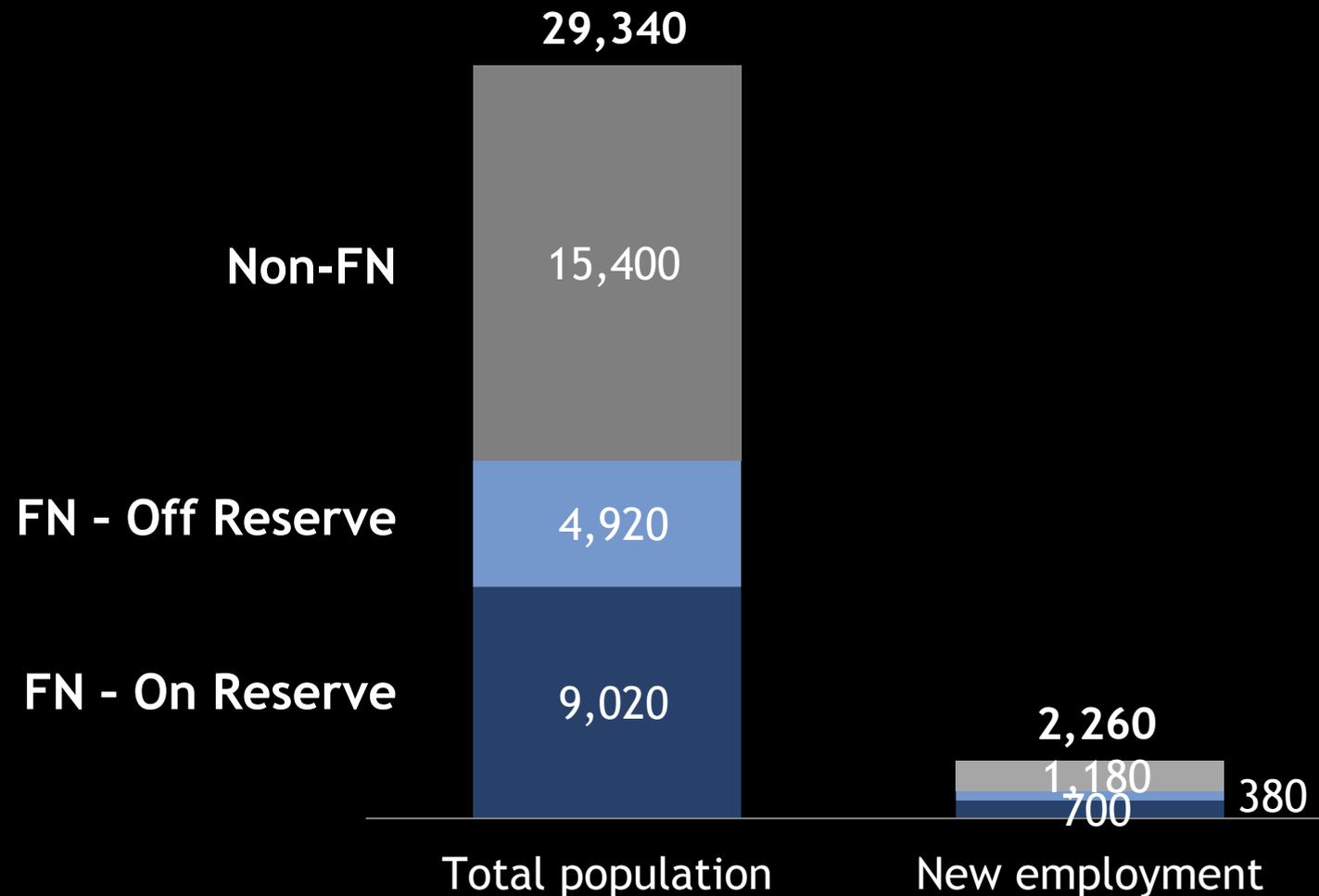
Number of FTEs



Key assumptions

- Labor force participation
- Percentage of full-time versus part-time
- Actual unemployment versus an expected 'natural' unemployment
- Expected secondary jobs

New FTE mix



Caveats

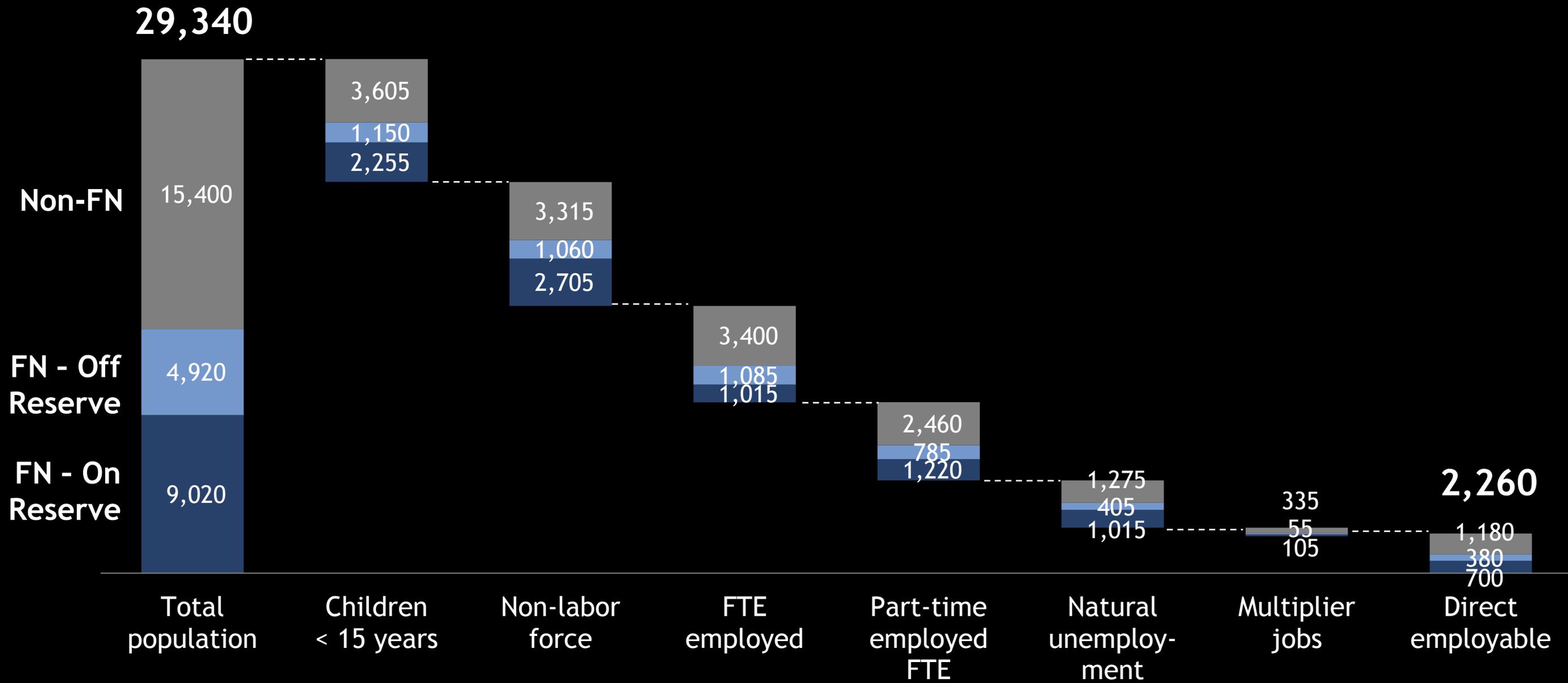
Estimate

- Study area population is a hybrid of several data sources*:
 - FN Band reservations
 - Coastal Forest Districts
 - Census districts
- FN employment statistics vary greatly:
 - 55%-70% labor force participation
 - 16%-57% unemployment
 - 10%-28% full-time job participation

