# MULTILEVEL GOVERNANCE IN CANADA

## The Case of Regional Economic Development

Report prepared for the Scottish Parliament under the Brexit Framework Agreement

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## 1. Introduction

Global economic trends over the past three decades have created conditions in which integrated trade and investment markets coexist with a greater need for sub-national jurisdictions to find their niche as the classical tools of the central state are proving inadequate to foster economic competitiveness and performance. This report analyzes the governance of regional economic development policy in Canada's federal system within the context of increasing global economic trends over the past three decades. Canada has had a long tradition of seeking to address the socioeconomic challenges of its disparate regions through economic development programs governed by multilevel institutional and policy arrangements. The critical difference over the past three decades has been that subnational jurisdictions (provinces) are increasingly manifesting a greater urgency and determination to take more ownership of their socioeconomic destiny by building more direct links to international markets. The report is premised on the fact that whereas regional economic development policy in Canada continues to involve the federal and provincial governments in joint pursuit of common goals, there have been greater degrees of subnational jurisdictional autonomy within the relevant intergovernmental arrangements for provinces to direct the course of their policy priorities.

In pursuit of this research objective, the discussion addresses Canada's federal-provincial legal, institutional and fiscal arrangements for the development and implementation of regional economic development policy. The discussion also analyzes the adaptations of these intergovernmental frameworks to the changing imperatives of economic challenges and opportunities in the respective provinces. The main questions addressed include the following: First, how does the concept of intergovernmental framework arrangement in Canada apply to the policy context of regional development policy in Canada? Second, is there a variation or commonality of approach to their use across regions and provinces in Canada? Third, which departments or agencies of government are the central players in negotiating and executing multilevel governance arrangements in Canada's regional economic development? Fourth, what processes and timescales are involved in these framework arrangements? Fifth, what are the advantages and constraints associated with such multilevel governance over the years? Sixth and not least, what sorts of issues have emerged in relation to the implementation of regional economic development framework arrangements, and how were those issues resolved?

In addressing the above questions, the discussion highlights the monitoring, evaluation and performance assessments mechanisms in place, including the reporting structure, parliamentary oversight and institutional arrangements associated with the governance of Canada's intergovernmental regional economic development policy. It also highlights the binding/flexible nature of these arrangements (including their legislative and non-legislative dimensions) and how these arrangements allow for alterations and adaptation to align with changing economic imperatives. The report also sheds light on the nature of funding arrangements and fiscal commitments, and the level of operational autonomy that subnational jurisdictions command in the use of these funds in pursuit of their respective domestic and international trade and investment agenda. A discussion of the institutional and policy environment of regional economic development will be incomplete without reference to the nature and extent of influence that other stakeholders exert on the shifting contours of multilevel governance in Canada.

## Research Method

The analysis in this report draws from a body of work[1] that employs several data collection methods to analyze the transitions in regional economic development policy governance in Canada over the past three decades. The data has been collected through a combination of semistructured interviews, reviews of primary (mostly government) documents, and process tracing. The semi-structured interviews were conducted with over eighty officials (high-level, mid-level, and front line) drawn primarily from agencies at the various levels of government, private sector associations, and relevant community groups across Canada. Not all the interviews were directly referenced in the discussion, but together they provided considerable insight that enriched the analysis of the cases. Each of the interviews took an average of one hour and consisted of questions relating to the initial configuration and subsequent adaptation of intergovernmental regional economic development framework arrangements over time.

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[1] Over the past five years, the author has published several manuscripts (books, journal articles, policy reports and media articles) using the data described in the section.

The review of primary documents provides some measure of triangulation with the semistructured interviews through an examination of regional economic development policy and program documents for evidence or indications of changes in the legal, policy, fiscal and institutional infrastructure of intergovernmental agreements over time. The primary government documents include annual departmental "Performance Reports" as well as "Reports on Plans and Priorities" to the Treasury Board Secretariat of Canada. Other policy documents include departmental "Strategic Outcomes" and "Corporate Business Plans." Weaving these documents together provides significant "footprints" of the changes in Canada's intergovernmental regional economic development frameworks over the years. They also contain useful information about each level of government's perceptions of their operating environments, including economic and market trends, emerging sectors, and potential partners, as well as opportunities and risks.

The rest of the discussion is structured as follows: The next chapter provides the general institutional context of Canadian federalism and specific policy context of regional economic development. This is followed by two successive chapters providing detailed analyses of the two case studies respectively. The final chapter highlights the implications of the case studies for the questions raised in the introduction and concludes with some practical considerations for the changing contours of subnational policy autonomy in multilevel governance systems in an age of seismic global economic perturbation.

## 2. Institutional and Policy Context of Multilevel Governance

### Multilevel Governance in the Canadian Federation

The traditional definition of federal systems holds that "governmental power is distributed between a central (or national or federal) authority and several regional (or provincial or state) authorities, in such a way that every individual in the state is subject to the laws of two authorities. The central authority and the regional authorities are 'coordinate,' that is to say, neither is subordinate to the other" (Hogg 1992: 98). Central to this definition is the understanding that within its constitutionally defined area of jurisdiction, each level of government is sovereign. This traditional view with its emphasis on division of powers provides a necessary constitutional and legal foundation on which the Canadian federation rests, but it does not offer sufficient guidance in understanding the institutional mechanisms that have evolved over the years for dealing with the growing complexity of public policy formulation and implementation. This chapter provides a brief description of the legal and institutional features of Canadian federalism and highlights how the pragmatic demands of governance have given rise to the use of legislative and non-legislative mechanisms of intergovernmental arrangements for dealing with policy issues that transcend institutional boundaries. These legislative and nonlegislative mechanisms constitute the essential features of multilevel governance in Canada. The discussion in this chapter concludes with a brief highlight of regional economic development policy as an example of multilevel governance in the Canadian federation.

