



Crown Corporation

B U S I N E S S P L A N S

FOR THE FISCAL YEAR 2005–2006

Nova Scotia Business
Incorporated
Business Plan 2005–2006

Table of Contents

Mission51
Planning Context51
Strategic Goals54
Core Business Areas55
Priorities for 2005–200657
Organization71
Budget Context72
Outcomes and Performance Measures73

Mission

To deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia.

Planning Context

Since its inception, Nova Scotia Business Inc. (NSBI) has aggressively gone after and attained success using Nova Scotia's strong business case: the province is strategically located, acting as a prime gateway serving North American and European markets, and Nova Scotia boasts world-class universities, comprehensive and modern infrastructure, and a skilled, professional workforce. With this business case, NSBI has attracted international companies to locate in Nova Scotia, expanding their global operations. Concurrently, growth-oriented companies already in Nova Scotia have gone further, as NSBI helped them drive more export opportunities in key world markets.

NSBI realized success and met its goals despite economic challenges in fiscal year 2004–2005, including the following:

- a very competitive investment environment
- a rapidly escalating Canadian dollar

- growth challenges for small to medium enterprises (SMEs), including access to capital, profitability constraints, and productivity performance
- business climate issues
- rising competition from high-growth markets such as China and India

These challenges will persist into fiscal year 2005–2006 and will influence NSBI's actions as it strives to deliver on its goals and corporate objectives. NSBI's plans for the upcoming year address some of these specific challenges.

Economic Update

The depreciation of the US dollar and the increased worldwide demand for commodities converged, pushing up the value of the Canadian dollar and other major floating world currencies. During fiscal year 2004–2005, Canada ran large trade surpluses, and internationally China orchestrated a very deliberate program to capture/corner significant chunks of world commodity production to fuel strong consumer demand in China. During the year, the Canadian dollar climbed to values not seen since the early 1990s.

In October, the central bank characterized Canada's economy as having operated at near full capacity, and the overall performance of the Canadian economy was fair throughout 2004.



Nova Scotia exports were up 9.1 per cent (January–August 2004). Natural gas exports were the dominant product by value, but the biggest gains were made in tires, lumber, wood pulp, and frozen crabs. Gasoline production contributed \$111 million to date, up dramatically from the previous year. Nova Scotia also saw a resurgence of manufacturing shipments in 2004, which were up 6 per cent compared to 2003 (January through August).

GDP growth in Nova Scotia will come in at about 2.0 per cent for 2004. Growth in 2005 is predicted to be in the mid-2.0 per cent range. What is noteworthy is that every region of the province showed strong employment growth; the seasonally adjusted employment in November was up 2.7 per cent over 2003. Thus, with employment numbers outstripping GDP performance, productivity per unit of labour at Nova Scotian companies will continue to be down. Concurrently, the province's manufacturing sector posted relatively weak capital investment performance during fiscal year 2004–2005, which will perpetuate the productivity challenge going into fiscal year 2005–2006.

Pundits predict that the Canadian dollar will likely hold fast at the 83 cent range right through to the end of 2005. The Bank of Canada has predicted the potential for a dampening effect on demand for Canadian goods and services if exchange rates and other economic and financial factors persist.

Competition for Foreign Direct Investment (FDI)

Global FDI Market

Foreign direct investment (FDI) is an important means by which regions can achieve economic prosperity. By attracting businesses to the province, and the accompanying investment, the province can benefit in a number of ways, including new capital and technology, increased productivity, greater exports, employment opportunities, and increased tax revenues.

The market for global FDI is undergoing considerable transformation. According to the United Nations Conference on Trade and Development (UNCTAD), global FDI inflows continued their downward trend for the third year in a row, declining by 17.6 per cent to US\$560 billion in 2003. That is the lowest since 1998. Canada and the US saw steeper declines than most developed countries. FDI inflows to the US plunged by 52 per cent in 2003 to US\$30 billion, its lowest level in the past 12 years. For Canada, inflows dropped by 69 per cent to US\$6.6 billion, which was about 1 per cent of the world total.

There has also been a shift worldwide from product-based to service-based investments. Service-based investments accounted for 67 per cent of global FDI in 2002, up from 47 per cent in 1990. Developing countries are emerging as major players in this area, and it is predicted that the movement toward greater service-orientated FDI will continue

into the foreseeable future. Additionally, the investment projects that are taking place tend to be less commodity based, resulting in higher-paying jobs but fewer positions.

In terms of attracting FDI to Nova Scotia, the province accounts for a very small portion of Canada's total inward FDI flow, approximately 2 per cent.

An overall downward trend of global FDI, developing economies attracting more investment at the expense of developed countries, a shift to more service-oriented FDI, and the province accounting for a small piece of Canada's total, it is against these parameters that Nova Scotia must compete to attract investment. These parameters must be layered against the fact there are more than 2,000 US investment-attraction agencies and more than 160 national and 250 sub-national agencies in Canada working aggressively to attract FDI.

Remaining Competitive

All jurisdictions in North America use incentives to attract investment. In fact, some US jurisdictions go so far as to offer free land, tax holidays, grants and even build new highways to lure new investments to their region. Consider a recent transaction in North Carolina in 2004 where the state announced it would provide Dell Computers with a total incentive package of US\$242 million to establish a manufacturing plant in the

state. The facility is expected to employ 1,500 by year five, at an average salary of US\$28,000 each. This incentive package provides US\$161,000 for each newly created position.

Closer to home, in Ontario, Ford Canada recently announced a \$1-billion investment in 2004 to upgrade its Oakville production plant. The upgrade is expected to maintain 3,900 existing jobs and create up to 1,000 additional jobs. The federal government committed \$100 million towards the project, with the Ontario government expected to contribute another \$100 million. This commitment equals approximately \$40,800 for each new and retained job.

Incentives are part of the overall package that helps companies in their decision-making process for relocation. The complete package includes such things as skilled workforce, proximity to market, and cost efficiencies. That being said, experience suggests that incentives do not make a deal, but they can certainly break it—particularly at the latter stages of the site-selection process when the number of competing jurisdictions is very small.



Strategic Goals

The concept of Nova Scotia Business Inc., a private-sector led business development agency, was first introduced in 2000, with the release of *Opportunities for Prosperity*, the province's economic growth strategy. In November 2001, NSBI became fully operational and officially embarked on its first five-year mission to help existing businesses expand and attract new investment to Nova Scotia. NSBI's strategy has been to act on new opportunities, while it continues to push long-term, sustainable growth. With these approaches, NSBI has progressed in its role as the go-to-agency for business-focused solutions.

NSBI prides itself on generating a return on investment for Nova Scotia taxpayers by investing wisely in businesses that are export- and growth-oriented, innovative, and sustainable. Also, NSBI maximizes impact by partnering with financial institutions, economic development organizations, and stakeholders to leverage optimal results for its clients. Those clients include companies in foundation (traditional) industries, and NSBI is focused on the key strategic sectors of life sciences, IT, energy, manufacturing, and learning industries. In *Opportunities for Prosperity*, these strategic sectors were identified as offering the greatest potential for further economic growth.

Five broad strategic goals drive the organization's business activity:

- Enable new and existing businesses in Nova Scotia to exploit business opportunities in local and export markets.
- Attract leading edge, sustainable business investment to Nova Scotia that will provide immediate and long-term economic benefits to the province.
- Provide access to capital for new/existing businesses in Nova Scotia, to enhance value-added growth for the province's economy.
- Increase the visibility and recognition of Nova Scotia—its business climate, advantages, and capabilities—at home and abroad.
- Develop an action-oriented, client-focused organizational culture that encourages, empowers, and supports high performance, entrepreneurial thinking, and professionalism.

NSBI will continue to focus its attention and resources on successfully achieving these goals during fiscal year 2005–2006.

Core Business Areas

NSBI's core business areas are business attraction, business growth, and financial services. As a customer-facing organization, NSBI works to continue the growth of companies within Nova Scotia, and it attracts companies from other jurisdictions to invest in the province.

Business Attraction

Increasing foreign direct investment in Nova Scotia, by bringing new, sustainable, and value-added businesses and/or investment from other jurisdictions to this province is the main objective of business attraction. In a global competition for FDI, where jurisdictions vie for opportunities that generate economic growth and employment, NSBI has established a focused and aggressive approach. Targeting prospects and attracting businesses that have a strong "fit" with Nova Scotia's assets provides the greatest opportunity for success and long-term sustainability.

For companies considering Nova Scotia as an option for relocation or expansion for all or part of their business, NSBI is the first point of contact—the go-to agency for business development in the province of Nova Scotia. NSBI presents and promotes, to strong prospects, the competitive advantages of doing business from Nova Scotia to address an international client base. NSBI

provides a seamless solution. It covers all the needs a company may have, from labour information to real estate. Collaborating and partnering with numerous public and private-sector organizations accomplishes this seamless delivery.

NSBI uses incentives, through Strategic Investment Funds (SIF), to facilitate companies' expansions in the province. These incentives help offset a portion of the costs through a performance-based investment that is paid to companies that achieve predetermined milestones. The SIF investments continue to generate a positive return on investment (ROI), and have proven to be a fiscally responsible way to support Nova Scotia's existing strong business case.

Business Growth

With over 30,000 firms in Nova Scotia, the opportunity for growth from within the province is substantial. These firms are diverse and vary considerably in size, needs, location and distribution, sector focus, and type of business. NSBI's focus is on small to medium-size businesses (fewer than 500 employees) that are concentrating on sustainable, competitive growth.

Export development and business advisory "recognize and referral" services are the NSBI solutions available to companies in Nova Scotia that are striving for growth. These provide in-market prospecting



support and services to enhance the productivity/competitiveness of Nova Scotia companies. The rapid rise of the Canadian dollar over the past year has made this exercise particularly crucial, and it has accelerated the need for these service offerings. Cost-effective labour and reliance on a favourable exchange rate is no longer enough to create a competitive advantage for Nova Scotia firms; therefore, many of the small to medium-size product and/or services companies are starting to look at new markets, many outside of the US.

Financial Services

Capital is an essential ingredient of business growth and competitiveness. NSBI works to improve access to capital for businesses in the province, and it understands that businesses require different types of funding vehicles (equity, subordinated debt, term debt, or working capital), depending on their stage of growth. Thus, NSBI customizes financial solutions to meet clients' needs, while filling financing gaps in the marketplace—often in partnership with other financial institutions. NSBI obtains the capital it invests in companies through two funding sources: the Nova Scotia Business Fund (an annual provincial allocation plus reinvested capital generated from NSBI's portfolio), and Strategic Investment Funds (customized financial assistance based on projected tax returns to the province and a positive return on investment).

The organization targets businesses operating in strategic and traditional industry sectors with strong growth prospects, a solid management team, and a significant financial commitment by the owners. This approach ensures that the businesses that receive financing offer the greatest opportunity for generating a positive return on investment for the province.

NSBI also takes a partnership approach in its financing activities, collaborating regularly with other financial institutions in order to ensure that provincial resources provide leverage, attracting further financing to support business growth and development.

Equity clients must demonstrate a sustainable competitive advantage, exceptional market potential, experienced and competent management, and a financial commitment from the founders and/or principals. A realistic exit strategy and appropriate valuation are key considerations.