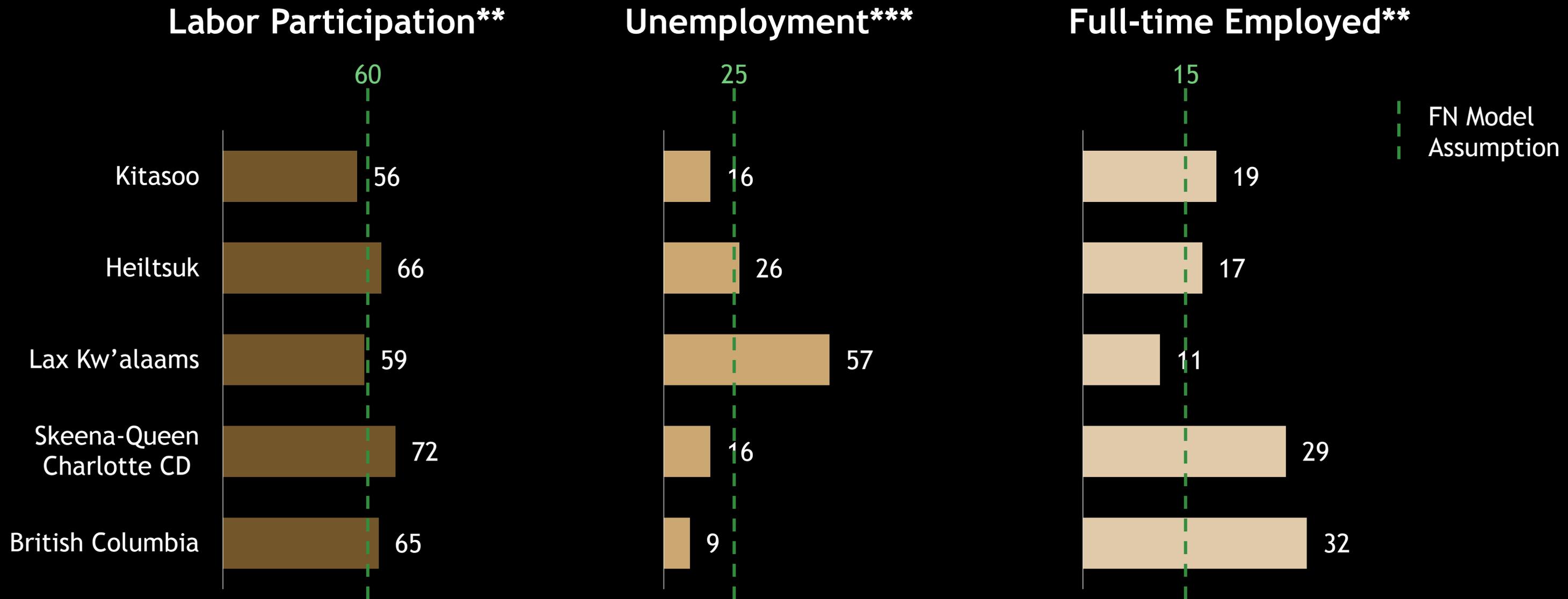
* Forest Districts: Central Coast, North Coast, and Queen Charlotte Islands; Census Districts: Central Coast Regional District (Census Division), Skeena-Queen Charlotte Regional District (Census Division)

New FTE assumptions

Estimate



Sample assumptions



* Non-reserve populations use overall Census District (CD) rates, rather than FN averages

** As a % of population older than 15 years

*** As a % of eligible labor force - not of total FN population

Employment issues

Issue

Not enough full-time unemployed people to fill expected job numbers

FN populations are small and dispersed

Some cultures prefer lower participation and higher part-time employment

The role of non-First Nations communities in the program is not yet well-defined

Implication

- FTEs will be created by a mix of currently unemployed people and increased employment for people who are currently employed part-time
- On reserve ED will differ from off-reserve development
- On reserve ED needs to leverage scale from surrounding communities
- Target efforts toward those communities/ individuals that seek work
- Create a mix of patching part-time work with full-time work
- Refine thinking on the role of non-First Nations in the program

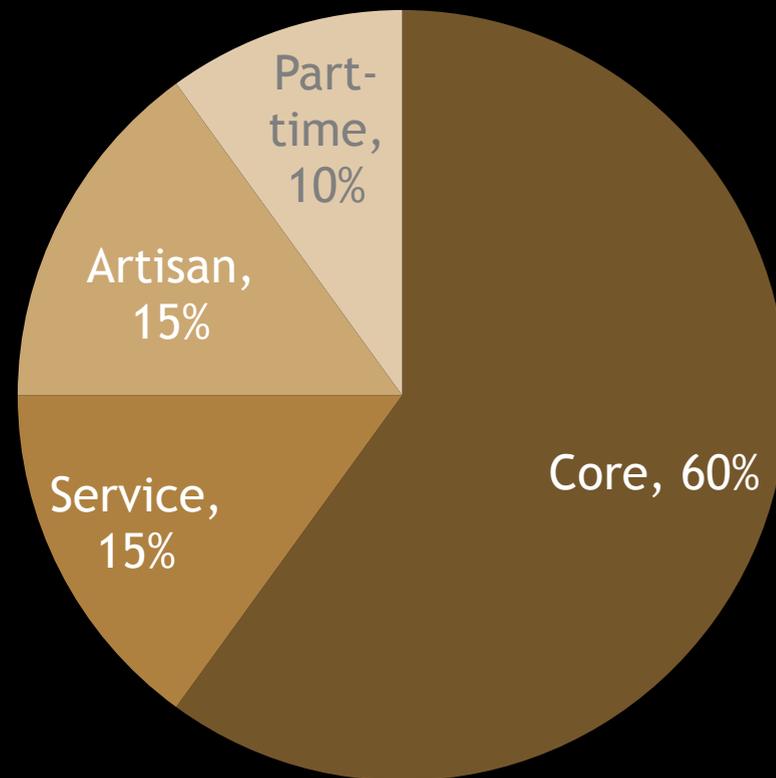
Agenda

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 - Financing per job could average from \$75,000-\$300,000 CAD (\$50,000-\$200,000 USD) per job. This would make \$150 million CAD (\$100 million USD) of conservation financing at minimum a solid foundation of funding for the effort
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- Strong institutional mechanisms are crucial
- Next steps