In terms of its foundational institutional infrastructure, Canadian federalism consists of eleven jurisdictions of governmental authority – the federal government and ten provincial governments. It should be added that three territorial governments in the far north exercise powers that are delegated by the federal parliament. Canada’s Constitution Act of 1867 sets the legal foundation of federalism with the powers of government divided between the provinces and the federal government. Sections 91 to 95 of the Act allocates the distribution of powers in broad terms, with sections 91 and 92 enumerating the specific subjects for which each jurisdiction can enact law (Hogg 1992). Section 91 enlists matters falling within federal jurisdiction whereas section 92 lists matters under provincial jurisdiction. Section 91, for instance, enshrines the powers of the federal parliament, including granting it remedial legislation on education rights, uniform laws relating to property and civil rights in all provinces other than Quebec, creation of a general court of appeal and other courts and the implementation of obligations arising from foreign treaties. Section 92 enshrines the powers of the provincial parliaments, which include the exploration, development and export to other provinces of non-renewable natural resources, forestry resources and electrical energy (subject to the federal parliament's authority to regulate inter-provincial movement). The federal and provincial governments share jurisdictions on matters like old-age pensions, agriculture and immigration, and such matters of concurrent jurisdiction (along with the federal government`s remedial powers) have precipitated various intergovernmental framework agreements for joint action in the Canadian federation (Hogg 1992; Alcantara et al 2016; Simeon 2010)

Canadian federalism has two key features that are relevant for the present discussion of intergovernmental arrangements in regional economic development. First, while each level of government is sovereign within the bounds of its jurisdictional authority, policies formulated by one order of government often impact the policy environment of the other levels of government (Brock 2018; Zeemering 2016). Second, the growing complexity of public policy has rendered policy coordination among levels of government necessary and unavoidable. Policies increasingly cross jurisdictional lines of scalar authority and transcend the geographical boundaries of subnational entities. One approach to understanding multilevel governance in Canada is through a lens of “dual federalism” which emphasizes the federal principle of governmental autonomy. This approach defines and enforces zones of exclusive legislative jurisdiction between the federal and the provincial governments (Scholtz 2013; Simeon 2010). The problem with this dualist approach is that it often resorts to judicially-determined jurisdictional boundaries which are subject to the vacillating opinions of the courts based on the peculiar facts of the case at hand. It also creates a litigious policy environment that breeds political posturing and thus undermines collaborative policy formulation and implementation in dealing with often complex and fluid matters such as economic development. In this regard, dualism taken to the legal extreme might potentially compromise strategic policy action and even create legislative vacuums or inertia in the face of emerging issues.

Another lens for understanding intergovernmental arrangements in Canada is “cooperative federalism” (Scholtz 2013). The emphasis here is on jurisdictional concurrency between the two orders of government. In the case of regional economic development (as the two case studies in subsequent chapters explain), cooperative federalism is evident in the strategic efforts of the central government seeking to maintain its legitimacy within the geographic space and constitutional policy domain of sub-national governments. Compared to the administrative, political and litigation costs of using its fiscal (“spending”) power to impose its policy preference on the provinces, Ottawa has often opted for cooperative behaviour that has resulted in considerable policy autonomy for provinces and sustained legitimacy for the federal government.

The prevalence of cooperative federalism, however, is not because of the benevolence of the federal government. It is a sheer strategic move to preserve a functioning federal system in the face of emerging socioeconomic realities and assertive regionalism. Several key forces have aligned to precipitate de facto shifts of power towards the provincial governments since the 1960. One such force, and arguably the strongest, has been the assertive demands of the province of Québec whose linguistic and cultural (Francophone) uniqueness from the rest of Canada grants it a legitimacy as a "distinct society" to challenge any perceived or real centralization of power in Ottawa (Claude 1993). Other provinces have simply ridden the high tide of greater subnational autonomy created by the policy and institutional precedents emerging from Quebec`s successful assertiveness since the 1960s.

A second force is the growing importance of provincial natural resources, most evident in the region of Western Canada, where provinces have been asserting their constitutional rights to direct the terms of resource exploitation, processing and trade. Notwithstanding the litigious climate of natural resource exploitation that has necessitated considerable court pronouncements in favour of Indigenous communities across Canada (often constraining the hand of provinces), in federal-provincial relations, provinces have won considerable recognition of their constitutional rights. A third force is the creation of the North American Free Trade Agreement (NAFTA) of 1992, which has resulted in increasing economic integration between Canada and the US, thereby creating policy room for provinces to aggressively pursue international trade and investment opportunities south of the Canadian border. The combined effect of these forces has resulted in more confident and assertive provincial governments prepared to challenge any federal government attempt to formulate public policy without consultation with, and consent of, the provinces. Out of these emergent realities have grown the prevalence of intergovernmental framework arrangements as legal and institutional mechanisms for dealing with complex policy issues in the Canadian federation. The discussion in the next section provides an overview of the institutional infrastructure of regional economic development policy in Canada.

## An Overview of Regional Economic Development Policy[2]

Although regional economic development in Canada (and the industrialized world) dates to the 1960s, the present institutional configuration of intergovernmental regional economic development governance in Canada came into existence through a major restructuring in 1987 in which the national government decided to decentralize its policy making, program design and delivery system. This was the period when the effects of the above-mentioned forces of decentralization reached their climax. It resulted in the creation of three federal regional development agencies (RDAs); one for each distinct region of the country - Western Canada, Atlantic Canada, and Northern Ontario, namely, the Western Economic Diversification Agency (WD), the Atlantic Canada Opportunities Agency (ACOA) and the Federal Economic Initiative for Northern Ontario (FedNor), respectively. To provide

[2] For a detailed account of Regional Economic Development policy within the Canadian federation, see Conteh, Charles. 2013. *Policy Governance in Multi-Level Systems: Economic Development and Policy Implementation in Canada*. Montreal and Kingston: McGill-Queen's University Press.

analytical depth, this report focuses on intergovernmental arrangements in the provinces of New Brunswick (Eastern Canada) and Manitoba (Western Canada).

The federal agency responsible for intergovernmental arrangement in the province of New Brunswick is ACOA, and its mandate was legislated the Canadian Parliament's Atlantic Canada Opportunities Agency Act of 1985 (Government of Canada 1985a). WD is the main federal agency responsible for economic partnership arrangements with the province of Manitoba and operates under the provision of the Western Economic Diversification Act of 1985 (Government of Canada 1985b). Like all RDAs in Canada, ACOA and WD are overseen by the federal Ministry of Innovation, Science and Economic Development, through which the agencies report to the Canadian Parliament. The two key parliamentary reporting instruments are the agencies' Departmental Plans and Departmental Results Report. The Departmental Plans (formerly referred to as Report on Plans and Priorities) contain their priorities and strategic outcomes, expected results and the associated resource requirements covering a three-year period. The Departmental Plan also details the agencies' human resource requirements, grants and contributions, and net program costs. The agencies' Departmental Results Reports (DRR), formerly referred to as the Departmental Performance Report, describe their achievements against the performance expectations and commitments as set out in their Departmental Plans. The DRR is a central element of the agencies' cycle of planning, monitoring, evaluating and reporting of results.

A principal jurisprudential feature worth highlighting is that the Constitution grants the powers of natural resource exploitation and economic development to the provinces (Hogg 1992). Moreover, notwithstanding the federal government's constitutional authority to conclude trade deals with other countries, the provincial governments can negotiate investment agreements with foreign firms and undertake trade missions around the world. Provincial governments can also work with their federal counterparts to create various schemes for supporting their respective local industries. Against this backdrop, the Acts of Parliament creating the agencies grants them mandates to establish some common policy and program frameworks formally or informally with their provincial counterparts. A central piece of their founding legislations, therefore, is to establish a clear understanding that the policy autonomy of the provinces is not constrained in practice by the spending power, programs and activities of the agencies.

The Acts of Parliament leading to the 1987 restructuring was a response in part to the administrative and political discontent expressed by the provinces with respect to the hitherto centralized administration of regional economic development. The rationale was that decentralization of regional development to agencies whose mandates focus directly on particular regions (and provinces) could enhance the capacity for closer federal-provincial cooperation, thereby resulting in greater responsiveness to local economic initiatives and international opportunities. Over the past three decades, regional development framework agreements in Canada have undergone some radical changes that are also largely driven by the imperatives of a highly integrated and fluid global economy. The result is an unprecedented decentralization of regional economic development as the best mechanism for managing what is now referred to as the "new economy" (Conteh 2013; Wolfe and Gertler 2016).

The federal agencies have taken different approaches to pursue their respective mandates. In Western Canada, WD embraced a path of formal agreements with the provinces to ensure policy consistency or coordination between levels of government in matters of economic development falling within the geographic domain of the respective provinces. The aim of the agreement is to establish a clear understanding of the terms of fiscal responsibility and governance arrangements. In Eastern Canada, intergovernmental coordination is required and pursued, but a binding legal framework does not exist. Rather, ACOA aligns program commitments with their provincial counterparts to establish spending priorities and share data on project outcomes. The next two chapters elaborate on these approaches.

## 3. The Canada-Manitoba Framework Agreement on Regional Economic Development

This chapter examines the intergovernmental framework agreements that govern regional economic development policy and programs between the Canadian government and the province of Manitoba over the past three decades. The discussion sheds light on the economic partnership's funding arrangements, monitoring, evaluation and performance assessments mechanisms, and the reporting structure, parliamentary oversight and institutional arrangements under the agreement. The chapter also highlights the binding/ flexible nature of the economic partnership agreement and its adaptation to the changing currents of economic opportunities and challenges in Manitoba. Central to the discussion is the level of operational autonomy that Manitoba, a subnational jurisdiction, commands under these intergovernmental arrangements in pursuit of its domestic and international economic policy agenda. The chapter concludes with a general overview of the policy making context of regional development in Manitoba under the terms of the agreements.

The most distinctive and significant aspect of the federal-provincial economic development agreement in Western Canada (which includes Manitoba) has been the pursuit of what before 1987 were called General Development Agreements (GDAs) and Economic and Regional Development Agreements (ERDAs). These funding mechanisms consist of partnership agreements, direct agreements, and national agreements (WD 2011). Partnership agreements – referred to as the Western Economic Partnership Agreements (WEPAs) – constitute the majority of federal grants and contributions, and are delivered in collaboration with other levels of government. WEPAs allow the federal and provincial governments to cost-share initiatives that respond to regional needs and opportunities. In terms of governance, the agreements are aimed at promoting co-operation in intergovernmental planning and decision-making. Their core characteristic is to recognize and give expression to the unique characteristics of the provinces' economies while supporting national economic priorities. At the same time, the agreements reflect the federal priorities, which include supporting the creation and growth of knowledgebased research and development and business clusters; the commercialization of new products, technologies and services; supporting trade and investment promotion; enhancing business productivity and competitiveness; and increasing value-added production in traditional industries.

Moreover, WEPAs are delivered differently across the four Western provinces, thereby allow for further differences in decisions across the four Western provinces. For instance, in Manitoba a specific dedicated provincial government funding was set aside for MEPA whereby the provincial contribution was formally approved by the provincial Treasury Board and established as a specific line item in the provincial budget. In other Western provinces like Alberta and British Columbia, there is no dedicated funding. Instead, funding is secured on a project-by-project basis from a variety of provincial ministries and programs. Manitoba's dedicated funding model makes WEPA less vulnerable to shifting priorities, provincial cutbacks or budget freezes.

The Canada-Manitoba Economic Partnership Agreement (MEPA) is the Manitoba version of the WEPAs. A management committee, made up of two members or co-chairs (one appointed by the federal and the other by the provincial minister), is responsible for the general administration and management of the agreements. The MEPAs provide a unified, co-financed, and three-year funding mechanism for shared responsibility (Government of Canada 2003). The multiyear budgeting tends to reduce uncertainty in the planning process and to ensure continuity. This legal–institutional arrangement for joint policy delivery serves as a framework for intergovernmental coordination in large, longer-term, sector-wide projects. These agreements are best seen as "relational" contracts for joint policy action rather than strict legal documents enforceable in the courts. The flexible nature of the agreements provides a mechanism for strategic adaptation over time as the conditions of a highly fluid and knowledge-driven economy change.

The question arises as to the advantages and constraints associated with such agreements over the years. The contracts identify in advance the mandates and resources of the federal government and its relationship with its wider institutional and political environment. The MEPAs provide terms of commitment with some measure of flexibility that allow for a coordination of policy delivery in ways that are both technical and political. In particular, the contractual arrangements between Ottawa and the Manitoba government acknowledge the complexity of interdependency between national and subnational jurisdictions in a highly contingent and nebulous policy area such as economic development (WD 2005). Therefore, the notion of a contract in this context can be viewed loosely as a governance mechanism for managing interdependencies across institutional boundaries in multilevel governance systems. The contract allows for customized arrangements that reflect regional and temporal contingencies.

Over the past decade, as Manitoba's economy has become ever more knowledge-driven and diversified, the economic partnership agreement allows the federal government, through its agency, to make necessary adaptations in its policy engagement with the province. For example, since the turn of the millennium, Manitoba has emerged as home to several growing innovative industry sectors such as alternative energy, digital media, information and communications technologies, and life sciences (Government of Manitoba 2017). A key implication of Manitoba's emergent knowledge-driven and research-intensive economy is that the province's operating environment has become increasingly complex and assertive, featuring a new set of actors in the private sector, post-secondary and other research institutions.

The intergovernmental contractual model adopted under the funding agreements, however, provides a flexible mechanism for forging a resilient, collaborative working relationship with this constellation of new actors. Since 2000, the Western Economic Diversification agency (WD) continues to be closely involved in the monitoring of federal funds but the provincial government (through the Manitoba Ministry of Entrepreneurship and Trade) has taken on an ever-greater leadership in program design and investment opportunities (WD 2005, 2016). WD's leadership is becoming ever more symbolic as the Manitoba government now works with a wide range of organizations in the public, non-profit, and private sectors, including academic and financial institutions, research centres, not-for-profit organizations to forge the province's economic agenda.

Over the past decade, the federal government's policy engagement with the province has begun to involve a wider range of contractual funding instruments, principally consisting of "partnership agreements," "direct agreements," and "national agreements" (WD 2017) The partnership agreements often involve funding arrangements to address broad issues such as inner-city revitalization, strengthened innovation or sustainable economic development. Under its direct agreements, the federal government makes provision for its agency, WD, to exercise some measure of flexibility and policy maneuvering in responding to disparate demands without appearing to usurp the province's policy autonomy under the terms of the MEPAs. Direct Agreements allocate funds that support economic development and innovation initiatives in universities and other post-secondary academic institutions, research institutes, industry associations and other not-for-profit organizations. Examples include the Western Innovation (WINN) Initiative, a five-year initiative that offers repayable contributions for small- and medium-sized enterprises (SMEs) with operations in Western Canada to move their new and innovative technologies from the later stages of research and development to the marketplace. The Western Diversification Program (WDP) remains the main program through which WD and the province of Manitoba make strategic investments in the provinces. This funding is also available to universities and other post-secondary institutions, research institutes, industry and associations, but extends to indigenous organizations for projects that support innovation, business development and community economic growth.

In addition to the partnership agreements and the direct agreements, WD also has national agreements governing several national programs that the agency delivers. An example of national agreement programs is the Economic Development Initiative, a $3.2 million investment over five years to support business and economic development that encourages sustainable growth in Western Canada's Francophone communities. Another example is the Strategic Partnerships Initiative (SPI), an innovative program designed to increase Indigenous participation in economic development opportunities.

The key point is that, through its various agreements, WD now engages with the provincial government in a way that grants greater policy autonomy to the latter to work closely with local industry, municipal, and community partners to invest in a range of activities. One outcome of this greater autonomy is an increasing focus on larger and more transformative projects in the province's emerging knowledge clusters (WD 2016). This approach breaks fundamentally from the mechanistic view of intergovernmental framework agreements, focusing instead on the imperatives of the broader policy context within which federal agencies work with subnational jurisdictions.

WD's agreements have increasingly reflected a policy thrust consistent with elements identified in the provincial government's innovation strategy. For example, within its Manitoba Innovation Framework, the province consulted with local business and community leaders, including the Premier's Economic Advisory Council to come up with an "Action Strategy for Economic Growth," setting out the province's vision for economic development, including embarking on trade missions around the world and investing in international technology commercialization activities (Government of Manitoba 2008). The provincial government has led Biotechnology Tours to California (2001) and Germany (2002); and Smart Tours to leading innovative countries, including Singapore (2000) and Ireland (2001). This process indicates that the provincial government sees its legitimate role as the principal facilitator. The institutional environment within which the Manitoba Innovation Framework was pursued was consistent with a province-led approach to intergovernmental joint action. The provincial government acts as principal facilitator, while the federal government serves to empower and fund the former's industrial initiatives. In the context of this emergent policy landscape, the intergovernmental framework agreements provide an institutional conduit for supporting active leadership on the part of the provincial government (WD 2016).

An even more significant indication of this new strategic thrust of multilevel governance is the agency's pursuit of its policy advocacy and coordination mandate (WD 2017). WD now positions itself increasingly as a "convening power," bringing a number of federal players in the province together to work on several strategic issues identified by the province. For instance, back in 2010 WD, spearheaded a trilevel committee consisting of six federal departments, four provincial ministries, and the city of Winnipeg to work on the CentrePort Canada project, which involves building an inland port around the Winnipeg Airport. In addition, WD also serves as "chair" (coordinator and lynchpin) of the Federal Council in Manitoba, which consists of approximately 40 senior-level public servants from all federal departments in the province. These examples illustrate attempts by WD to exercise its authority to pursue a more concerted policy action by weaving together the disparate initiatives of federal ministries and departments to provide an engagement consistent with and supportive of the priorities of the Manitoba government. A central and most significant characteristic in this regard is that the federal agency interprets its framework agreements with Manitoba as supportive of local joint action under provincial leadership.

## Conclusion

The regional economic development framework agreements administered by a federal agency in Manitoba embody a contractual approach that has positioned the federal and provincial governments to engage in flexible, longer-term, transformational, and strategic policy action. The agreements have several strengths and weaknesses. In terms of advantages, they enable the two levels of government to fund projects that support broad objectives using a governance model that incorporates provincial and federal management committees. In this regard, the agreements facilitated joint planning and coordination, reduced the risk of duplication and overlaps, enhanced intergovernmental partnership and relations, increased the profile of funded projects. They also help to create better referrals to other sources of funding, and greater leveraging of financial and in-kind contributions. The main constraint of the agreements is that the decision-making processes could sometimes be long and bureaucratic as federal and provincial government processes of decision making often differ significantly. Another constraint, especially from the standpoint of the federal government is that less attention tends to be given to areas where the provincial government`s priorities do not align. Ironically, and understandably, the province of Manitoba views this as positive attribute of the agreement.

In general, the agreements provide an institutional framework within which, rather than simply delivering a set of programs through top-down processes that would dictate federal preferences to subnational entities, WD, the principal federal agency, operates as a facilitator and an enabling organizational conduit to support provincial policy leadership. The regional economic development agreements have been able to provide a governance framework over the years for managing an increasingly complex policy environment involving a constellation of actors. These framework agreements enable the two levels of government to plan a course of joint action that allows for the constant adaptation of policy delivery systems to dynamic changes in the environment.

The case of WD in Manitoba illustrates how national governments could enter into development agreements as instruments for managing joint policy action across institutional boundaries in multilevel systems. Intergovernmental agreements could be relatively flexible “relational” instruments, facilitating joint action to support the transition of subnational jurisdictions in their pursuit of emerging investment and trade opportunities. From a policy standpoint, the governance of complex, fluid, and dynamic knowledge-driven economies requires collaborative multilevel arrangements that transcend the technical dictates of the Constitution.

## 4. The Canada-New Brunswick Regional Economic Development Framework

This chapter analyses regional economic development institutional arrangements between the government of Canada and the province of New Brunswick. Like the previous chapter, the discussion examines the economic funding arrangements, monitoring, evaluation and performance assessments mechanisms in place, and the reporting structure, parliamentary oversight and institutional arrangements under the agreement. The chapter also analyzes the binding/ flexible nature of the economic partnership agreement and its adaptation to the changing currents of economic opportunities and challenges in New Brunswick. The New Brunswick case study provides a different example of how multilevel governance in Canada positions a subnational jurisdiction with the requisite policy autonomy to pursue domestic and international trade and investment opportunities. Methodologically, the case of New Brunswick (in the region of Atlantic Canada) provides a fitting juxtaposition with that of Manitoba (in Western Canada). This second case study highlights the key variation and commonality of approach to the use of intergovernmental framework arrangements across regions and provinces in Canada. To the extent that regional economic development policy in Canada is administered by federal agencies responsible for each of the country’s major regions, a second case study from another region adds analytical texture to the varying contours of multilevel governance in Canada.

As noted earlier, the federal conduit for the administration of the intergovernmental economic development arrangements in Atlantic Canada is the Atlantic Canada Opportunities Agency (ACOA). Like WD, ACOA's mandate was legislated by a 1985 Act of Parliament to "support and promote opportunities for the economic development of Atlantic Canada" (Government of Canada 1985). Unlike, WD, ACOA's approach to intergovernmental regional economic development is informal institutional arrangements facilitated through regular communication and coordination mechanisms such as consultations, meetings and information exchange to coordinate program activities between levels of government and avoid overlap in programming and duplication of efforts. ACOA also has advisory committees with representatives of various provincial stakeholder organizations reviewing, discussing and advising on programming activities. ACOA and the New Brunswick government also engage in joint strategic plans for specific sectors of the province's economy. The primary provincial agencies responsible for such joint engagement are Business New Brunswick (BNB) and the Regional Development Corporation (RDC) (ACOA 2016).

The key elements of intergovernmental institutional arrangements of regional economic development in New Brunswick are enterprise development, community development, and policy, advocacy, and coordination. Enterprise development consists of supporting initiatives to improve the climate of business as well as lending a direct hand to individual business start-ups, modernizations, and expansions (ACOA 2008; 2016). Community development involves working with communities to nurture economic growth, improve local infrastructure, and develop opportunities in the local economy. The third area of operation — policy, advocacy, and coordination — mandates ACOA to serve as a voice for New Brunswick`s (Atlantic Canada's) interests at the national level. ACOA is authorized to represent and cater to the region's general interests through activities like economic policy development, research and analysis, and networking with other departments to ensure coordination of policies and programs affecting the region. ACOA`s pursuit of this mandate provides a mechanism for Ottawa`s national economic policy environment, including federal programs by other ministries and departments, to be aligned with the economic interests of New Brunswick (Conteh 2013).

During the early phases of ACOA's operation, several issues were evident in relation to the channeling of federal funds for regional economic development. Principally, ACOA's pursuit of its mandate was initially fraught with bureaucratic hurdles. The agency was generally considered by the provincial government as irrelevant or as a political competitor seeking to brandish a federal "flag" within the province's policy circles. The agency's resources were tapped by various provincial ministries and businesses, but its ability to impact the strategic direction of economic policy in the province was not evident. This failure was in no small part due to the agency's organizational culture during the early days of operation to use its spending power to brag about its "support" for Atlantic Canada without giving due credit to the initiatives of provinces. These initial challenges were resolved in part by developments in the late 1990s and the turn of the millennium. The consolidation of emergent ideas about the new regionalism as the rationale for economic development policy intervention began to inform and transform the agency's activities in the province. Briefly, the new regionalism places emphasis on bottom-up, grassroots-driven processes of strategic investment in local innovation and knowledge clusters (Hidle and Leknes 2014; Wolfe and Gertler 2016).

Within this emergent context, a principal change in approach to multilevel governance in New Brunswick was a shift from the narrow technical task of program design and delivery to one that focused on sector-wide capacity building for priority economic sectors (ACOA Research Study: Atlantic Gateway Business 2009). In this environment, successful implementation of intergovernmental institutional arrangements in New Brunswick increasingly depends on the federal government's ability to make its policy initiatives consistent with and supportive of local joint action under provincial leadership. As a senior manager in the agency put it, "ACOA is now striving to facilitate full participation in the New Brunswick economy by shifting towards making investments that build and capitalize on local capacity, foster economic diversification, and help communities transition beyond traditional economic activities." ACOA began to attune its program and service delivery model to the changing imperatives of regional development in New Brunswick. For instance, in the early 2000s, the agency identified special growth sectors for development after close consultations with counterparts in the provincial government and the private sector. The resulting document that formed the basis for program funding and fiscal commitment closely reflected the provincial government's strategic focus on the energy and petroleum sectors (ACOA 2008).

ACOA also became focused on intergovernmental initiatives such as fostering greater productivity and public–private collaboration with a range of actors in the region for investing in skills development for a knowledge-driven economy. This approach was consistent with a multilevel governance arrangement that could maximize local assets, foster the interaction of local stakeholders, and nurture synergies across various economic sectors. The attention of ACOA also turned even more towards overcoming administrative barriers and facilitating better networks with the provincial and municipal governments, as well as with the private sector and community actors. Since the early part of the new millennium, the focus of the economic partnership agreement under ACOA's oversight has been on strengthening intergovernmental partnerships and mobilizing local stakeholders (including program beneficiaries in the private sector and postsecondary institutions) to align with the province's economic development priorities (ACOA 2008, 2016). For instance, the agency's 2016/2017 plans and priorities include a commitment to work with provincial government to implement initiatives to help commercialize technology developed in the region (ACOA 2016).

Furthermore, in a preamble to its 2009 program document, following consultations with the government of New Brunswick, ACOA makes a commitment to coordinating its policy activities with partners drawn from other federal agencies administering a comprehensive array of programs and services that support investment in the competitiveness of New Brunswick`s economy (ACOA's Fact Sheets and Brochures 2009). A specific example of the shift in the approach to intergovernmental partnership was the development of the Global Commerce Strategy. The federal government demonstrated a commitment to work with its provincial partners in promoting Atlantic Canada around the world as a competitive economy and valuable industrial innovation hub in the global supply chain (ACOA 2005). Similarly, through the Atlantic Energy Gateway initiative, the federal government supports the provincial government's initiative to develop a globally-recognized clean and renewable energy sector. The implementation of the framework agreement manifests a shift in attitude whereby ACOA demonstrates a greater willingness to align its funding priorities and fiscal commitments with the province's pursuit of new technology-based growth sectors and the competitiveness of resource industries. ACOA's spending for 2015-2016 consists of $171 million for enterprise development, $89M for community development, $25M for internal services and $11M for policy, advocacy and coordination (ACOA 2017). It has supported, in close partnership with the provincial government, more than 85 technology-adoption projects involving more than $21 million in investments. Even more, ACOA was putting pressures on other federal ministries and departments to do the same. These agencies include Foreign Affairs and International Trade Canada, Transport Canada, and Industry Canada. ACOA has gradually become a lynchpin around which the economic development activities of other federal departments in the region are coordinated and aligned with the interests of the provincial government, the private sector, and other local actors.

As these examples indicate, managing the province's economic development policy ambitions in a complex environment requires a process of policy delivery involving a fluid approach to multilevel governance. The federal government has positioned itself, in this regard, as a strategic partner with the province. The Atlantic Innovation Fund (AIF) initiative is another example. In recognition of the prevalence of innovation policy championed by the Province of New Brunswick and the rest of Atlantic Canada, ACOA launched the AIF in 2001 to work jointly with the provincial governments in New Brunswick and other provinces in Atlantic Canada to develop new ideas, technologies, products, and markets that would allow the region to compete in the global knowledge-based economy (ACOA's Departmental Performance Report 2016-2017). Through the AIF, the federal government has made strategic investments aimed at etching a deeper niche for New Brunswick in the global economy (ACOA 2008, 2016-2017). In similar vein, the Government of New Brunswick's launch of the New Brunswick Innovation Fund (NBIF) two years after the AIF is a testament to the success of multilevel governance between the two levels of government. The AIF and the NBIF complement each other not only in the substance of their policies but also as intergovernmental funding mechanisms. The federal agency also plays an essential role in the coordination and development of the Atlantic Gateway and works closely with the provincial government`s trade development initiatives that increase the exposure of New Brunswick firms in foreign markets, thereby generating new economic opportunities.

ACOA's informal institutional arrangement has several advantages. First, it allows for a more flexible coordination of activities of the two orders of government by facilitating joint planning and decision-making without the constraints of intergovernmental contractual documents. The governance infrastructure put in place enabled greater communication and coordination that resulted in increased understanding but non-binding commitments between the two orders of government. Second, the informal institutional arrangements facilitate a longer term and more strategic approach to development focused on a series of related projects and initiatives. Third, informal arrangements with its emphasis on regular communication and information sharing provides an institutional basis for more informed decision making in the selection of projects. Fourth, and not least, the informal partnership arrangements support the development and implementation of incremental, industry-driven projects which meet the development needs of the private sector in Manitoba. By working closely with local industry as well as the provincial government, the platforms of joint action arguably allow for a depoliticized and non-litigious alignment of the federal government`s priorities with those of the province of Manitoba.

One key constraint of formal agreements is that changes in provincial governments can cause a shift in priorities and delay project approvals. Manitoba's dedicated funding approach makes the agreement less vulnerable in this regard, compared to other provinces where no such dedicated funding exists. Nevertheless, ACOA's informal intergovernmental approach to funding arrangements appears far more pragmatic and adaptive in this regard. Moreover, because of its informal intergovernmental arrangement, ACOA's program delivery is susceptible to the complexities of an increasingly crowded policy environment as new private sector actors and municipalities become increasingly engaged.

## Conclusion

The most significant characteristic of the intergovernmental economic development partnership agreement in New Brunswick is the federal government`s strategic adaptation of policy coordination with the provincial government. The terms of intergovernmental relations were effectively transformed from a focus on top-down program delivery and funds disbursement to one of strategic partnership that supports the provincial government's longer-term policy priorities and investment commitments. In similar fashion, ACOA, as the main conduit of the federal government, remodeled itself from a top-down deliverer of funds to a champion of collaborative and decentralized institutional platforms of economic development policy governance in New Brunswick.

The current institutional context of multilevel governance in New Brunswick is consistent with the imperatives of a globally integrated and knowledge-driven economy, where the focus is on investments in locally-driven grassroot clusters of knowledge production, dissemination, and commercialization. The dictates of the new economy require that resources be directed towards the creation or support of knowledge clusters and industrial ecosystems rooted in each region's peculiar endowments of natural and human resources. A critical implication of this emphasis is that economic development policy intervention seems most effective managed at the local level, since knowledge or industrial cluster activities tend to be geographically concentrated and locally driven. Building knowledge-intensive and value-added economic ecosystems requires that the economic subnational jurisdictions be recognized as distinct economic zones and policy spaces for the purposes of identifying and investing in the relevant priority sectors of the economy.

Another important lesson to draw from ACOA's experience is that an Act of Parliament and the subsequent restructuring, such as that introduced in 1987, are not enough on their own to create the institutional infrastructure conducive to a functional multilevel governance that respects the policy autonomy of subnational jurisdictions. ACOA had to make some radical changes in its organizational culture to allow for closer intergovernmental and interjurisdictional coordination capable of facilitating joint action. This became the case in New Brunswick only when ACOA recognized, respected and provided for the discretion and autonomy of its subnational partner to pursue the kinds of flexible, strategic, and long-term investments necessary in a highly fluid and ever-changing global economic landscape.

## 5. Discussion and Conclusion

The report has raised critical issues about our understanding of formal and informal mechanisms of joint policy action in multilevel systems. The increasing decentralization of policy governance towards sub-national jurisdictions raises the need for a deeper understanding of the evolution and mechanisms of multilevel governance. There is an inextricable link between the imperatives of greater subnational policy autonomy and emergent realities of unprecedented global economic complexity. The report highlights the fact that while Canada's ability to fully exploit the opportunities of an integrated global economic system is partly attributable to some degree of federal government resources and policy engagement, it does not presuppose top-down directives to subnational entities. Contrary to arguments for enlargement of the central government's powers as necessary for advancing the common interests of Canadians, decentralization through legal initiatives and institutional arrangements has advanced the interests of Canadians by respecting interprovincial diversities and granting policy expression to the wishes of citizens embedded within the specific configuration of their local and regional socioeconomic realities. Moreover, contrary to arguments for policy centralization as a means to deal with globalization, decentralization has expanded and deepened Canada's penetration of international markets as each province can draw on its competitive advantages to carve a niche in the global economy.

The analysis in this report has addressed several questions: First, it explored the meaning of intergovernmental arrangements within the policy context of regional development policy in Canada. In doing so, it highlighted some variation and commonality of approach across two distinct regions and provinces in Canada. Second, the discussion highlighted the principal advantages and constraints of formal and informal arrangements over the past three decades, including some issues that emerged and how they were resolved. Third, the discussion identified the agencies that act as the central players in administering the federal government's engagement with its subnational counterparts. The transition of regional economic development in Canada towards greater subnational autonomy was not without tensions in the sense that the federal agencies responsible for the implementation of the framework agreements were caught between the advantages of a more decentralized approach, on the one hand, and the vertical reporting structure of the federal government's accountability protocols on the other.

A summary of the transformations that have taken place in regional economic development policy governance in Canada over the past three decades are a combination of systemic value changes and local contingencies. Systemic value change refers to the shifts in thinking about the economy, the appropriate instruments of public policy for managing the economy, and the institutional infrastructure of effective policy delivery. The local contingencies involve the actual constellation of policy actors drawn from various tiers of government, as well as private sector and other civic groups.

Some scholars of federalism have rightly wondered whether grants from national governments tend to centralize power (Simeon 2010; Hueglin 2013). In the Canadian federation, national grants to provinces designated for specific policies and programs are commonplace. While there is some evidence in the literature on fiscal and dynamic federalism that federal grants could lead to centralization, this report makes the empirically-grounded case that the terms of intergovernmental arrangements governing a specific policy area could guarantee the jurisdictional and policy autonomy of subnational entities. Quite apart from the constitutional authority of Canadian provinces to manage economic development, the legislative provisions, institutional arrangements and organizational adaptation have effectively constrained the centralizing effect of conditional grants. In fact, this study finds that provinces expanded their policy autonomy while drawing extensively from federal funds.

The principal advantage of the institutional arrangements of regional economic development in Manitoba and New Brunswick over the years is the broad legislative mandate that Parliament gave to the federal agencies. Their mandate is to establish some common policy and program frameworks formally or informally with their provincial counterparts. It means that the policy autonomy of the provinces is not constrained in practice by the spending power, programs and activities of the RDAs. Even the mechanisms of monitoring, evaluation and performance assessments in place, while containing the vertical structures of reporting processes to the national parliament, allowed an adequate degree of fiscal discretion for the agencies to adapt their operations to the exigencies of federal-provincial relations.

The 1985 Acts of Parliament creating the agencies respects the constitutional rights of provinces over natural resource exploitation and economic development. The Acts won the confidence of provincial governments to work with their federal counterparts to create various schemes for supporting their respective local industries. It should be acknowledged that the 1985 Acts of Parliament also authorizes the federal agencies to advance Canada's national industrial strategy through the use of program delivery and funding arrangements with the provinces. But one of the core principles governing the 1985 Acts is to respect the peculiar needs of the various regions and provinces even while pursuing a national industrial strategy and developing a common national market. The agencies' program spending cannot compromise the autonomy or flexibility of provincial economic policy. Canada's regional economic development legislation creating the RDAs thus affirms and respects the constitutional authority of the provinces' decision-making power in matters of economic development.

Moreover, the legislative provisions set broad terms of the agencies' mandate whereas the non-legislative dimensions consisting of policies and strategic program priorities allowed for considerable and regular alterations and adaptation to align with changing economic imperatives of their subnational partners. Depending upon the region and even province, the mechanism of coordination may consist of a formal stipulation of joint action through an economic partnership agreement laying out standards aimed at harmonization of spending priorities, as in the case of WD's engagement with provinces in Western Canada. Alternatively, regional development intergovernmental arrangements could take the form of an informal articulation of common program goals or mutual recognition, as in the case of ACOA in Eastern Canada. What emerges then are either intergovernmental legal mechanisms or informal institutional and programmatic structures to pursue joint action in regional economic development.

The tendency in some analyses of federal systems in the academic literature is to focus on Constitutional provisions or the pronouncements of the courts. This approach tends to overlook the strategic role of key agencies and other actors who pursue specific policies, and the institutional adaptations employed to prevent and resolve conflicts without resorting to the courts. This report sheds light on the formal and informal mechanisms employed to engage the complex workings of the Canadian federation. The report also highlights that parliaments do have a principal role to play. Parliaments establish the common frameworks of intergovernmental relations and the terms of dispute resolution regarding competencies and responsibilities among orders of government. Such mechanisms in Canada`s regional economic development policy have enabled both orders of government to avoid the rigidity of court procedures and the overly political spectacle of publicized intergovernmental entanglements.

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