Priorities for 2005–2006

NSBI will continue to adopt an aggressive business-development strategy to deliver on its objectives. Priority areas include the following:

- creating more opportunities in investment attraction by further developing sector strategies and plans that build on provincial strengths, produce high-value jobs, and result in incremental growth throughout the province
- enhancing the business growth service offerings for Nova Scotia companies by gaining a better understanding of the addressable market and implementing productivity-related services and export
- building stronger relationships with key stakeholders and partners
- expanding the capabilities of the Nova Scotia Business Fund to address market needs, such as productivity enhancements and higher risk acceptance
- streamlining the SIF process to provide better solutions to clients

Business Attraction

NSBI has implemented a targeted, aggressive approach to business attraction based on the characteristics of a successful, competitive business: flexible, creative,

responsive, professional, targeted, client focused, and proactive. Priorities over the next fiscal year are as follows:

- Aggressively target potential clients and opportunities within key industries.
- Continue to define and refine strategic growth sectors.
- Develop sales and marketing plans to leverage relationships with Nova Scotia companies to identify new opportunities within these companies, their partners, contacts, and industries.
- Increase the level of investment in Nova Scotia.
- Continue to build relationships with private and public-sector partners throughout the province to provide investment leads, develop investment tools, and help deliver a seamless business solution to clients.
- Continue to niche the Nova Scotia business case to make it more relevant to individual businesses

Lead generation continues to be of great importance, and NSBI will continue to use the best sources (e.g., industry-specific in-market experts and consultants, public-sector partners such as the Investment Partnerships Branch (IPB), US and European consulates, ACOA, RDAs, GHP, and private-sector organizations such as Nova Scotia companies and industry associations) to generate targeted leads.



Nova Scotia has a fairly diversified economy. Diversification tends to provide stability in an economy, but it can also make it difficult to map the assets in the province that would be attractive to a target sector. However, clearly understanding the province's assets, and determining which assets are important to the opportunities that exist globally, is critical for finding good investment opportunities. It is an ongoing exercise and requires continuous updating, refining, and revisiting.

Over the coming year NSBI will continue to refine and understand these assets and will engage partner organizations to help in the research and analysis that is required. Matching these assets with opportunities will help to define the niche target sectors that NSBI will proactively target. In the past year, most effort was concentrated in the US and western Europe. The upcoming year will continue to see effort focused on these areas, but will also include the rest of Canada and will investigate Asia. While NSBI's plan is to continue to take a focused approach to investment attraction, it will also continue to be opportunistic. Investment prospects with a strong ROI, representing a substantive benefit to Nova Scotia, will be actively pursued. Initial work shows that the following sector areas will be important to NSBI over the coming year.

IT Sector

Over the past year NSBI has been focused on pursuing opportunities in the IT sector in the area of nearshore outsourcing—IT service companies that provide application development services to clients around the world (e.g., CGI). This focus has been successful and will continue to bring in more investment as outsourcing is expected to grow annually at 8–10 per cent over the next few years. Nova Scotia is perfectly positioned to take advantage of this trend because of its strong value proposition. A nearshore marketing campaign implemented last year will continue to build awareness around Nova Scotia nearshore advantages and will continue to bring opportunities and leads in the upcoming year.

Some Global 1000 companies are not interested in outsourcing areas that are close to their core business. They are still looking for ways to deliver a better service, but they want to keep it internal to their organizations. Such companies are looking for insourcing solutions and are setting up groups in locations that enable them to do this in a cost-effective manner, yet still have access to the resources they need. This provides another area of opportunity for Nova Scotia over the next year, in particular for health, finance, and insurance companies. NSBI will pursue these types of opportunities as well.

For largely the same reasons that global IT services companies find Nova Scotia attractive, innovative product companies (building software for the enterprise, security, and wireless markets) do as well. NSBI will also be targeting product-oriented small and medium-size software companies from the US and Europe, providing them with a time zone advantage (i.e., halfway between California and the UK means that the working day in Nova Scotia crosses over with the two locations).

Life Sciences

NSBI has identified specific business-attraction opportunities that capitalize on the province's inherent strengths in the fields of medicine, marine bioscience, and nutraceuticals.

The global nutraceutical market, currently at \$7.1 billion, is expected to grow 6.1 per cent annually through 2008. With the highest concentration of marine scientists in the world and a strong marine heritage, Nova Scotia has the experience and knowledge to enable the region to be a leader in the production of marine-related ingredients and products to meet the increasing consumer demand for natural health supplements and foods. Ocean Nutrition Canada is one of the best-known company success stories in this field. From an agri-food perspective, Nova Scotia has a strong history in the production of crops such as blueberries, cranberries, and apples

(in fact, it is the second largest producer of wild blueberries in the world). As the nutraceutical and functional foods industries grow, these crops, with their potent antioxidant properties, provide great potential.

The global medical technology products market, estimated at \$130 billion last year, is forecast to expand by 7 per cent annually over the next three years. The life sciences community in Nova Scotia is built on a tradition of excellence in medical research. Attracting more than \$90 million annually, researchers in Halifax are advancing work in the areas of neuroscience and brain repair, cardiovascular health, cancer, and infectious disease. All these areas form the building blocks for a strong medical device sector.

Contract manufacturing for pharmaceutical production is expected to expand rapidly over the next few years. Nova Scotia is well positioned for manufacturing in these mature product sectors, as pharmaceutical companies are looking for more cost-effective solutions for drug production and are stepping up their outsourcing contracts.

All these areas in life sciences will provide strong opportunities for investment attraction over the upcoming year, and NSBI will be focusing lead generation and marketing activities in these target sectors. A marketing campaign will be designed and implemented specifically to target prospects in these areas over the upcoming year.



Manufacturing

Manufacturing continues to be an area for strong competition for investment projects. This is for a number of reasons: the number of projects worldwide has decreased, many firms have and continue to move projects to extremely low-cost areas such as China, large incentive packages from several US states and European countries have increased the incentive expectations for green-field or brown-field manufacturing projects, and the relative attractiveness of such projects has risen substantially because they are capital intensive and therefore long term.

Hence, NSBI is engaged in efforts to attract manufacturing facilities that will take best advantage of the skill sets, infrastructure, and resources that Nova Scotia has to offer. This translates into building upon the manufacturing sectors that are already active and strong in the province, but it also offers global expansion opportunities. This will mean expanding on sectors such as automotive, aerospace, energy, and food processing while also concentrating on value-added products from traditional foundation and resource sectors, such as agriculture and fishing.

The success of the liquefied natural gas (LNG) project will provide a long-term, stable supply of gas for large industrial users. The \$450-million Bear Head LNG terminal will receive super-cooled natural gas at the Strait of Canso, then distribute

the gas to market, namely the northeast US. Demand is already strong and is forecast to stay that way for several years. NSBI will continue to identify complementary operations that could take advantage of the additional supply of gas and the output from LNG activities.

Contact Centres

Contact centres are changing. They started out largely as telemarketing centres, but the level of service and sophistication has evolved and has moved to more customer care and in-bound, high-end service offerings. In Nova Scotia, the majority of contact centres engage in these higher-level activities. The next evolution and opportunity is in business process insourcing (BPI) and outsourcing (BPO). This step in the value chain provides a more complex and higher-end service offering and hence requires higher-skilled labour and typically pays higher wages. The labour requirement can be very specialized (e.g., accountants, HR professionals).

NSBI plans to target Global 1000 (US and European) firms that are either using BPO organizations or are setting up their own internal BPI units that require a cost-effective location that has access to skilled resources. NSBI will also target small to medium-size contact centres that are willing to be in rural locations and are providing customer (inbound) care. Furthermore, to build on the existing contact centres in the province, NSBI will be

implementing a retention and growth strategy that will create incremental payroll from the centres that have already committed to the province.

Business Growth

With the Canadian dollar rising relative to the US currency, the profits of many exporters throughout Nova Scotia and Canada are being squeezed, after having capitalized on the difference in the exchange for almost 10 years. Companies are now forced to become more competitive in other ways to grow and be profitable (e.g., improving productivity, differentiating products and services on factors other than price, diversifying to new markets such as Europe and Asia). NSBI will offer services that help to address growth issues that small and medium-size companies in Nova Scotia will face during the coming year. Business growth initiatives are focused on helping Nova Scotia companies grow within the province, with a concentration on increasing their exports and global focus.

During the past year NSBI focused on delivering export development initiatives, including Export Prospector, Prospector Plus, and Export Development 101. These service offerings will continue for fiscal year 2005–2006, since they provide the basis for exporting and provide in-market services for companies expanding or entering new export markets.

- **Export Prospector**—designed to help Nova Scotia companies enter new export markets. The program's specific intent is to generate leads and open doors in-market for companies and get them in front of potential customers or distributors. The process provides the company with the opportunity to meet qualified leads within a structured format in the new export market of the client's choice.
- **Prospector Plus**—provides six targeted, in-market sales calls for each company in the prospector group. A prospector group typically consists of four to five Nova Scotia companies targeting the same geographic market. This offers a no-frills approach to the trade mission experience, in combination with the Export Prospector focused approach to matchmaking.
- **Export Development 101 Pilot**—provides, in a seminar format, basic information for new exporters detailing the benefits and a practical approach for small companies that are starting to look at exporting their products or services.

NSBI plays a central role in advancing and coordinating export development in Nova Scotia. Its work in the upcoming year will be guided by a new, collaborative provincial trade strategy, aimed at vigorously promoting trade and focusing limited resources to best advantage. The



“Provincial Trade Committee”—comprised of representatives of the various provincial government departments and agencies with trade responsibilities and chaired by NSBI—was the forum through which this strategy was developed. It will provide the overall context for NSBI’s activities in export development in concert with its provincial partners. In the coming year, NSBI will make significant contributions to many of the specific activities set out in the strategy and will also promote further enhancements through this important coordinating mechanism.

Using the provincial trade strategy, current successful NSBI service offerings, and the driving need for companies to improve their competitiveness through productivity and product differentiation, NSBI will focus on service offerings that fall within the following priorities:

- **Market Awareness:** NSBI’s principal objective is to help forge new business opportunities for Nova Scotia exporters in markets of their choice. The essential first steps in this process are to create awareness, stimulate interest in market development, and provide sufficient information to support a market-entry decision by a small business. To do so, NSBI will stage a series of “Doing Business in ...” information sessions aimed at strategic geographic targets, striving for a balance of traditional US markets and those offering potential diversification opportunities in Western

Europe, the Caribbean, and the new emerging economies. This will include continuing to link export clients with available resources to help them research and evaluate markets for their products or services and continuing to collaborate on export promotion through a new Provincial Trade Strategy and the member organizations of Trade Team Nova Scotia. Ongoing one-on-one support will continue to be the most effective tool for helping Nova Scotia firms expand into global markets. For the upcoming year, financing is required to operationalize the provincial export strategy and NSBI’s market-awareness initiatives and is reflected in NSBI’s fiscal year 2005–2006 operating budget.

- **Market Penetration and Development:** The fundamental objective remains the same as in fiscal year 2004–2005: getting Nova Scotia companies to markets of their choice for business-to-business meetings with targeted, prequalified prospects. The successful Export Prospector and Prospector Plus programs will continue to be the principal tools for this area of focus. Coordination of Team Canada Atlantic and other trade missions will be important in 2005–2006, with two major missions planned for Chicago. Trade show participation and other activities will again be funded through a new four-year, \$10-million extension to the International Business

Development Agreement (IBDA). Service exporters will be assisted in their marketing efforts through a new provincial fund administered by NSBI. All of these initiatives are directed at effecting measurable short- and long-term outcomes for our clients: new market entry, greater market penetration, distribution arrangements, partnering agreements, and incremental sales.

- **New Exporter Development:** The relatively small base of actively exporting firms in Nova Scotia (fewer than 1000) is a constraint to growth in the value and diversity of our exports. NSBI will more systematically apply efforts to begin to increase the number of businesses that sell products or services outside of the province. As a starting point, high-potential new exporters will be identified, categorized, and evaluated. These activities will help to build a database and provide an understanding of the types of export-potential companies and their current stage of development. The success of small-group training and education sessions piloted in 2004 will be extended to other regions of the province, with a focus on practical instruction in the fundamentals of exporting (Export Development 101) and its benefits to small business. This “new exporter” area of focus is a new direction for NSBI and will require

additional funding. That funding is reflected in the fiscal year 2005–2006 operating budget.

- **Business Advisory—Recognize and Referral:** NSBI will, over the next year, focus on leveraging NSBI’s regional networks throughout the province to provide a first point of contact for Nova Scotia companies looking for information and advice on how to expand and grow their business. This will provide NSBI with a better appreciation and understanding of the issues that inhibit the growth of local companies but also the factors needed for these companies to succeed. Some of these issues may be addressed through NSBI’s export development services and/or financial services; however, others are better handled by NSBI partner organizations and are therefore referred to the appropriate agencies or government departments. This “recognize and referral” service is a critical component of NSBI business development activities, as it takes the “temperature” of the business community and provides awareness of NSBI and the services offerings of partner organizations. This is facilitated by the use of the company-wide customer relationship management (CRM), allowing for a better understanding and facilitation of relationships and interactions with existing and new clients.



- **Productivity Enhancements:** With the increasing competitive pressures on small companies in Nova Scotia today, there is a need for improvement in productivity (e.g., generation of more volume per employee). Canada's productivity is approximately 20 per cent of the US, and Nova Scotia has one of the lowest productivity rates of all the provinces in Canada. The approach to start to change this situation and improve companies' competitiveness is a tailored approach, working one on one with companies to help them find process efficiencies, implement new operating systems, and so on. This will be accomplished through the engagement of process consultants and efficiency experts to access each company, individually, looking for specific improvement areas within the company's operating processes. Additional funding over and above last year's operating budget is required and will be critical for the success of these productivity-enhancement initiatives.

All of the priority areas and service offerings indicated above provide NSBI with focus that starts to address the issues restricting company competitiveness and growth. NSBI will expand on these priority areas and continue to work closely with companies that have sustainable growth potential.

NSBI has identified a number of sectors that require various business growth services, including IT, life sciences, manufacturing (such as plastics), building products, aerospace, and traditional industries such as agriculture and forestry, which are evolving to provide value-added products and services.

NSBI will also continue to internally develop a business development focus throughout the organization. This focus has found, and will continue to find, opportunities for expansion and growth, new market development, company financial needs, retention of strong businesses, and improved productivity.

Financial Services

Financial resources for NSBI's lending and investment activities are provided through the Nova Scotia Business Fund on an annual basis. The existing portfolio of 140 companies totals \$133 million outstanding, and reflects financing commitments in communities throughout the province and in diverse industry sectors.

Nova Scotia Business Fund

During the previous planning period, a framework was developed to provide guidelines for investment decisions and the composition of the portfolio:

- Annual sector investment targets:
 - Foundation 18%
 - Knowledge-based (IT & life sciences) 20%
 - Manufacturing 48%
 - Energy 9%
 - Other 5%
- \$15 million maximum per company.
- 25% maximum available for working capital/equity investments.
- Borrowing rates are established based on risk, term, amortization, and optionality (e.g., interest capitalization, extended amortization).

Currently, the net new capital available for NSBI to continue to meet the financing needs of Nova Scotia businesses is \$20 million. Repayments of current investments will be \$10 million to \$15 million from the existing portfolio, which is reinvested into the fund for a total estimated capital pool of between \$30 million and \$35 million for fiscal year 2005–2006.

The first two and one half years of NSBI's operations have been devoted to defining market focus and establishing the necessary operational underpinnings to enable the execution of the company's mandate. Policy development has been wide ranging, including the introduction of risk rating and pricing models; credit correspondence standards; improved portfolio management techniques; implementation of new

software-based analytical tools; and the growth of the team's skill sets to include additional professional expertise in the areas of venture capital, loan workouts, and financial analysis. The foundation is firmly in place; it is built on the best practices of NSBI and its predecessor.

Going forward, NSBI will be focused on improving operational efficiency, enhancing business development and lead generation, and delivering flexible services to meet client needs. NSBI will accomplish this in the following ways.

Improvement of Operational Efficiency

The areas for improvement are as follows:

- Cycle times. The delegation of approval limits to management is an important first step. An improved process to ensure early alignment on transactions will be considered.
- Ability to fund equity investments must be enhanced. At present, equity investments are matched on the asset side of the balance sheet with debt instruments from the Department of Finance on the liability side. There are numerous avenues available to address this issue, including the creation of a separate equity fund, as referenced in NSBI's fiscal year 2004–2005 plan. Several Crown corporations have been accorded a funding mechanism that allows obligations to be properly matched with cash flows. Alternatively, the current mechanism on repayments



to the Nova Scotia Fund (currently 80 per cent of what is collected is paid to the province) could be amended to free up additional capital for the purposes of equity investment. Over the course of fiscal year 2005–2006, NSBI will investigate these options.

- Unity of purpose. NSBI will focus on integration within the company and with partner organizations. In the past, NSBI has developed its relationships with partners and stakeholders to leverage resources and options for NSBI clients. In the upcoming year, NSBI will continue to build stronger relationships, and NSBI will improve its internal integration to ensure a seamless solution for clients.

Business Development and Lead Generation

NSBI's level of visibility has increased; however, the pipeline of potential opportunities has not expanded correspondingly. NSBI has begun to refine its approach and will continue to do so.

- The advertised visit program will continue. NSBI will have its lending personnel in a different community one day each week, calling on targeted companies. To increase levels of qualified referrals, NSBI will invest additional time in developing local referral networks with key contacts in each community. These will include, but will not be limited to, lawyers,

accountants, RDAs, Boards of Trade, and other financial institutions. The company will build mutually beneficial relationships with other financial institutions and intermediaries. Many financial institutions have unique product offerings that can be brought to bear on a particular client's situation. The more aware NSBI is of what others can do, and vice versa, the more effective result for the clients. Adding value with each client interaction, whether NSBI directly provides service or via qualified referral, the end goal is to satisfy the client's need.

- NSBI will communicate its unique selling proposition to clients, prospects, and referral sources. NSBI can offer a level of flexibility unmatched by any other single financial institution. From term debt to venture capital, working capital to patient capital, the company is unique and will work to ensure that the market understands this.
- NSBI will formalize relationships with other institutions that will allow sharing of resources and risk. Examples include a partnership with Community Business Development Corporations to extend our collective reach in small business lending and risk sharing with other term lenders on transactions of mutual interest.

Client-facing Services

Understanding client needs and working to satisfy those needs, with a sense of urgency, is NSBI's abiding preoccupation. In order to facilitate this, the operational issues identified are critical. Beyond this, the following service offerings will be explored and implemented where it is sensible to do so.

- **Productivity:** In fiscal year 2004–2005, NSBI approached this issue on a case-by-case basis, offering financial support for productivity enhancements as the need was identified for individual clients. Efforts were largely directed to financing for consulting services in the area of lean manufacturing. In fiscal year 2005–2006, NSBI will develop an incentive program available to home-grown business. While parameters are to be determined, the very successful Export Prospector model is one that is being given consideration. As indicated in the discussion of business growth, NSBI will use funding support as one mechanism to assist our clients in dealing with their productivity challenges.
- **Promoting small business:** There are a large number of small businesses in the province, many employing fewer than five people. To help them, NSBI intends to explore programs directed at helping improve organizational effectiveness. Taking the approach of assisting clients one at a time, NSBI will have the effect of raising the level of prosperity throughout the province. During fiscal year 2005–2006, the company will assess options, such as the use of independent advisors who can help identify areas where growth opportunities exist. This may be an export opportunity, a new market, or an operational efficiency.
- **Risk mitigation:** NSBI will explore risk-mitigation products that may encourage other institutions to take on risks that they currently are not prepared to take (e.g., the development of a product that would be an incentive for the chartered banks to extend amortization periods or venture into rural locations to a greater extent than they are prepared to today).
- **Service sector:** NSBI will revisit its corporate position on this sector to determine if a change in our approach is warranted. Currently, the result of regulation is that NSBI is effectively not able to finance this type of operation; therefore, NSBI has not been engaged as a creditor or investor in this sector.
- **Foundation industries:** Ocean- and land-based resource industries, agriculture, tourism, and culture, all form a vital part of the underpinning of Nova Scotia's economy. While collective efforts toward economic diversification continue, NSBI will remain cognizant of these foundation industries.



Strategic Investment Funds

NSBI uses Strategic Investment Funds (SIFs) to attract businesses and foreign-direct investment (FDI) to the province and to retain existing Nova Scotia-based businesses through the use of innovative financing. The SIFs are a performance-based form of assistance that take account of the direct and indirect tax returns to the Province of Nova Scotia. These strategic investments provide concrete returns as clients create more direct taxes than are paid to them through the investment.

SIFs are subject to scrutiny to ensure a positive return on investment (ROI), demonstrated incrementality (e.g., new job creation), and a net economic benefit to the province. Last year through NSBI efforts, approximately \$20 million of additional direct provincial tax revenues were generated. Due diligence is undertaken for each proposed project to ensure that it provides a positive return to the province and results in business growth. By adhering

to these principles, NSBI is able to demonstrate strong accountability to its shareholders and at the same time provide flexibility to meet each client's unique business needs.

The payroll rebate is the financing tool available under the SIF. It is a performance-based incentive vehicle, by which a percentage of the new payroll generated by a project is rebated to a company. The money—rebated from taxes paid by the company's new employees in Nova Scotia—is dispersed after predetermined milestones are met (e.g., new jobs created) over a defined period of time (e.g., three to seven years).

In the coming year, NSBI will continue to focus on business opportunities that demonstrate a positive ROI for the province and will look to streamline the SIF approval process to provide better solutions to clients.

For fiscal year 2005–2006, NSBI forecasts a budget of \$19.4 million for the SIF.

Strategic Investment Funds Forecasted Payments

Status	Current Fiscal Year 2004–2005 (\$ millions)	Estimate 2005–2006 (\$ millions)
Forecast Existing Commitments	14.5	16.2
Forecast Incremental Commitments	–	3.2
Total SIF Payouts	14.5	19.4

Marketing and Communications

Planned and focused marketing/communications activities will support NSBI's programs, services, and initiatives while positioning NSBI, the company, as an effective business solutions provider for companies considering investment or expanded operations in Nova Scotia.

NSBI will seek to build further awareness among businesses, client groups, partners, stakeholders, government, and the general public about the efficacy of its approach to growing the provincial economy. The company's products, services, and initiatives will be framed as vehicles to facilitate growth in companies possessing a strong business case and/or within strategic sectors. Communication materials and services will be developed in close consultation with staff in the NSBI's three core business areas: business attraction, business growth, and financial services. NSBI will develop and execute strategies designed to increase knowledge about the province's competitive strengths in key markets.

In its third full year of operation, NSBI will seek to leverage its positive track record of producing results and new growth/employment in strategic sectors as evidence of how we can assist companies to expand and/or relocate in Nova Scotia. Materials and activities will emphasize the value of competitive advantages, partnerships, confidence, market development, and return on investment to the province.

Corporate initiatives will continue to include strategic communications, media relations, event management, and government relations. Enhanced web-based communications and an evolution of Nova Scotia's image as a business destination will also be charted. Goals and objectives include the following:

- Develop new marketing vehicles leveraging a redesigned website and information technologies
 - develop a strategy and execution plan to revamp the website as a marketing, networking, and market development tool
 - develop a redesigned website to create a higher level of usability and functionality through the introduction of an interactive business portal with web-based tools, reporting resources, and multimedia capability to improve presentations and learning capabilities
 - assess and implement, where appropriate, opportunities to use web-based technologies to improve presentations and reporting requirements, as well as to motivate clients by leading by example
- Create and enhance sector-specific and general marketing plans, tools, communication materials, events, and programs to help build sales opportunities and conversions for Nova Scotia and its business community:



- develop strategic marketing plans for each NSBI core business area
- develop and stage compelling presentations/events in support of business development activities in key markets
- develop tools to increase activities and lead generation contributions from business advisory councils in Boston and Toronto
- Increase the visibility and positive awareness of Nova Scotia as a business destination in key domestic and international markets through
 - a proactive media relations campaign to enhance NSBI’s position as a thought leader through editorials, issue identification, third party endorsements, partnerships, news releases, website improvements, and other activities
 - sponsorship planning and implementation characterized by more targeted approach that maximizes leveraging possibilities with partners and business areas
 - increased targeting of consulate offices in key markets
 - a grassroots outreach and awareness program to elicit higher frequency of third-party endorsements; activities will include recognition of community players supporting NSBI-related activities
- Provide corporate marketing and communications support:
 - evaluate integrity of existing NSBI brand in light of evolving priorities and next stage of corporate development with Nova Scotia as a business destination as a key theme
 - stage and support successful events such as a business development conference and the Export Achievement Awards
 - support the development and maintenance of a healthy and motivating workplace through activities such as the production and distribution of internal newsletters and increased awareness of professional development opportunities
 - adopt procedures to create more effective project management, tracking, and analysis

Partners

Partnership development is a critical component of NSBI’s business development strategy. It requires co-operation with companies and organizations, both internal and external to the province. Partnerships expand NSBI’s capabilities and help promote Nova Scotia and its business strengths among key target audiences: potential clients, business leaders, industry associations, and key federal, provincial, and municipal organizations.

As the lead business development agency for the province, NSBI's areas of responsibility include attracting new business to the province and supporting the growth and expansion of existing Nova Scotia businesses. NSBI is able to achieve this only through the effective use of its partner network. Working with its partners, NSBI is much more capable of meeting clients' needs; NSBI is able to offer its clients more choices, best-in-class tools, and strong customer service.

Over the planning period, NSBI will work closely with key partners to extend and build upon existing relationships. This has been identified as a priority area for NSBI in the upcoming year.

Organization

Employees are NSBI's most valuable asset. NSBI continues to build a professional, experienced, and proactive team. The company remains committed to creating a results-oriented corporate culture where employees feel challenged and supported on both a professional and a personal level. The employee performance management process is linked to the Corporate Balanced Scorecard, focusing on the achievement of corporate, team, and individual goals. Regular interim and annual performance evaluations continue to provide employees with feedback on contribution at the individual, unit, and corporate level.

NSBI recognizes the need to make appropriate investments in employee professional development and training. The corporation will continue to help employees create development plans that strike a balance between the specific skills and the broader knowledge necessary to enhance their short-term performance and their long-term career potential.

NSBI continues to reach out to its employees to gather feedback on the work environment. This is done through regular dialogue with supervisors, surveys, suggestion boxes, and confidential interviews. Internal communication remains a priority and is being facilitated through a variety of means, including an employee intranet and corporate and unit-specific staff meetings. An Organizational Action Team has been formed and will continue on a perpetual basis. With members drawn from various parts of the organization, the committee exists to promote continuous improvement in our work environment. The committee meets regularly to identify issues of concern, making regular recommendations to management for corrective action.

The health and wellness of employees are of prime importance. With the continued promotion of established programs for employee assistance, wellness, and occupational health and safety, NSBI's commitment is clear and ongoing.



Budget Context

Budget Summary

	Estimates 2005–2006 (\$)	Forecast 2004–2005 (\$)	Change from Current Budget (\$)
Operating Expenses	8,981,000	7,200,000	1,781,000
Loan Valuation Allowance	1,600,000	1,600,000	0
Strategic Investment Funds	19,412,000	16,200,000	3,212,000
Overall Total	29,993,000	25,000,000	4,993,000

Outcomes and Performance Measures

This section outlines the planned outcomes for April 1, 2005–March 31, 2006, with an indication of the strategies used to achieve these outcomes. Measures to gauge how well each goal is being met are indicated with a fiscal year 2003–2004 as a base. The outcomes and measures for the upcoming year reflect NSBI's commitment to measuring results that directly lead to the objectives and goals of the organization.

NSBI holds itself to the highest standards of corporate governance and accountability. Corporate performance is measured, and the organization is committed to delivering a return on investment for shareholders. The corporate outcome measures have been enhanced for the fiscal period to reflect the growing impact NSBI clients are having on the economic growth and prosperity of the province. Their success translates into more tax revenues for the province, which is a source of funding for government priorities.

Following are total requirements to enable NSBI to continue existing activity and introduce new services that address critical gaps in the marketplace for existing and potential clients:

1. Operating Budget	\$8,981,000
2. Strategic Investment Funds	\$19,412,000
3. Loan Valuation Allowance	\$1,600,000
	<hr/>
	\$29,993,000
4. Capital Allocation	\$20,000,000



Outcomes and Performance Measures

Goal	Indicator	Measure	Base Year 2003-04	Targets 2004-05	Targets 2005-06	Strategies to Achieve Target
1. Promote the growth of new and existing businesses in Nova Scotia by enabling them to succeed with business opportunities in both local and export markets	Nova Scotia companies expand business within Nova Scotia	Number of qualified referrals for export development, investment, or financing	240*	144	144	<ul style="list-style-type: none"> Proactive business meetings Continue to build awareness of NSBI in regional NS
			* Moved to measuring qualified leads in 2004-2005	80 clients	100 clients	100 clients
2. Attract leading-edge, sustainable business investment to Nova Scotia	FDI in Nova Scotia	Number of companies that relocate part or all of their operations in Nova Scotia	8 companies	10 companies	15 companies	<ul style="list-style-type: none"> Seek new sustainable businesses to relocate or expand in Nova Scotia
			Average gross salary of new jobs created through business attraction and reinvestment	\$25,000	\$30,000	\$32,500
Fiscally prudent financing	Average portfolio return on investments utilizing SIFs	40-50%	40-50%	40-50%	<ul style="list-style-type: none"> Strategic utilization of SIFs to establish growth industries Sector-specific tactical plans 	

Goal	Indicator	Measure	Base Year 2003-04	Targets 2004-05	Targets 2005-06	Strategies to Achieve Target
3. Provide access to capital for new/existing businesses in Nova Scotia, with the intent of enhancing value-added growth for the province's economy	Incremental value investment projects	Number of financings with new/existing companies (80% in strategic growth sectors) utilizing Nova Scotia Business Fund	20 financings	32 financings	20 financings	<ul style="list-style-type: none"> • New product offerings • Sharpened business development focus
	Flexible financing arrangement	% Nova Scotia Business Fund used for equity/working capital deals	Range between 20% and 25%	Range between 20% and 25%	Range between 20% and 25%	<ul style="list-style-type: none"> • Maintain share of financing to companies in strategic growth sectors
	Partner for financing solutions	Leverage ratio of partner: NSBI	Ratio of 1:1	Ratio of 1:1	Ratio of 1:1	<ul style="list-style-type: none"> • Maintain co-investment philosophy
4. Increase the visibility and recognition of Nova Scotia—its business climate, advantages, and capabilities.	Awareness of NSBI's role in Nova Scotia	Percentage increase over base measure of awareness of NSBI	Business 30% Public 23%	2% 2%	2% 2%	<ul style="list-style-type: none"> • Business and community events, e.g., Export Achievement Awards • Communication tools, e.g., website, articles, advertising



Goal	Indicator	Measure	Base Year 2003-04	Targets 2004-05	Targets 2005-06	Strategies to Achieve Target
5. Develop an action-oriented, client-focused organizational culture that encourages, empowers, and supports high performance.	Employee training and development	Percentage of employees participating in training and development programs	50% of employees	80% of employees	80% of employees	<ul style="list-style-type: none"> Provide and promote training and educational programs
	Business culture—deliver results within cost management	Operate within annual budget	\$6.815 million	\$7.2 million	\$8.89 million	<ul style="list-style-type: none"> Maximize operating efficiency and cost effectiveness
Overall performance	Jobs within Nova Scotia	Number of jobs retained and created by clients	3,700 maintained and new	3,700 maintained and new	3,700 maintained and new	<ul style="list-style-type: none"> Attract companies to Nova Scotia Help existing companies within Nova Scotia grow Provide financial solutions 5-year cumulative target of 18,000
	Export sales	Incremental export sales of NSBI clients	TBD	TBD	\$25 million	<ul style="list-style-type: none"> Attract companies to Nova Scotia Help existing companies within Nova Scotia grow Provide financial solutions 5-year cumulative target of 18,000
	Total payroll	Total payroll impact of NSBI clients	TBD	\$111 million	\$120 million	<ul style="list-style-type: none"> Attract companies to Nova Scotia Help existing companies within Nova Scotia grow Provide financial solutions 5-year cumulative target of 18,000

Appendix 1

STRATEGIC INVESTMENT FUNDS PURSUANT TO NSBI REGULATIONS POLICIES AND GUIDELINES/PROCEDURES, NSBI 2005-2006 BUSINESS PLAN

Payroll Rebate

Overview	<ul style="list-style-type: none"> • The payroll rebate is based on targeted employment creation and new payroll generation. • This financial incentive may be used when it can be shown that an applicant's project generates a net economic benefit to the Province in one or more of the Province's key economic sectors.
Amount	<ul style="list-style-type: none"> • Between 5% and 10% of the applicant's gross incremental payroll, depending on the applicant's strategic location or business sector and the net economic benefit generated to the Province.
Eligibility	<ul style="list-style-type: none"> • The applicant's business must be considered eligible according to NSBI's operating regulations. • Nova Scotian and out-of-province firms located in Nova Scotia creating new jobs in Nova Scotia are eligible for the payroll rebate program. • Applications for assistance must be project-based. Projects are expected to create sustainable long-term new employment. Cyclical peaks in employment will not be considered for assistance. • The project should result in the creation of at least fifty new jobs (FTEs) in Nova Scotia. However, under certain circumstances, projects creating fewer than 50 FTEs may be considered when there is high strategic value or strong economic benefit. • Companies that have previously received assistance under the program will not be eligible for additional assistance unless the project is incremental to the peak FTE level attained by the company under the previously provided assistance. • Projects that are considered to be competitively harmful to existing Nova Scotia business will not be considered.
Application Requirements	<ol style="list-style-type: none"> 1. Most recent financial statements of the assisted company; 2. Share structure and share ownership in the case of private companies; 3. Cash flow forecast
Criteria	<ul style="list-style-type: none"> • The company and the project must have reasonable prospects (business plan) for continued growth and success. The company should be profitable, with a proven track record. In addition, the project should be mainly export oriented and/or be in a strategic economic sector. <p>The company must also demonstrate:</p> <ul style="list-style-type: none"> • Strong Management (corporate and local); • Compliance with Environment Act, Occupational Health and Safety and Labour Standards Code (if already established in Nova Scotia); • Economic Benefit to the Province (e.g. estimated number of jobs created/maintained, linkages with other sectors, non-competition with Nova Scotia industries, import substitution, etc.); • An acceptable credit history



Performance Conditions

- Assistance is based on specific targets that the assisted company must achieve. The most usual will be the creation of (x) jobs by (date), all of which are still in place at the end of the period, with an average annual salary/wage of \$ (amount), defining a job as 2000 hours of work per year.
- The applicant must produce an auditor's report certifying that the employment and wage targets have been achieved and containing the following information:
 - Incremental gross wage or payroll bill (including benefits) and the number of incremental employees and hours worked according to the Company's records on each anniversary date from the actual commencement of operations;
 - Gross wage or payroll bill (including benefits) and the total number of employees of the company on each anniversary date from the actual commencement of operations.

Payment Terms

- Payable 12 months after the project commencement and annually thereafter, on each anniversary from the project commencement;
 - In certain circumstances payments may be considered more frequently than annually;
 - Payment term generally should not exceed five years.
-