Job creation mix

ESTIMATE

2,600 total jobs



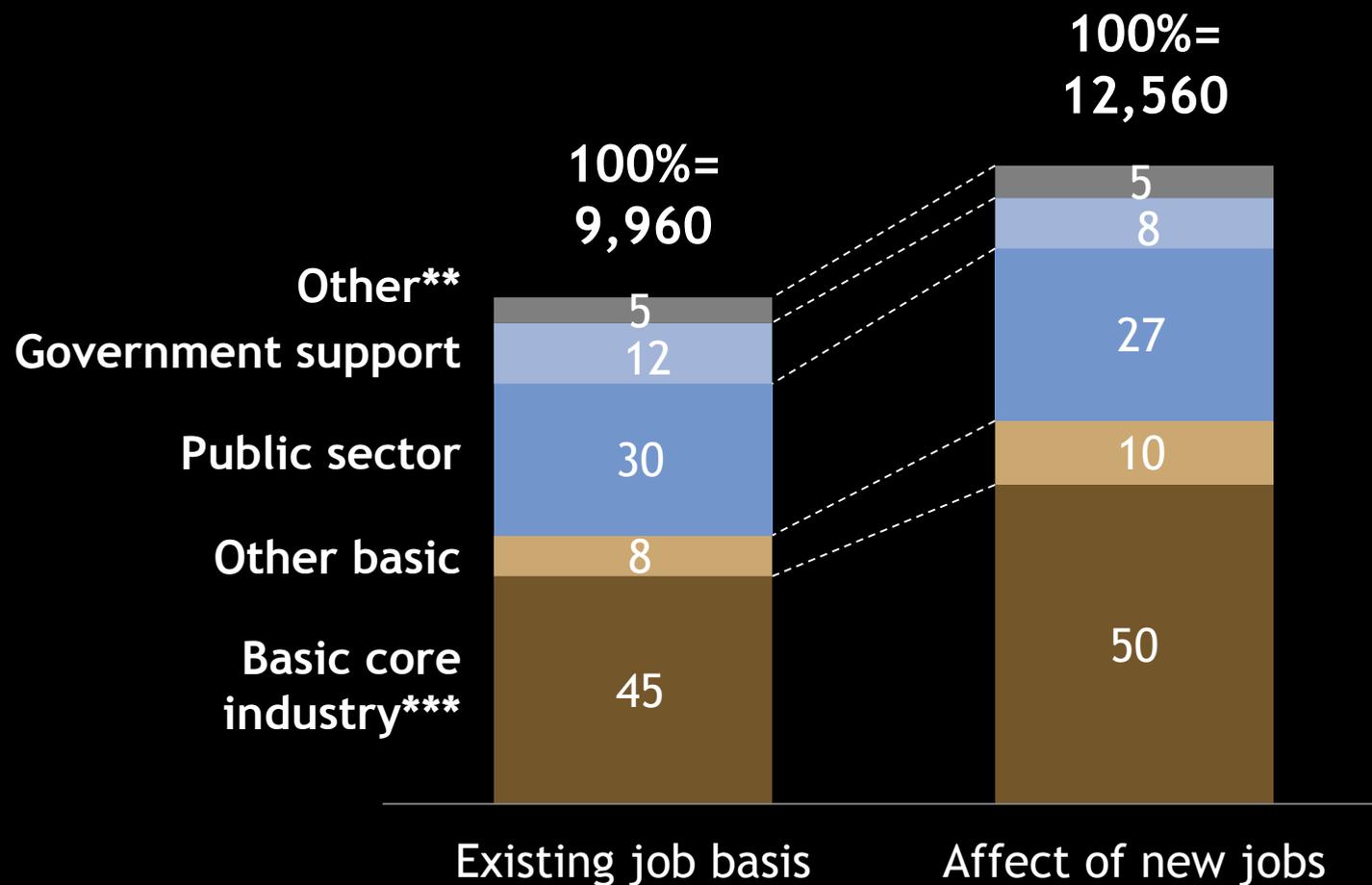
- **Core jobs** are critical to the economy in order to bring in ‘new’ money and provide economic growth
- **Service jobs** help support the growth in basic jobs
- **Artisan and part-time jobs** are needed to mitigate the difficulties of rural locations and cultural preferences, and to leverage job creation / \$ ratio

Income dependency

BC income dependencies*

Number of jobs (percent labeled)

Estimate



- Reducing unemployment decreases dependence on government support payments
- Increasing basic core employment decreases dependence on the public sector

* Sectors include direct, indirect and induced income dependent on the identified basic industries

** e.g., retirement and pension income

*** Basic core = Forestry, Fishing and Tourism

Potential for core jobs

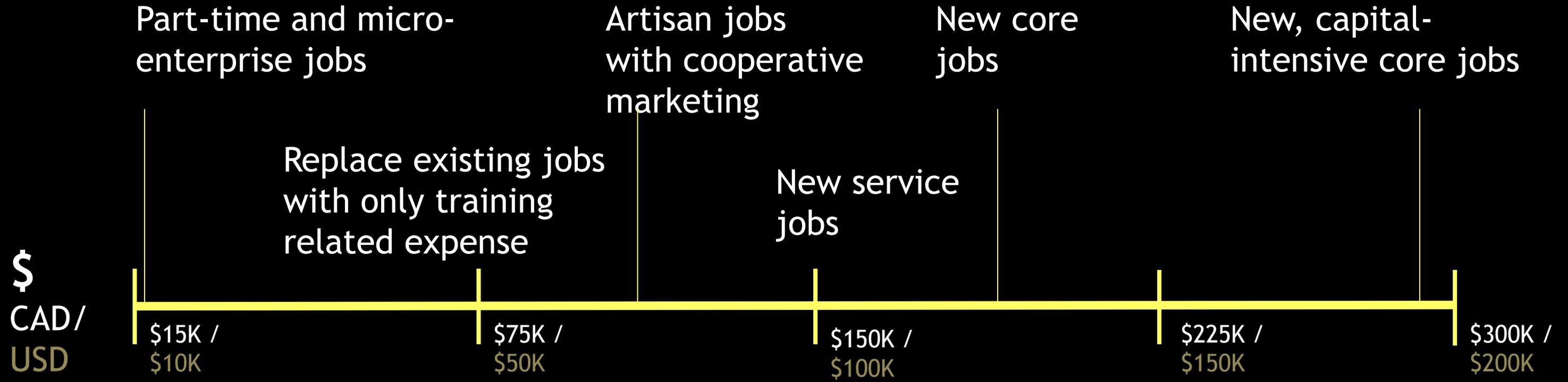
CONFIRMATION REQUIRED

- Initial EBM-based AAC calculations for portions of the study area appear to suggest significant forest industry job potential (to be confirmed in phase 2)
- Marine studies are also said to suggest ample opportunity for increased jobs (to be confirmed in phase 2)
- Interviewees have said that using attrition to transfer commuter jobs to locals could also account for needed positions. Note that in many cases substantial training for locals could be required, and that retraining for the commuters could be necessary if job transfers did not involve attrition
- Funding in perpetuity for a range of conservation jobs will provide a useful foundation of core positions

