

LEGISLATIVE ASSEMBLY OF THE
NORTHWEST TERRITORIES
10TH ASSEMBLY, 3RD SESSION

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BUSINESS LOANS AND GUARANTEES FUND

**REPORT OF THE
HONOURABLE TAGAK CURLEY
MINISTER
ECONOMIC DEVELOPMENT AND TOURISM**

to the

LEGISLATIVE ASSEMBLY

of the

NORTHWEST TERRITORIES

for the

FISCAL YEAR 1983/84



Northwest
Territories Minister of Economic Development and Tourism


November 08, 1984

THE HONOURABLE DONALD M. STEWART,
SPEAKER.

Dear Mr. Speaker:

I am pleased to present to the Legislative Assembly the 1983/84 annual report for the Business Loans and Guarantees Fund.

Sincerely yours,



Tagak Curley,
Minister.

BACKGROUND

The Business Loans and Guarantees Fund was transferred from Indian and Northern Affairs Canada in 1977. Since the fund was first created in 1970 to provide business financing to those unable to obtain commercial funds at reasonable terms and conditions, it has undergone several changes in funding levels and scope.

The original fund has grown from \$5 million to \$8 million this year. There is also provision for annual increments of \$1 million to a ceiling of \$11 million which is to be reached in 1986/87. The provision for loan guarantees was added in 1977. The loan and guarantee limits for each business entity have increased from an aggregate of \$50 thousand to \$500 thousand.

In a 1982 amendment to the Business Loans and Guarantees Ordinance, the word small was deleted which opened the fund to all eligible business enterprises in the NWT. Previously, businesses whose gross revenues exceeded \$1 million in the fiscal period in which they applied were not eligible.

Loans and guarantees may be made to finance the purchase, installation, renovation, improvement or expansion of equipment, inventory or premises used or to be used in the course of carrying on a business enterprise. In addition, loans and guarantees may be made to provide working capital for the acquisition of current assets. However, loans and guarantees may not be made to authorize working capital to finance current assets acquired prior to application, nor to finance the payment of any liabilities of the business enterprise.

FISCAL YEAR 1983/84

The Deputy Minister of Economic Development and Tourism is the Chairman of the Business Loans and Guarantees Board. In October 1983, Mr. B. James Britton was appointed the new chairman. The other members of the board who are all from the business community and representative of the NWT, both geographically and culturally, are:

R. Hardy	Fort Norman
E. Lennie	Inuvik
R. Leonard	Eskimo Point
W. Lyall	Cambridge Bay
D. Webb	Fort Smith

The Board held 9 meetings and conducted 2 telephone polls of the members to consider 81 loan applications. There were 46 applications approved with an aggregate value of \$2.786 million. In addition, 2 applications for loan guarantees from the Fort Smith Region in the amount of \$140 thousand were also approved.

The distribution of the loans is set out in the following tables with 1982/83 displayed for comparative purposes.

Loans Distribution by Region

<u>Regions</u>	<u>1983/84</u>		<u>1982/83</u>	
	<u>No. of Loans</u>	<u>\$000's</u>	<u>No. of Loans</u>	<u>\$000's</u>
Baffin	3	111	1	15
Fort Smith	24	1724	16	1319
Inuvik	7	681	19	1868
Keewatin	4	164	1	38
Kitikmeot	8	106	5	285
	<u>46</u>	<u>2786</u>	<u>42</u>	<u>3525</u>

Table 1

Ranges of Loans Distribution

<u>Range \$000's</u>	<u>1983/84</u>		<u>1982/83</u>	
	<u>No. of Loans</u>	<u>\$000's</u>	<u>No. of Loans</u>	<u>\$000's</u>
0 - 10	8	41	2	20
11 - 25	13	204	7	150
26 - 50	7	201	9	372
51 - 100	7	486	11	797
100 - 250	10	1554	12	1900
250+	1	300	1	286
	<u>46</u>	<u>2786</u>	<u>42</u>	<u>3525</u>

Table 2

An in-depth review of the outstanding loans was conducted this year to determine a suitable allowance for bad debts and to identify those accounts which should be written-off as uncollectable. This review identified accounts worth \$2 million in principal and interest which may not be collectable. Subsequently, \$390 thousand of this was approved by the Financial Management Board for write-off in 1983/84.

The Auditor General and the Audit Bureau of this Government conducted separate audits of the fund during the year. The latter was conducted at the request of the former Deputy Minister and was initiated prior to the Department being advised of the Auditor General's review. Both of these audits confirmed there was a requirement to improve the management and administration of the fund. To this end, several organizational changes were made and a task force was established to review the existing ordinance and regulations; and to make recommendations for changes.

The work of the task force is continuing into the new year. However, a proposed policy has been drafted and a new ordinance is also being developed. It is expected the work of this group will result in more effective management and also, greater efficiency in the administration of the fund.

In the latter part of the fiscal year, the Department recognized that the high interest rates of the past several years were having a detrimental effect on the clients of the fund. Some of the loans were carrying rates of 22½%. Such high costs for debt servicing were impairing working capital to the extent that current operations were being affected adversely.

The Financial Management Board, in February, authorized the reduction of the interest rates to 14% for all loans in excess of that rate effective April 1, 1984. This departmental initiative provided relief to 76 clients businesses throughout the NWT as set out in Table 3.

Interest Relief by Region

<u>Region</u>	<u>No. of Clients</u>
Baffin	5
Fort Smith	28
Inuvik	30
Keewatin	3
Kitikmeot	10
	<hr/>
	76
	<hr/>

Table 3

FINANCIAL STATEMENTS

The financial statements of the Business Loan Fund with accompanying notes are included herein as Appendix "A".

Readers of the previous annual reports will note a significant departure in the method of presenting financial information. The Department is of the opinion the statements presented more fully disclose the financial operations of the fund during the fiscal year.

SUMMARY

The major accomplishments this year were the in-depth review of the loan portfolio in order to establish a reasonable allowance for bad debts and the roll back of interest rates as high as 22½% to 14%.

The fiscal year 1983/84 was a year of review and change in the management and administration of the Business Loans and Guarantees Fund. The benefits of this process will not become apparent until 1984/85 and future years. However, with innovative management and more efficient administration in place, the Department will be better able to serve our clients:

"The Business Community of the Northwest Territories".

November 1, 1984

MINISTER,
ECONOMIC DEVELOPMENT AND TOURISM.

The financial statements attached as Schedules A to C are provided to you for inclusion in your annual report to the Legislative Assembly on the operations of the Business Loans and Guarantees Fund.

I believe these statements and accompanying notes accurately and adequately disclose the pertinent information concerning the financial transactions of the Fund during the 1983/84 fiscal year.

W.H. Graham
W.H. Graham,
Financial Advisor.

Attachment.

**Government of the Northwest Territories
Business Loans and Guarantees Fund**

**Statement of Assets
as at March 31, 1984**

	<u>1984</u>	<u>1983⁽¹⁾</u>
	\$000's	\$000's
Cash	1302	1240
Loans Receivable ⁽²⁾	6527	5455
Loans Guaranteed	171	305
Authorized Limit ⁽³⁾	8000	7000

- (1) 1983 is included for comparative purposes and is restated to reflect adjustments as identified in the "Statement of Operations".
- (2) Guarantees made to financial institutions in support of loans to business enterprises become payable if the borrower defaults. However, they are not liabilities in the true sense. Such guarantees when paid out are converted to loans receivable and the client become indebted to the Fund. These bear interest at the prevailing rate when the guarantee is paid out.
- (3) The Business Loans and Guarantees Ordinance as amended and which amendment was assented to March 5, 1982 establishes the maximum aggregate of principal amounts outstanding in respect of loans and guarantees per fiscal year.

1981/82	\$ 6,000,000
1982/83	7,000,000
1983/84	8,000,000
1984/85	9,000,000
1985/86	10,000,000
1986/87	11,000,000

Government of the Northwest Territories
Business Loans and Guarantees Fund

Statement of Operations ⁽¹⁾
for the Period Ended March 31, 1984

	<u>1984</u>	<u>1983</u> ