TABLED DOCUMENT 218-17(5) TABLED ON MARCH 9, 2015

2013

Review of The Venture Investment Program & The Contribution Programs of the Northwest Territories Business Development and Investment Corporation

March 7, 2013

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Chapter One – Executive Summary

Section 41 of the Northwest Territories Business Development and Investment Corporation Act directs the Minister responsible for the BDIC to must have a review of the programs established under the Act, undertaken, five years after the date of enforcement of this Act (i.e. April 1, 2005) and thereafter, every five years after the previous review.

The Department of the Industry, Tourism and Investment (ITI) of the Government of the Northwest Territories and the BDIC have decided to get this review done in a phased approach and planned to cover the following two programs at the first phase of the review:

- Venture Investment Programs;
- Contribution Programs.

Accordingly, this review is limited to the above two programs only.

This review has attempted to examine the effectiveness of the above two programs by:

- Analyzing the operation of the above two programs as implemented on or before or after 2005;
- Determining if intended impacts of the programs are being realized;
- Determining if intended impacts of changes, if any, have been realized;
- Determining what benefits have been achieved from each of the various programs and where and how these benefits have accrued, and
- Recommending changes that might improve results.

Overall, this review has attempted to compare intended versus actual results, examine changes and trends over time, and review impacts on business enterprises, the Government of the Northwest Territories, and the NWT as a whole. The period examined is from the date of enforcement of the Act up to March 31, 2012.

Some conventional research techniques were used to conduct this program review that included a literature review, personal interviews of the BDIC staff and our evaluation of the effectiveness of the programs based on quantitative and qualitative evidence obtained from various sources including the database for the programs, clients and the documents prepared by the BDIC personnel. Some related documents such as legal opinion relating to the venture program, financial statements of the Venture client corporations, etc., were also carefully reviewed to draw a conclusion on the program performance.

The Venture Investment Program (VIP) has been in existence for many years. Prior to be inherited by the BDIC, this program was being administered by the Northwest Territories Business Development Corporation.

Since the creation of the BDIC in April 1, 2005, there has been no uptake in the Venture Investment program at all. Most of the current venture investments are not performing well, and as a result, unable to generate profits or pay out dividends. Immediately before the creation of the

BDIC, a “Business Program Evaluation” was conducted by an independent reviewer and it was concluded that the Venture Investment program had no strengths and had several major weaknesses. The recommendation was to suspend the Venture Investment Program.

The mechanism of the current venture investment program appears to be legally flawed and is unable to protect the BDIC’s investment, foster economic development in the territory and create jobs. Moreover, the existing policies and guideless are outdated and unclear. It is clear that the Venture investment program requires a thorough revamping in order for its future success. The revamped program must be able to protect the BDIC’s investment by obtaining adequate security, must be able to select projects carefully that are committed by its entrepreneurs and have a high potential for success. In order to do that the BDIC should be able to consider and foresee various stages of a project in order to determine its fit to the revised program and then should look for a combination of financing sources rather than just investing into redeemable preferred shares of a corporation.

It appears that the uptake of the Contribution programs has steadily increased over the years. But, as there is no performance measurement or post-contribution monitoring system is in place, it is difficult to conclude as to what extent this program is successful or effectively assisting the rising entrepreneurs of the Northwest Territories. The type of program should be continued but in order to be more effective, the ITI and the BDIC may want to work together to identify and eliminate the existing overlap between the SEED program of the ITI and the BDPF program of the BDIC. The use of these two programs in combination, rather than in isolation, has a potential to produce synergic effects in terms of economic development and job creation in the territory.

Finally, there is no objective performance measurement and management system in place in the BDIC by which the success of each of the programs can be objectively measured, corresponding targets can be set and initiatives can be prescribed. The BDIC must develop a clear and concise performance measurement and management system that will allow the BDIC to set the clear objectives for each and every program, identify measures, set targets and prescribe initiatives. Without such a system, it will not be possible for the BDIC to assess where it is going in terms of achieving the governmental or organizational goals and objectives.

Chapter Two - Introduction

Section 3 of the Northwest Territories Business Development and Investment Corporation Act sets the purpose of the Corporation. Accordingly, the purpose of the Corporation (the BDIC) is to support the economic objectives of the Government of the Northwest Territories in a manner that benefits the people and the economy of the Northwest Territories. It does so by encouraging the creation and development of business enterprises, providing financial assistance to business enterprises, either on its own or as a complement to private sector or other financing, directly investing in business enterprises and providing information to business enterprises and members of public respecting the establishment and operation of businesses, and other business matters. The BDIC delivers Term Loan, Standby Letters of Credit and Working Capital Guarantee as "lending programs". It also invests in Subsidiaries and Venture client corporations as its "investment programs". Besides lending and investment programs, it also delivers a third type of program, called Contributions.

Section 41 of the Northwest Territories Business Development and Investment Corporation Act directs the Minister responsible for the BDIC to must have a review of the programs established under the Act, undertaken, five years after the date of enforcement of this Act (i.e. April 1, 2005) and thereafter, every five years after the previous review.

The Department of the Industry, Tourism and Investment (ITI) of the Government of the Northwest Territories and the BDIC have decided to get this review done in a phased approach and planned to cover the following two programs at the first phase of the review:

- Venture Investment Program;
- Contribution Programs.

Accordingly, this review is limited to the above two programs only.

This review has attempted to examine the effectiveness of the above two programs by:

- Analyzing the operation of the above two programs as implemented in 2005;
- Determining if intended impacts of the programs are being realized;
- Determining if intended impacts of changes, if any, have been realized;
- Determining what benefits have been achieved from each of the various programs and where and how these benefits have accrued, and
- Recommending changes that might improve results.

Overall, this review has attempted to compare intended versus actual results, examine changes and trends over time, and review impacts on business enterprises, the Government of the Northwest Territories, and the NWT as a whole. The period examined is from the date of enforcement of the Act up to March 31, 2012.

Chapter Three - Brief Overview of the Programs under Review – Venture Investment Program & Contribution Programs

Venture Investment Program

The VIP is established under clause 16(b) of the *Business Development and Investment Corporation Act* (BDICA) and subrule 19(1) of the *Programs, Projects and Services Continuation Regulations* ("Regulations"). This program is designed to provide financial assistance to businesses by way of direct investment.

The present practice of the BDIC is to purchase a number of preferred class shares for a certain amount, depending on the financing need and the eligibility of the businesses. Businesses are then required to regularly declare and pay dividends. However, the BDIC allows businesses to buy back the preferred class shares at any time. The principal instrument used to execute the VIP is a United Shareholder Agreement (USA).

As per Regulation 19 (1) of the Northwest Territories Business Development and Investment Corporation, the Venture Investment Program is established as a program of the Corporation to continue the investment and financing programs of the Northwest Territories Development Corporation that were funded out of the Venture Investment Fund and the Venture Reserve Fund respectively, and in respect of which the Venture Reserve Fund was maintained. Accordingly, the BDIC inherited this program form the former Northwest Territories Development Corporation. The BDIC has not revised the Venture Investment guidelines and to date, has followed the "Investment/Divestment Guidelines" that were developed by the Northwest Territories Development Corporation in December, 2001.

As per the above guidelines, a "Venture Investment" is a business enterprise in which the Corporation holds 50% or less of the voting shares and those shares are not sufficient to elect the majority of the directors. The Board may approve venture investments that may be a debt or an equity, or a mix of both. A conversion of a venture investment shareholding from preferred shares to common shares may also be authorized consistent with a unanimous shareholders' agreement. Investments are limited to $100,000 per job created.

Following are principal regulatory requirements for the current venture investment program:

- The BDIC shall maintain a Venture Investment Fund (VIF) and a Venture Reserve Fund (VRF) which shall be used to purchase shares or otherwise invest in a business

- For each job directly or indirectly created, the BDIC may invest up to $100,000 in a business, and for any greater amount with require approval of the Financial Management Board
- The BDIC shall deposit to the VRF 10% of any amount paid from the VIF until the VRF reaches at a balance of $1,000,000
- Businesses are ineligible for assistance under the VIP if the total aggregate amount received by the business under all programs under the Loans and Investment Fund exceeds the prescribed maximum.

Contribution Programs

Subparagraph 14(h)(ii) of the Northwest Territories Business Development and Investment Corporation Act enables the BDIC to deliver Contribution programs. The BDIC delivers two specific types of Contribution programs –The Business Development Project Fund (BDPF) and The Business Development Project Fund for Aftercare Funding (The BDPF Aftercare Funding).The later was introduced only recently (in the year 2012-13).

The BDPF is a contribution program that provides contributions to eligible individuals or businesses for the purposes of planning to start a business, starting a business and expanding a business that create employment. The maximum contribution under this program in any 5 years period varies from type to type of the communities. For type I communities the maximum contribution is $10,000 whereas for type II communities this limit is $20,000. The Level I communities include Yellowknife (including N'Dilo), Hay River, Fort Smith & Inuvik. All other NWT communities are considered level II.

The BDPF Aftercare Funding can provide businesses with contribution funding to purchase accounting software, take an accredited business or accounting course, obtain succession planning advice, or for travel costs to attend educational seminars promoted by the BDIC. The lifetime maximum for BDPF Aftercare Funding is $2,500 for Level I communities and $5,000 for level II communities.

The intent of the Contribution programs is to encourage the development, success and expansion of the NWT small businesses through contributions. The eligibility is restricted to the NWT business enterprises with less than $500,000 in annual revenues or, the NWT based artists or crafts persons who produce income through the sale of the products they produce or plan to produce or, the NWT based harvesters who produce income through the sale of products lawfully obtained through renewable resource activities.

Chapter Four - The Venture Investment Program – Review, Evaluation & Recommendations

Current Status

Since the creation of the BDIC in April 1, 2005, there has been no uptake in the Venture Investment program at all. Most of the current venture investments are not performing well and as a result unable to generate profits or pay out dividends. Immediately before the creation of the BDIC, a “Business Program Evaluation” was conducted by an independent reviewer and it was concluded that the Venture Investment program had no strengths and had several major weaknesses. The recommendation was to suspend the Venture Investment Program.

To date, most of these investments have been completed by way of purchase of non-voting preferred shares in a business enterprise. Preferred shares allow the BDIC to make an equity investment. Normally, the BDIC leaves the Venture clients to manage its own affairs limiting its own involvement.

The following table will provide an idea as to how the venture clients are performing and as well as the status of the BDIC investments:

Venture Client Performance Status

Client #	Client Name	Whether the Financial Statements submission is up to date (Yes/No)	Whether the existing policies and guidelines are being complied with in terms of montoring the client (Yes/No/Some what)	Whether a visit to the client's place of business has been made in the year 2011-12 (Yes/No)	Whether the BDIC has attended the AGM in the last year (Yes/No)	Whether a status report has been provided to the Investment Committee by the BDIC within the last year	Whether the divident payments are up to date (Yes/No)	Whether the client has been redeeming the shares (Yes/No)	Any leagal actions/remedial measures taken by the BDIC to-date (Yes/No)	Comments
1	Enodah Wilderness Travel Ltd.	No (Submitted up to 2011)	Some what	No, The BDIC has not done any visits to any ventures since the date it was created. The last visit was made by the processor NWTDC in 2004 to some ventures	No	No, but the employment reports are provided by the client every year	Yes	Yes	No	Niether the BDIC has been invited to attend the AGM nor the BDIC attempted to do so
2	Holman Eskimo Co-operative Ltd.	No (Submitted up to 2012)	Some what	No, The BDIC has not done any visits to any ventures since the date it was created. The last visit was made by the processor NWTDC in 2004 to some ventures	No	No, but the employment reports are provided by the client every year	Yes	Yes	No	Niether the BDIC has been invited to attend the AGM nor the BDIC attempted to do so
3	Kunnek Resource Development Corporation	No (Not submitted since 2003)	No	No, The BDIC has not done any visits to any ventures since the date it was created. The last visit was made by the processor NWTDC in 2004 to some ventures.	No	No, but the employment reports are provided by the client every year	No (About $125,000 dividend outstanding)	No (the value of the investment seems to be Nil)	No	Niether the BDIC has been invited to attend the AGM nor the BDIC attempted to do so
4	North Nahanni Naturalist Lodge Ltd.	No (Submitted up to 2012)	Some What	No, The BDIC has not done any visits to any ventures since the date it was created. The last visit was made by the processor NWTDC in 2004 to some ventures.	No	No, but the employment reports are provided by the client every year	No (About $250,000 dividend outstanding)	No (The value of inverstment likely to be Nil)	No. But the client is in the process of submitting proposal to buyout shares and dividends owing	Niether the BDIC has been invited to attend the AGM nor the BDIC attempted to do so
5	Paulette & Clarke Renovations Ltd.	Business shut down. Client sold assets and submitted all proceeds to the BDIC.	Yes	No, The BDIC has not done any visits to any ventures since the date it was created. The last visit was made by the processor NWTDC in 2004 to some ventures	No	No, but the employment reports are provided by the client every year	No (About $25,000 dividend outstanding)	Remaining recovery is not expected.Value of investment is Nil.	Yes	No further recovery is expected. No assets left over
6	Rat River Development Corporation	Shares are fully redeemed	Some what	No, The BDIC has not done any visits to any ventures since the date it was created. The last visit was made by the processor NWTDC in 2004 to some ventures.	No	No, but the employment reports are provided by the client every year	Yes	N/A	No	N/A
7	5352 NWT Ltd (Snare Lake Lodge)	No (Submitted up to 2011); the client is in the process of submitting proposal to buyout shares and dividends	Some what	No, The BDIC has not done any visits to any ventures since the date it was created. The last visit was made by the processor NWTDC in 2004 to some ventures	No	No, but the employment reports are provided by the client every year	No (About $25,000 dividend outstanding)	No (The value of the investment seems to be Nil)	Yes	Niether the BDIC has been invited to attend the AGM nor the BDIC attempted to do so
8	Tri-Vanguard Ka'nages Productions Ltd.	No (Submitted up to 2009); the client is now non-operational. FMB submission is being made to write off	Some what	No, The BDIC has not done any visits to any ventures since the date it was created. The last visit was made by the processor NWTDC in 2004 to some ventures	No	No	Not applicable as the dividend calculation is based on percengage of profits and the Corporation is not generating profits	No (The value of the investment seems to be Nil)	No	Niether the BDIC has been invited to attend the AGM nor the BDIC attempted to do so
9	Two Rivers Development Group Ltd.	Repurchased its shares in June 23, 2012	Some what	No, The BDIC has not done any visits to any ventures since the date it was created. The last visit was made by the processor NWTDC in 2004 to some ventures	No	No, but the employment reports are provided by the client every year	N/A	N/A	No but now the shares are repurchased	Niether the BDIC has been invited to attend the AGM nor the BDIC attempted to do so

The predecessor of the BDIC, the Northwest Territories Development Corporation obtained a legal opinion in the year 2004, which is still relevant in today's scenario in the BDIC. The extracts of the opinion is presented under Appendix – A of this report.

Changes proposed by the BDIC Management and their analysis

The BDIC is in the process of improving the program structure by introducing some variations from client to client and from business to business. The proposed categories are:

- Board Approved Priorities subject to a maximum investment limit of $2,000,000
- Equity Leverage Venture Investment subject to a maximum investment limit of $500,000
- Franchise Venture Investment subject to a maximum investment limit of $300,000
- Research and Development Venture investment subject to a maximum investment limit of $200,000
- Youth Venture Investments subject to a maximum investment limit of $100,000

All these categories clearly fail to achieve the very purpose and definition of the Venture Investment Program that are commonly used in the common market place. There is also significant overlap with the BDIC's other lending programs.

In the common market place, venture capital is provided at the early stage, high-potential, high risk and growth start-up companies. Venture Capital, by definition, is a longer term "patient capital". It is considered "patient capital" because it is supposed to support young and rapidly growing businesses that require time to develop into profitable organizations. All businesses cannot be a candidate of Venture investments. Generally, the businesses that go through the following stages should only be considered as a candidate of Venture investment:

1. Seed stage – proves a concept
2. Start-up stage – product development
3. Operational stage – commercial products and sales
4. Growing stage – expansion though may not be profitable yet
5. Mezzanine stage – expansion and profitable
6. Established stage – buyout, recapitalization, slower growth, maturing and established market

The capital requirement of such companies is very different at different stages. In stage 1, it needs "Seed" funding; in stages 2 – 5 it needs Venture capital; in stage 6, it does not need capital, rather surpasses capital requirement. This is the time for divest.

By taking a careful look at the proposed categories of venture investment programs, it appears that most of them do not meet the definition of venture investments and such financing needs can very well be met by the other BDIC lending programs, except the Equity Leverage Venture Investment one. Additionally, all of these categories maintain the current practice of investing in preferred shares and thus subject to the same legal limitations that have been highlighted in Appendix-A.

The recommendations for future improvements in the venture programs are presented in Appendix-B.

Chapter Five – Contributions – Review, Evaluation & Recommendations

The following table will provide an idea as to how the BDPF programs are performing. It is obvious from the table below that the uptake of the program has been steadily increasing. In the year 2011-12, the BDIC increased the budget from $200,000 to $300,000. This program has helped several clients over the periods including established and start-up businesses.

BDPF Performance

	Budget	Actual	Non start-up contribution (#)	Start-up Contribution (#)
2005/2006	$200,000	$41,431	0	6
2006/2007	$200,000	$20,807	5	1
2007/2008	$200,000	$33,930	4	3
2008/2009	$200,000	$87,245	6	5
2009/2010	$200,000	$215,611	11	5
2010/2011	$200,000	$152,062	8	12
2011/2012	$300,000	$240,463	20	8

The recommendations for improvement of the Contribution programs are presented in Appendix – C.

Appendix – A: Legal Limitations of the Current Investment Type based on Legal Opinion

The following are the inherent limitations of the current investment program:

1. The expected return from the venture investments is receiving agreed dividends on a regular basis from the shares held by the BDIC in the venture corporations. Investing in shares of a corporation has some inherent limitations in terms of receiving regular dividends. All the Venture clients are subject to the Northwest Territories Business Corporation Act. According to Sub-section 45(1) of the Act, a corporation incorporated under this Act is only allowed to pay dividends if there are reasonable grounds for believing that:
   (a) The corporation is, or would after the payment be, unable to pay its liabilities as they become due; or
   (b) The realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes.

   If a venture client does not meet/pass both the requirements of Sections 45, it is legally unable to declare and pay a dividend regardless of the rights attached to the shares by the articles of the incorporation. Where a corporation has suffered significant losses, it is quite possible that the aggregate value of the assets would be less than the amount of its liabilities. In such a case, the BDIC cannot compel a corporation to pay a dividend that the corporation is legally prohibited of paying.

2. The second limitation relates to the ranking of priorities in the event of bankruptcy or winding up of a venture corporation. A shareholder is not a creditor of the corporation. As such, in the event of bankruptcy or winding up of a corporation, the holders of preferred shares rank behind secured and unsecured creditors of the corporation. Preferred shares generally give the preferred shareholder a right to receive the amount of unpaid dividends and the original purchase price of the share in priority to the common shareholders, but this priority applies only once all other debts have been repaid. Therefore, on winding up of a venture corporation, if no residual remains after paying the secured and unsecured creditors, the BDIC is not in a position to realize anything towards the value of its investments.
3. Another limitation is that not all preferred shares are automatically convertible to common shares. Although most of the BDIC preferred shares give a right to convert, the BDIC still requires confirming that it is not contractually prevented from converting the preferred shares into common shares by a Unanimous Shareholder Agreement. Under the existing form of agreement, the BDIC covenants not to convert its shares unless certain

acts of default have occurred but it does not seem to have any difficulty in establishing its right to convert its preferred shares. However, the BDIC is obligated to give notice to the other shareholders and the venture corporation of the alleged breach before it can proceed to demand conversion of its shares.

Appendix – B: Recommendations for the improvement of Venture Investment Programs

It is recommended that the BDIC follows the following steps before proceeding to a Venture Investment:

Step 1:

Upon receiving an application from a potential Venture client, the BDIC must carefully review the application to determine whether any of the existing lending programs can meet the client's financial needs subject to the compliance of the BDIC policies and guidelines. If the answer is "yes", the BDIC must not proceed to Venture investments. If the answer is "no", the BDIC should proceed to the next step, step – 2.

Step 2:

The BDIC should examine, whether the client proposal is a proposal that will typically pass through the following stages:

1. Seed stage – proves a concept
2. Start-up stage – product development
3. Operational stage – commercial products and sales
4. Growing stage – expansion though may not be profitable yet
5. Mezzanine stage – expansion and profitable
6. Established stage – buyout, recapitalization, slower growth, maturing and established market

If the answer is "no", the BDIC should not proceed with the Venture investments. If the answer is "yes" the BDIC should proceed to the next step, step-3.

Step 3:

The BDIC must consider a combination of different financing options at various stages.

For stage 1, it should consider one or a combination of the following:

- BDPF Contribution
- SEED (ITI program) Contribution
- Secured lending

Depending on the amount of financial need of the client, the BDIC should try to assist the client by providing a BDPF contribution. If the BDPF funding is not sufficient enough, the BDIC should, in conjunction with the ITI, should explore the possibility of providing SEED contribution to make up the difference. If the SEED funding is not available or not sufficient enough to meet the financial needs of the client at the stage-1, the BDIC should consider providing a secured loan to cover the difference. The security could be assets of the individual shareholders or personal guarantees. This is very important because providing security ensures the personal commitments of the entrepreneurs and helps to eliminate the clients that are neither serious nor committed. The BDIC may consider providing the term loan at a special rate, which can be the BDIC lowest rate (BDIC Prime + 2%).

At this stage, the BDIC should not jump into Venture investments right away. The BDIC should wait and see whether the client is able to successfully overcome stage – 1.

If the client is not successful, the BDIC should be able to collect by enforcing its security. If the client is successful in stage – 1, it appears that the entrepreneur is committed and there is a clear potential for economic development and hence, job creation. At this point, the BDIC should consider Venture Investments to finance stages 2 – 5 and proceed to the next step, step – 4.

Step 4:

At this stage, the BDIC is more or less certain that it is getting into a viable project with committed entrepreneurs. Despite this certainty, the BDIC must play very safe, and at the same time, must try to help the client as most as possible to be successful and eventually, to play its crucial role in economic development and job creation in the Northwest Territories.

At this stage, the BDIC should go through equity investments for two main reasons. The first reason is that providing equity financing to the client will enable the client to prove a certain ratio of equity as a condition of obtaining other financing. That is not the case for non-equity lending. The second reason is that the client being at start-up stage, is very likely, not be able to afford adequate security to obtain the lowest BDIC lending rate (which is BDIC Prime plus 2%). The dividend rate can be set by applying the same risk-based (based on available security) principles and guidelines that the BDIC uses for its normal lending programs (which varies from BDIC Prime +2% to BDIC Prime +4%).

Since an investment in equity is required for the best interest of the client and therefore, economic development, the BDIC should look for the safest investment in equity. It can still continue in investing in preferred shares but in a different way. The BDIC <u>MUST</u> require a third party to sign an agreement requiring that person to purchase its shares in the business enterprise in circumstances specified in the agreement, such as the failure to pay dividends in a 12-month period. The third party could be the shareholders themselves, friends or relatives of the shareholders or other corporations where the shareholders or their friends or relatives are the shareholders. If those circumstances arise, the BDIC can demand the purchase of its shares. If the third party refuses or fails to complete the purchase, the BDIC could sue the third party for breach of that agreement without having to attempt to collect from the business enterprise. Also, the BDIC should consider appointing a member in the Board of the client corporation in order to ensure proper information flow, which, in turn, will help the BDIC to make an earlier assessment of the likelihood of a default under the investment. Besides, the BDIC is able to exercise the remedies that are available under the Business Corporations Act as mentioned earlier.

By the stage 5, the BDIC should be able to assess the progress and determine the future of the client. If the client is not progressing well, the BDIC must attempt to enforce the share purchase agreement and severe its relationship with the Corporation. On the other hand, if the client progresses well as desired, the BDIC should proceed to the next step, step – 5.

Step 5:

At this point the venture client has reached at stage – 6 and should be able to redeem its shares. This is the time for divestment. The BDIC should negotiate with the client for a phased redemption of shares and eventually, to get its capital fully divested.

Before proceeding to implement this revised Venture program, the BDIC will need to develop a set of solid policies and procedures. It is clear that the BDIC staff and the delivery agents are not clear about the current policies and procedures and accordingly, not sure as to how to monitor the existing clients as well.

Appendix – C: Recommendations for the improvement of Contribution Programs

The uptake of the program has steadily increased over the years. But to ensure the effectiveness of this program the BDIC must explore or put in place the following measures:

1. The BDIC must put in place a set of performance indicators for measuring the effectiveness of this program. The program objectives should be linked to the BDIC objectives that are already linked to the BDIC vision and then, each of the program objectives should be accompanied by corresponding measures, targets and initiatives. A suggested approach for introducing systematic performance measurement and management system in the BDIC is presented in Annexure – D.

2. The ITI and the BDIC should work together to identify and eliminate the existing overlap between the SEED program of the ITI and the BDPF program of the BDIC. The use of these programs in combination, rather than in isolation, has a potential to produce synergic effects in terms of economic development and job creation in the Northwest Territories.

3. There should be a post-contribution monitoring system in place to track the effectiveness of the contributions. The system must be able to keep track of all contributions over a certain period of time (say, over a period of five years) to understand the effectiveness of the programs. For example, a percentage (%) of business enterprises that are given contributions and subsequently become successful versus a percentage (%) of business enterprises that were given contributions but subsequently found unsuccessful could provide an idea as to the effectiveness of this program.

Appendix – D: Introduction of appropriate performance measurement and management system

There is a well-recognized caution in management discipline – "If you can't measure it, you can't manage it". If the BDIC is determined to manage its program effectively, it will need to find ways to measure its programs' quantitative (objective as opposed to subjective) performance first. A program to be successful, it is necessary that a sophisticated "performance measurement system" is put in place that is capable of guiding through the delivery and revision, as required, to respond to the unavoidable environmental, political, global and societal changes in an economy. The "performance measurement system" should then be integrated into a solid "performance management system". Such a solid system could be a "Balanced Scorecard" to measure and manage the performance of the BDIC programs.

The three key things we recommend to clarify first:

"***Mission"*** of the BDIC - why does the BDIC exist?

"***Vision"*** of the BDIC – where does the BDIC want to go with it (say, in the next ten or twenty years)?

"Strategy" for implementation – the game plan, i.e., how to get there (how to achieve the Vision)?

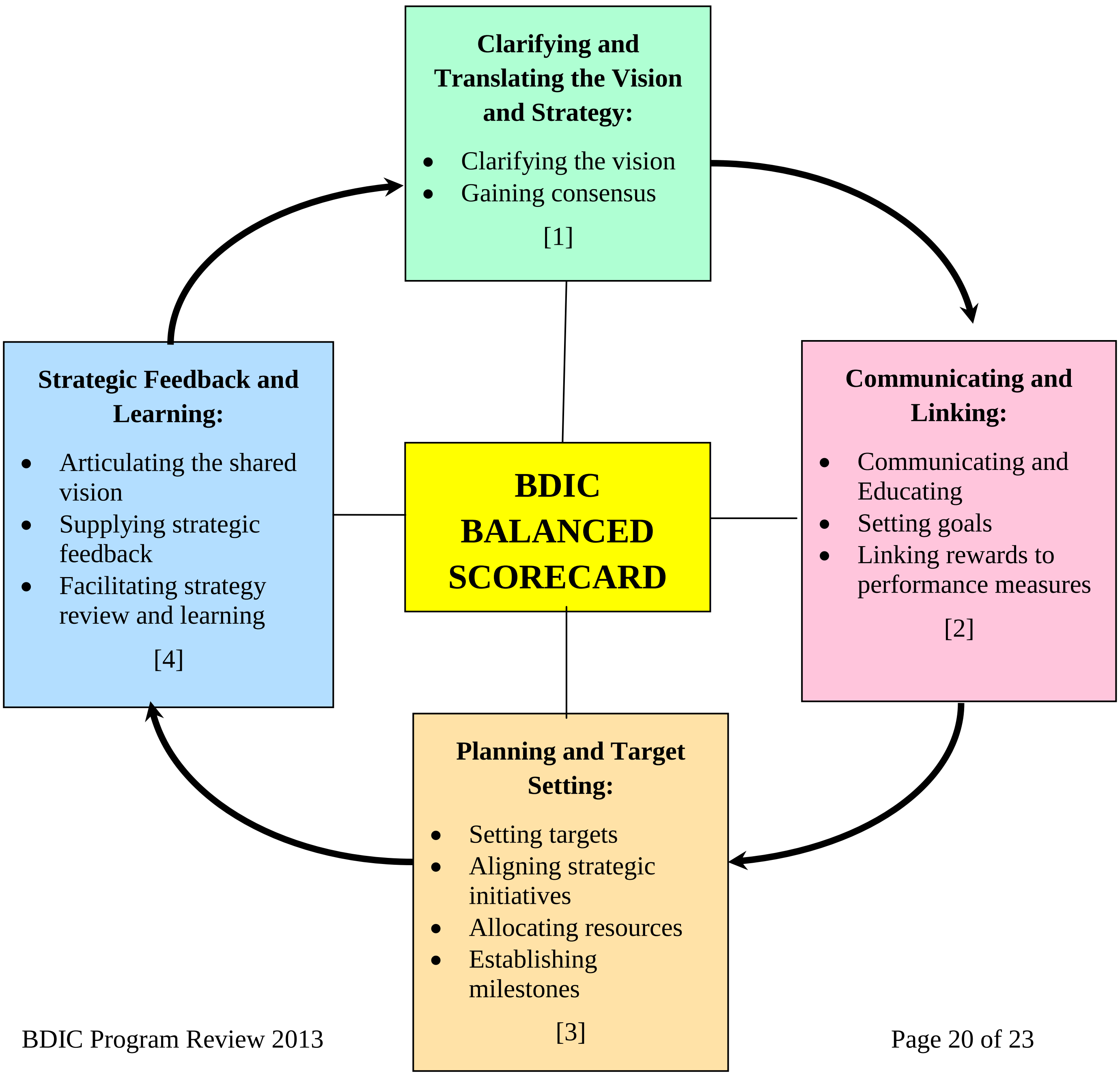
Based on the three answers to the above three key questions, a Balanced Scorecard can be formulated (as shown in Diagram 2 below). The Scorecard should be based on a series of cause-and-effect relationships derived from the strategy, including estimates of the response times and magnitudes of the linkages among the Scorecard measures. The inventors of the Balanced Scorecard (Kaplan and Norton) claim that a well-constructed Balanced Scorecard can be used to:

- Clarify and gain consensus about strategy;
- Communicate strategy throughout the organization (in this case, the BDIC, the ITI and the GNWT);
- Align departmental and personal goals to the strategy;
- Link strategic objectives to long term targets and annual budgets;
- Identify and align strategic initiatives;
- Perform periodic and systematic strategic reviews, and
- Obtain feedback to learn about and improve strategy.

The inventors of the Balanced Scorecard also claim (which is now proven) that it fills the void that exists in most management systems – the lack of a systematic process to implement and obtain feedback about strategy. Management processes built around this Scorecard should enable the BDIC to become aligned and focused on implementing the long term strategy regarding the success of its programs.

We recommend to use the following Balanced Scorecard approach (Diagram 1) for developing and implementing the BDIC programs successfully, which is similar to the one suggested by Kaplan & Norton in 1992.

Diagram 1



The Balanced Scorecard will emphasize that the measures must be part of the information system for employees at all levels of the BDIC, ITI and the GNWT. Front-line employees must understand the consequences of their decisions and actions and senior executives must understand the drivers of long-term policy success. The measures should be derived from a top-down process driven by the mission and strategy of the BDIC. The Balanced Scorecard must translate the BDIC's Mission and Strategy into "tangible" objectives and measures. The measures should represent a "balance" between external measures for external stakeholders (residents of the Northwest Territories) and internal measures of critical business processes, innovation and learning & growth (for bureaucrats, ministers and cabinets). The Balanced Scorecard will then accomplish the following critical management processes:

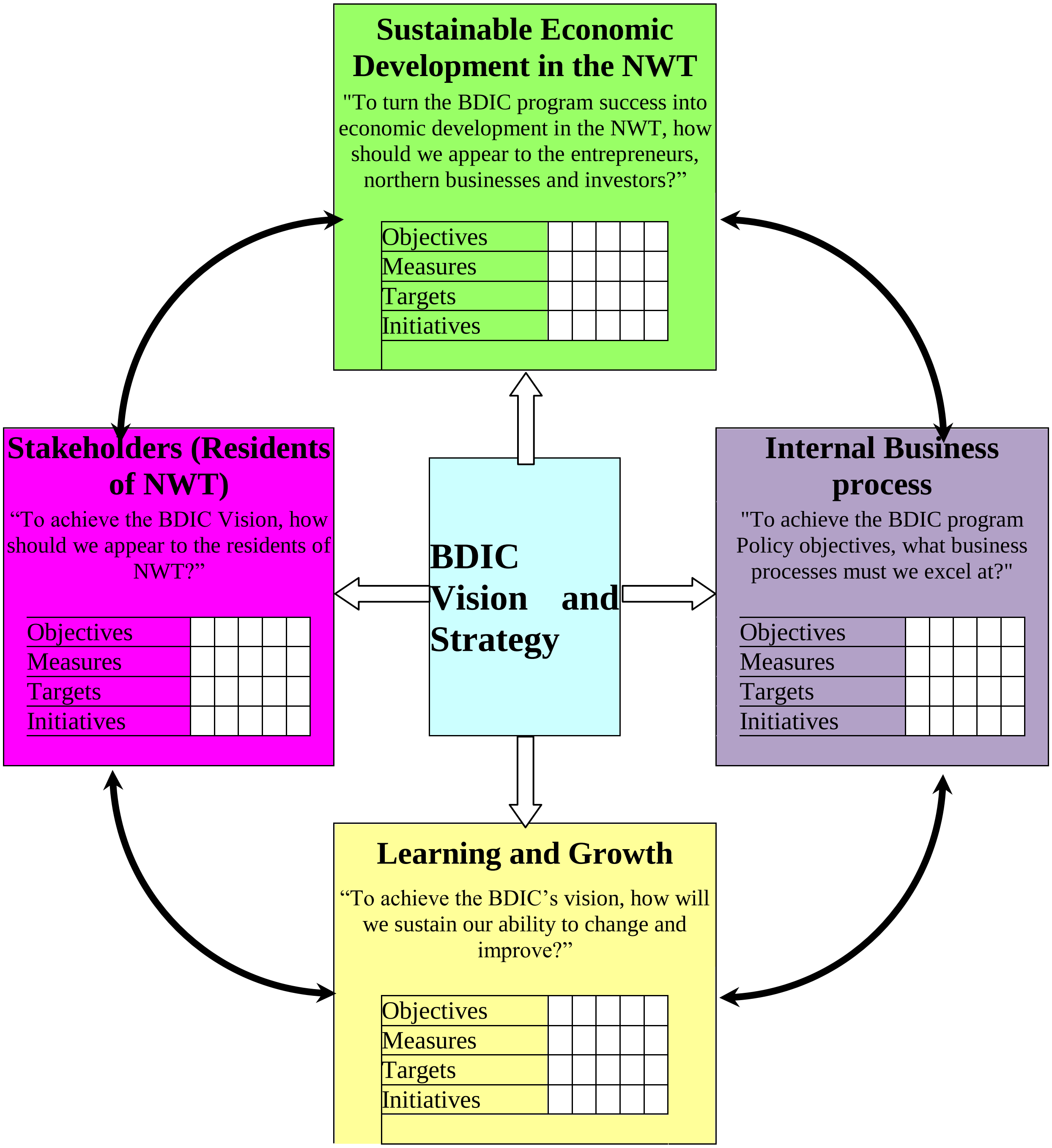
- Clarify and translate vision and strategy;
- Communicate and link strategic objectives and measures;
- Plan, set targets, and align strategic initiatives;
- Enhance strategic feedback and learning.

The planning and target-setting management process will enable the BDIC to:

- Quantify the long-term outcomes it wishes to achieve;
- Identify mechanisms and provide resources for achieving those outcomes, and
- Establish short-term milestones for the key measures of the Scorecard.

A suggested Balanced Scorecard model for measuring the BDIC program successes are presented below in Diagram 2.

Diagram 2


Sustainable Economic Development in the NWT
"To turn the BDIC program success into economic development in the NWT, how should we appear to the entrepreneurs, northern businesses and investors?"
Objectives
Measures
Targets
Initiatives
Stakeholders (Residents of NWT)
"To achieve the BDIC Vision, how should we appear to the residents of NWT?"
Objectives
Measures
Targets
Initiatives
BDIC Vision and Strategy
Internal Business process
"To achieve the BDIC program Policy objectives, what business processes must we excel at?"
Objectives
Measures
Targets
Initiatives
Learning and Growth
"To achieve the BDIC's vision, how will we sustain our ability to change and improve?"
Objectives
Measures
Targets
Initiatives

The four (4) perspectives of the scorecard will permit a balance between short and long-term objectives, between outcomes desired and the performance drivers of those outcomes, and balance between hard objective measures and softer, more subjective measures. A properly constructed Balanced Scorecard will contain a unity of purpose since all the measures will be directed toward achieving an integrated strategy of achieving the BDIC Vision.

It will always be beneficial for the BDIC to introduce appropriate measures to determine objectively as to where it is going with its programs, whether structural revisions are required based on objective results of the key measures and what databases should be developed and maintained to capture the objective performance of the programs.

In this proposed Scorecard, we recommend to consider the four major "perspectives" – Sustainable Economic Development, Stakeholders, Internal Business Process and Learning and Growth. The ultimate (primary) objective of the BDIC is to foster sustainable economic development in the Northwest Territories by achieving the objectives that are mandated in the GNWT strategic plan. Therefore, it is important to clarify and set the following four "parameters" for each of the four perspectives as mentioned above.

- ***Objectives*** – what are the objectives of this particular perspective;
- ***Measures*** – What key (core) objective (quantitative) "measures" should be used so that the BDIC/ITI can determine whether the objectives of this perspective are being met or not;
- ***Targets*** – Under each measure an "achievable" target number should be set;
- ***Initiatives*** – What are the actions required for achieving the set target and who are accountable to take those initiatives.

Needless to mention that a "strategy" is a set of hypotheses about various causes and their corresponding effects. The measurement system should make relationships (hypotheses) among objectives (and measures) under various perspectives explicit so that they can be managed and validated. The chain of cause and effect should pervade all four perspectives of the Balanced Scorecard. This Balanced Scorecard, to be robust, should have a mix of outcome measures and performance drivers, since outcome measures, without performance drivers, do not communicate how the outcomes are to be achieved.