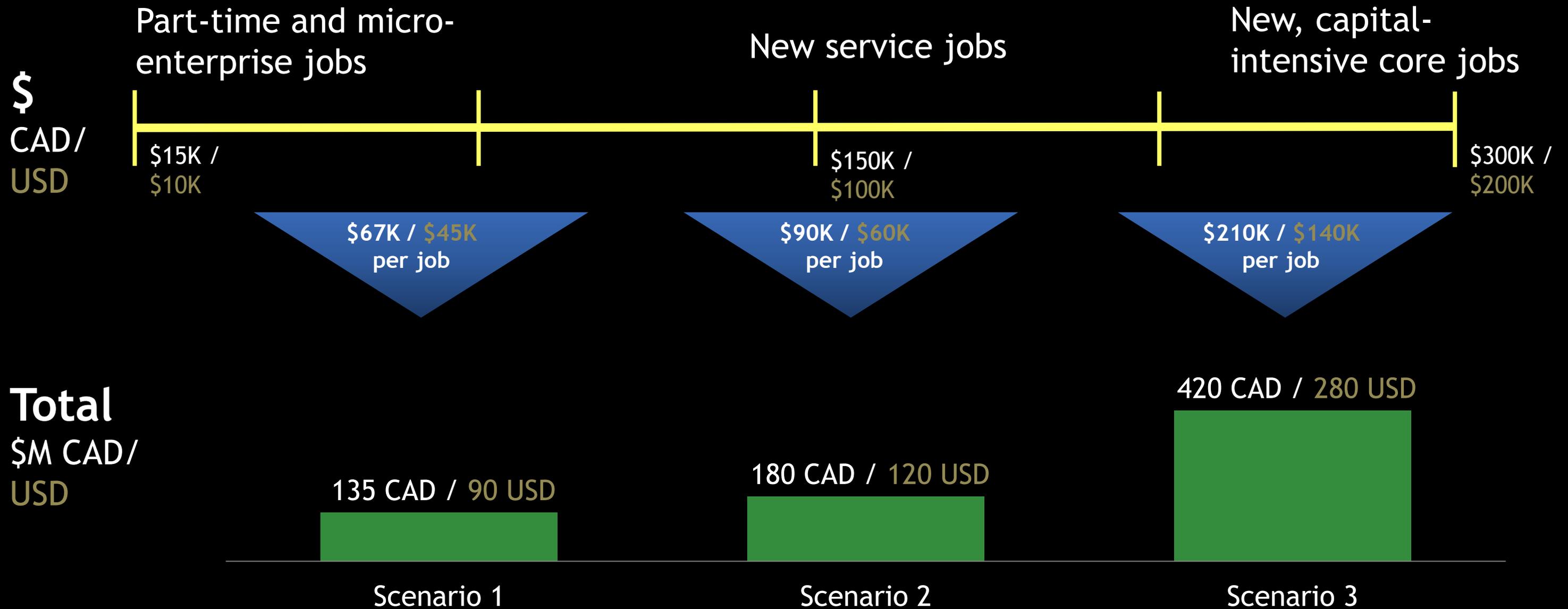
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Job cost spectrum



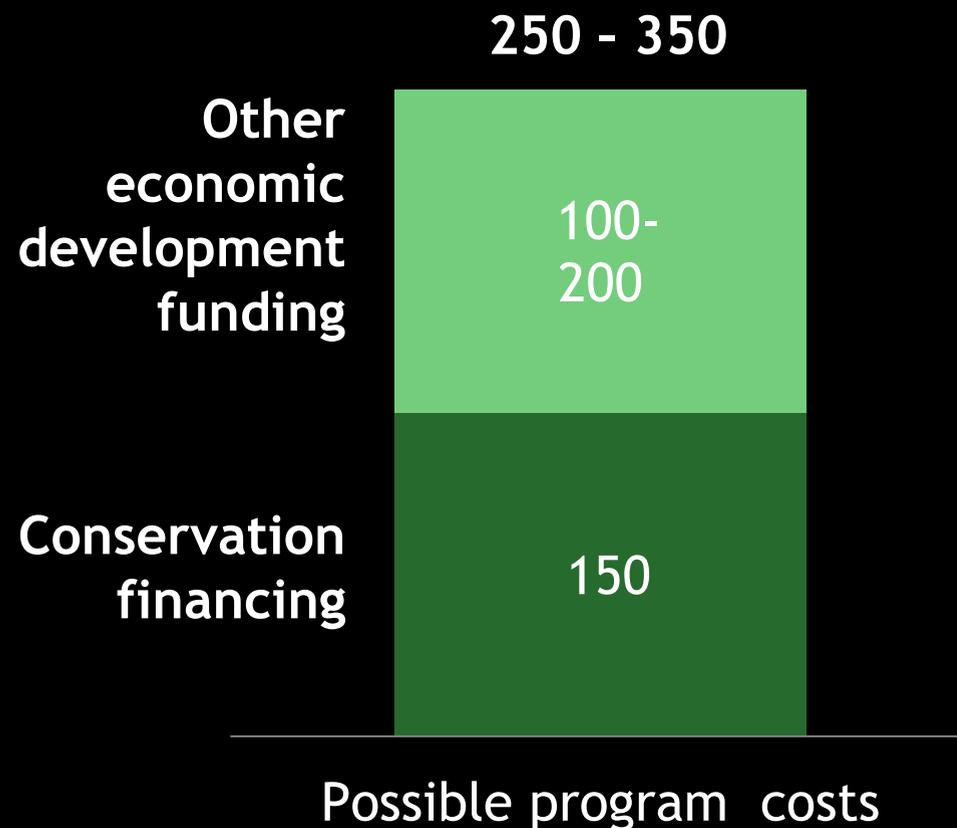
Cost of the initiative: three scenarios



Possible financing mix

*Preliminary
Estimate*

Funding \$M



Assumptions

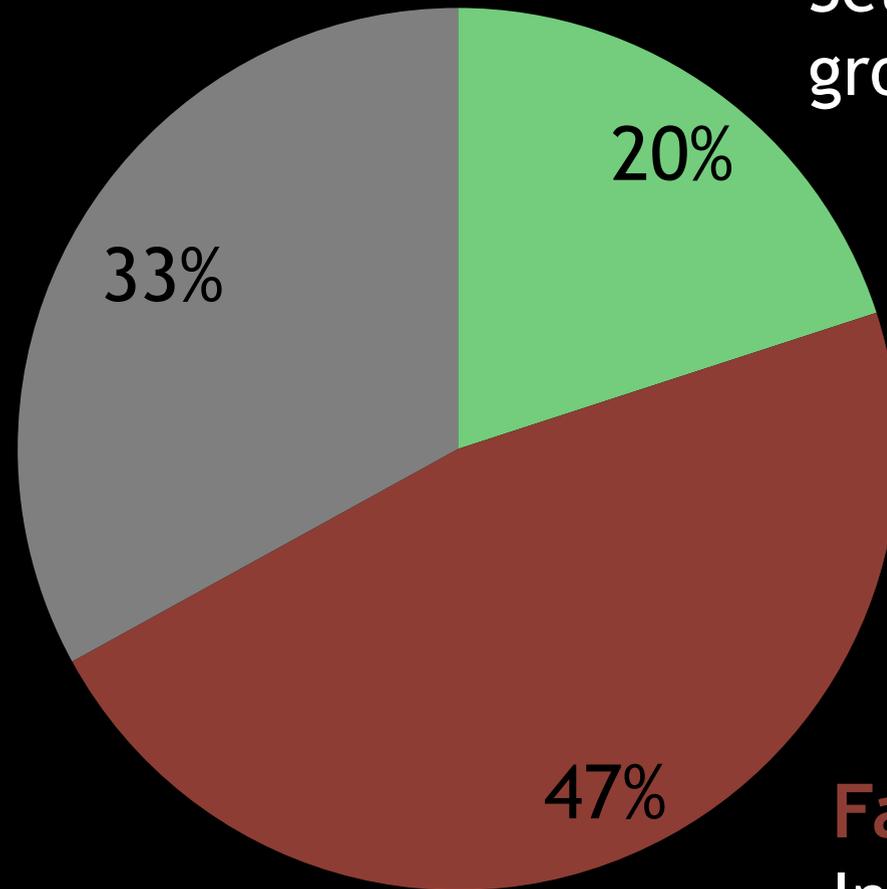
- Most of the “other funding” is applied to non-FN and off-reserve FN jobs
- ~80% of conservation financing is applied to on-reserve FN jobs and ~20% to off-reserve FN and non-FN jobs
- Average cost per most jobs is ~\$100K*
- Program administration costs consistent with other program experiences are in addition to the cost per job estimates

Agenda

1. Achieving a sustainable economy on the BC coast appears feasible
2. Choosing and financing the specific investments to build a sustainable economy is quite difficult, but heeding five lessons can maximize success
 - Only about 20% of projects are clearly successes, and 50% are outright failures. Moreover, conditions on the BC coast are challenging
 - Heeding five lessons can maximize success
3. Strong institutional mechanisms are crucial
4. Next steps

Successes versus failures

Uncertain
Cash-negative with
challenging internal
or market dynamics



Successes
Self-sustaining or
growing enterprise

Failures
Insolvent project with
jobs and investment lost

Source: Meridian analysis of profiled cases

BC coast challenges

- **Remote areas** - The time and cost required to access coastal communities is a major disadvantage in moving people and goods in or out of the area
- **Very small communities with minimal infrastructure** - Limited utilities and other infrastructure create a difficult environment for business success, favoring businesses that are highly self-sufficient
- **Community skepticism about potential for business success** - There can be negative assumptions about the potential for business success
- **Difficulty obtaining staff with appropriate skills and training** - Many communities have limited access to workers with technical skills or general skills such as hospitality training. In addition, recent losses in government and forestry positions appear to have prompted emigration of some skilled workers
- **Lack of access to equity and debt capital** - Few institutions (other than federal and provincial programs) have established banking relationships in the area, limiting access to market capital
- **Significant scale versus other similar programs** - This program would be among the largest regional economic development programs undertaken

Notable success

Coastal Enterprises, Inc.



- With a sector focus, market depth, and careful examination of preproduction, production, and post production issues, CEI has helped create or sustain 1,150 fishery jobs with loans of approximately \$10MM (USD)



- By investing in harvesting, processing, shore side supply, and the ‘working waterfront’, CEI has help leverage individual investments and has helped support a viable value chain involving many businesses, over many years

Pre-Production	Production (is it locally controlled?)	Post-Production
<ul style="list-style-type: none"> • Raw materials • Organizational type • Energy • Labor skills, distance to work • Management skills, distance to work • Financing -- availability and cost • Consequences of input production costs, environmental impacts • Training of workers 	<ul style="list-style-type: none"> • Ownership (is it locally controlled?) • Environmental impacts • Scale of operation -- large or small • Operating decisions • Efficient processing • Product packaging • Processing wastes • Environmental impacts 	<ul style="list-style-type: none"> • Markets and distance to markets • Product pricing (who controls it?) • Product use (primary and secondary) • Company size and relationship of products • Product wastes • Contribution of profits • Environmental impacts • Payback to workers (wages, benefits)

Key lessons

- Concentrate on a specific geographical region
- Build a sector focus
 - Market expertise
 - Scale economies
 - Invest in multiple sectors
- Build support and training infrastructure
 - Help business people
 - Vet business opportunities
- Evaluate opportunities rigorously

Notable lack of success

Northwest Economic Adjustment Initiative



- Established in 1993 to mitigate the socioeconomic impacts associated with the 1993 Northwest Forest Plan and declining timber harvests throughout the Northwestern U.S.
- Over a six year period, a combination of federal and state agencies spent \$1.5 billion on infrastructure, new businesses, and “soft” development programs (e.g., training and skills building)



Key lessons

- Complex and decentralized management structure contributed to inadequate accountability and program ‘ownership’
- Investment review process lacked sufficient diligence and analytical rigor
- Too much money flowed too quickly
- Focus was not placed on sustainable core jobs, but rather numerous unrelated and sometimes specious enterprise ideas

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 - Only about 20% of projects are clearly successes, and 50% are outright failures. Moreover, conditions on the BC coast are challenging
 - Heeding five lessons can maximize success
 - Lesson 1: Attract and fund entrepreneurs
 - Lesson 2: Be tough in assessing market potential, security of supply, etc
 - Lesson 3: Focus on a few core sectors and skills to achieve scale advantage
 - Lesson 4: Invest in selective training and technical assistance
 - Lesson 5: Track investments closely; intervene quickly when problems arise
3. Strong institutional mechanisms are crucial
4. Next steps

Lesson 1: Attract and fund entrepreneurs

Kentucky Highland Investment Corp.



- Attract aspiring entrepreneurs by bundling funding with job training and skills development
- Make relatively big bets on creating enterprises with substantial employment and profit potential



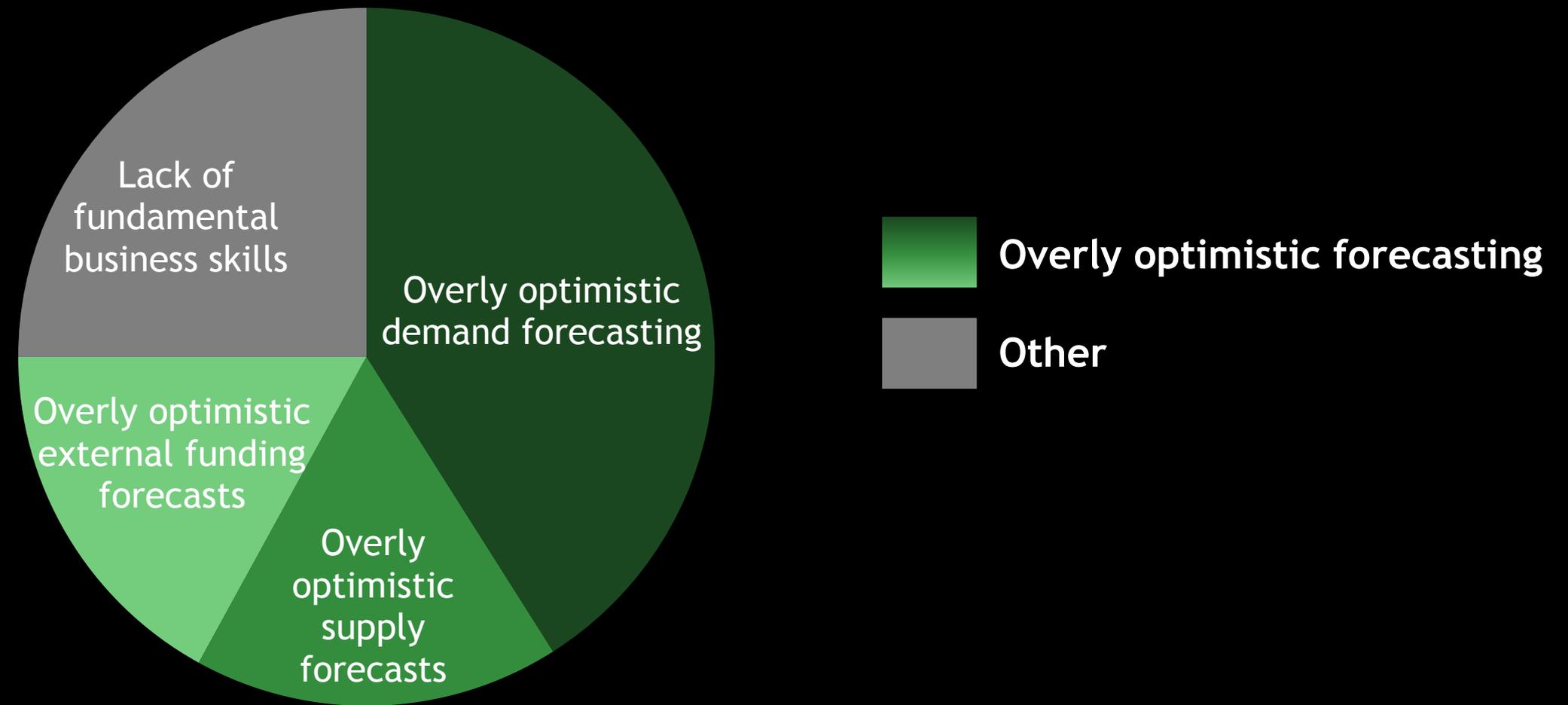
- Forecasted to employ 72 within five years; actual employment was 185 within four years

Lessons

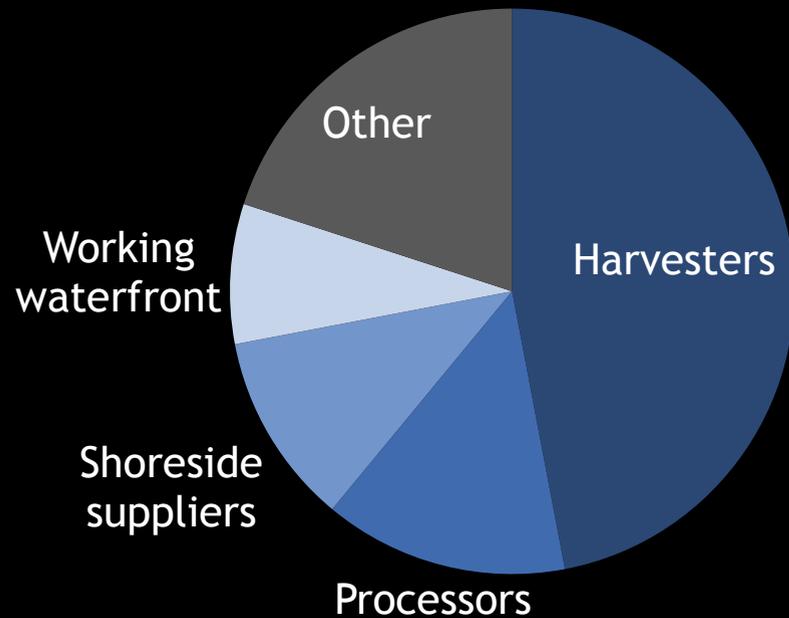
- Funding alone is not the answer for successful job creation
- “Tenacious individuals can influence outcomes”
- Finding a strong business leader is crucial
- Ensure that there are adequate incentives to support entrepreneurship

Lesson 2: Be tough

Primary reasons for project failure



Lesson 3: Focus on core sectors



“Connect the dots in your portfolio. Years ago, we did lots of interesting deals that did not add up to anything.”

- Elizabeth Sheehan,
Coastal Enterprises, Inc

Lessons

- Achieve scale where economically necessary to be competitive (e.g. shipping, packing, processing)
- Build funding expertise through experience with investments in multiple parts of the supply chain
- Create strong, consolidated training by developing industry experts
- Diversify investments within the sector (and across a few core sectors) to hedge against significant declines in any area



Lesson 4: Invest in selective training



Lessons

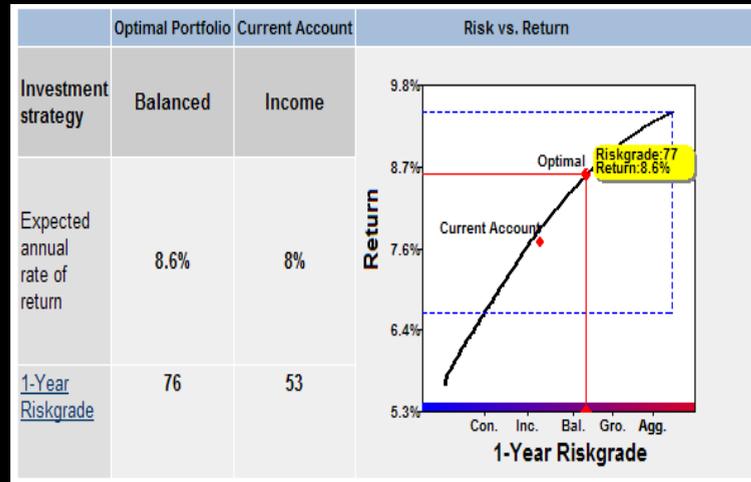
- Establish rigorous management criteria and then train against them
- Focus on core, economically sustainable industries
- Spend the money for the training and reporting systems at the program level
- Teach both technical and management skills needed for business accountability
- Make the training accessible by traveling to the students or using multiple locations
- Selective joint venturing in training and financing can enhance the prospect of success

“Our information and technical assistance is more valuable to our borrowers than the funds we provide.”

- Mike Dickerson, Deputy Director
ShoreBank Enterprise Pacific

Lesson 5: Track closely

Dashboard



Lessons

- Establish adequate sector expertise to anticipate market trends
- Use a ‘dashboard’ of performance metrics to monitor company performance
- Do not delay difficult business decisions about people or markets
- Be prepared to directly intervene with management resources if necessary to ensure the success of programs

Decision support

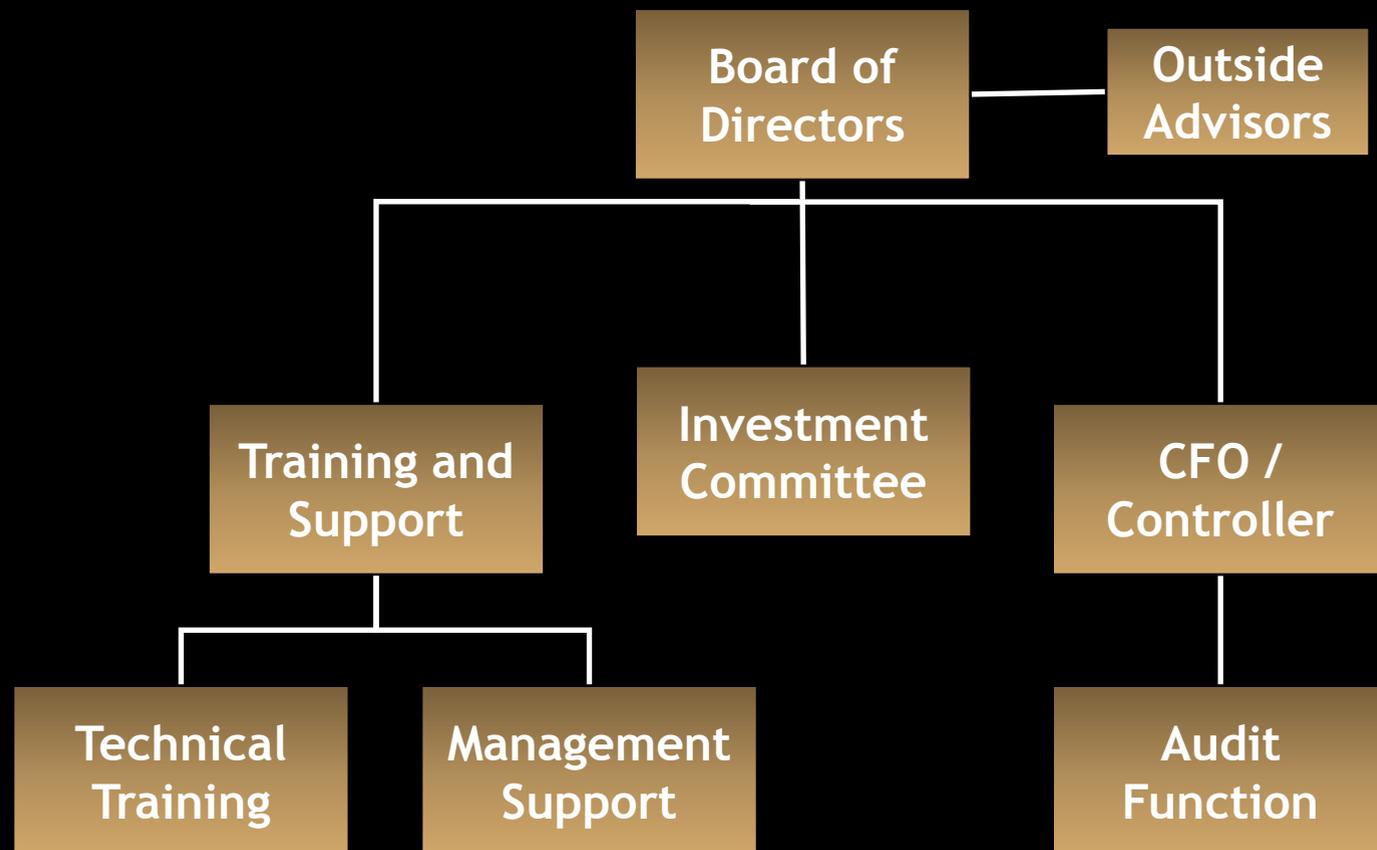
Activity/Result	Total dollars	Total qty	Units	Unit cost	Financing source	Partner	Phase 1 dollars	Year 1 dollars	Year 2 dollars	Phase 2 dollars	Year 3 cost	Year 4 cost	Ongoing annual
1. GITGA'AT NATION													
6-Feb-03													
\$Can 000													
Cells shaded yellow require data input													
Total allocation	\$ 9,350												
Total grant allocation	\$ 7,700												
Total SRI allocation	\$ 1,650												
A. Economic development allocation	\$ 4,345	NA	NA	NA	NA	NA	\$ 1,521	\$ 652	\$ 869	\$ 2,824	\$ 1,521	\$ 1,304	NA
1. Marine													NA
2. Tourism													NA
3. Terrestrial													NA
4. Balance available													NA
B. Conservation activities fund	\$ 4,235	NA	NA	NA	NA	NA	\$ 565	\$ 282	\$ 282	\$ 565	\$ 282	\$ 282	\$ 282
1. Protection													
2. Restoration													
3. Monitoring													
4. Balance available													
C. Capacity building/Social allocation	\$ 770	NA	NA	NA	NA	NA	\$ 462	\$ 154	\$ 308	\$ 308	\$ 231	\$ 77	NA
1. Capacity building													NA
2. Social development													NA
3. Balance available													NA
Total before contingencies	\$ 9,350	NA	NA	NA	NA	NA	\$ 2,547	\$ 1,088	\$ 1,459	\$ 3,697	\$ 2,034	\$ 1,663	\$ 282
Inflation and ForEx adjustments		NA	NA	NA	NA	NA							
Total before contingencies and after inflation and ForEx adjustments	\$ 9,350	NA	NA	NA	NA	NA	\$ 2,547	\$ 1,088	\$ 1,459	\$ 3,697	\$ 2,034	\$ 1,663	\$ 282

Agenda

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2. Choosing and financing the specific investments to build a sustainable economy is quite difficult, but heeding five lessons can maximize success
3. **Strong institutional mechanisms and processes are crucial** as they are the program's main point of influence. They shape what projects get funded; how projects fit together into a larger strategy; how projects and entrepreneurs are supported; how financing is used to increase commitment; and so on
 1. Good institutions and processes are independent and are run by proven and capable leaders and administrators
 2. They use thoughtful investment screens to test the feasibility of businesses before they fund them
 3. Successful institutions and processes also learn from their predecessors. For example, they are lean and ramp up carefully. Their expenses do not exceed 20 percent of the money that they handle, and their design reflects other lessons from earlier fund experiences as well
4. Next steps

1. Good institutions are independent

Sample Structure



Lessons

- Board must be independent with broad stakeholder representation
- Board and investment committee must not be recipient dominated
- Funding process must not be political

2. Thoughtful assessment screens

Competition/substitutes

- Who already provides your product?
- Can other markets easily produce the same products?
- What is your distinctive advantage?

Supply

- Is there a consistent and reliable supply of raw materials?
- Do you have easy access to supply?
- Is there supply fragmentation or monopoly?
- How volatile are supply costs?

Business Specifics

- Is there a strong business leader?
- Is there sufficient human capital within the organization?
- Are there adequate technical resources?
- Are there adequate financial resources?

Customers

- Are you sure of the demand for your product?
- Are customers willing to pay a premium when needed?
- Can you cost-effectively reach these customers?

Externalities

- Governmental policy that supports or hinders entrepreneurship (e.g., taxes, incentives, worker compensation)?
- Domestic subsidies and tariffs that distort markets?
- Weather impact or climate change?

3. Learning from predecessors

1. Limit the trust fund's administrative costs to no more than 20%. Do not increase expenses ahead of income
2. Ensure that no single organization is perceived as controlling the fund
3. Identify and involve potential donors early on in the process
4. Decide on criteria (or even percentage formulas) for allocating the trust fund's annual budget
5. Limit activities financed by the fund
6. Ensure transparency and openness by requiring that the trust fund's financial records will be made publicly available

4. Avoiding bureaucracy

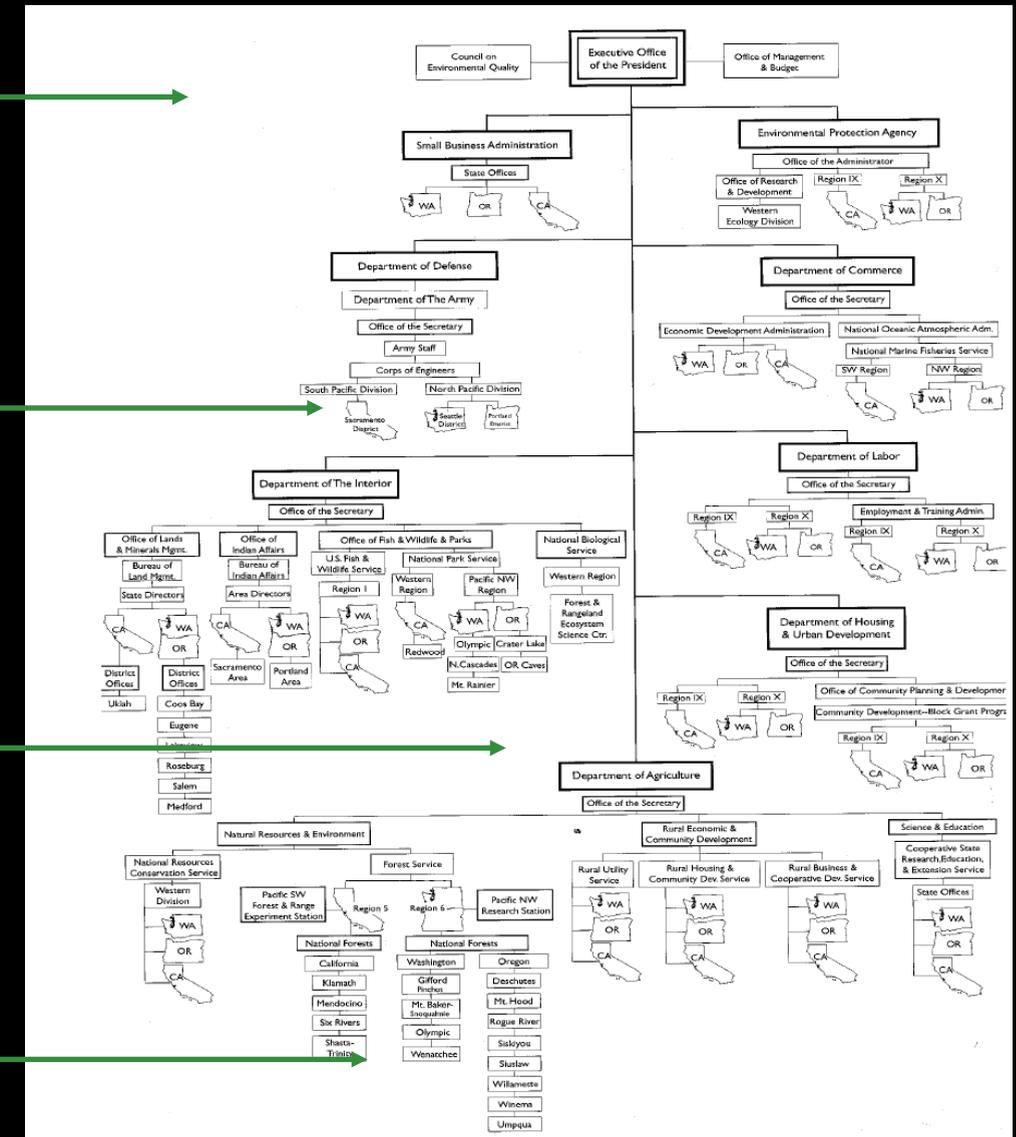
1 Political battles between bureaucratic layers slow down processes and lead to non-economic based decision-making

2 Distance from the development location leads to ineffective investment decisions (e.g., no knowledge of high-potential candidates or key businesses)

3 Organizational complexity leads to ineffective monitoring mechanisms allowing for both poor investments and good investments to go awry

4 Using existing government structures can kill incentives and motivation

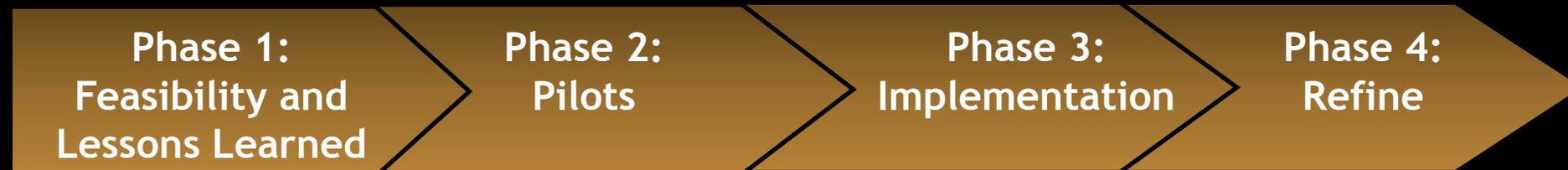
Northwest Forest Plan organizational chart



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3. Strong institutional mechanisms are crucial
4. **Next steps**

Project phases



Objectives

- | | | | |
|--|--|--|---|
| <ul style="list-style-type: none"> • Assess feasibility of sustainable economic development • Research case examples for lessons learned | <ul style="list-style-type: none"> • Develop sample implementation plans for specific pilot sites • Implement an administrative structure and mechanisms | <ul style="list-style-type: none"> • Design intended portfolio • Aid projects with business planning • Attract and train • Fund programs | <ul style="list-style-type: none"> • Report results • Analyze progress and suggest improvements |
|--|--|--|---|

Timing

4-5 weeks	10 weeks	Ongoing	Ongoing
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Suggested next steps



- Refine the job creation model to include individual communities and to verify location-specific assumptions and resources
- Select one or two First Nations communities (Gitga'at and Kitasoo?) and possibly a non-First Nations community and assess this approach in light of their economic development plans
- Consult with BC-based NGOs
- Complete detailed benchmarking of institutional design best practices
- Design and implement the institutional design
- Gather economic development experts in a workshop setting to comment on first and second phase findings using RBF's generous offer of sponsorship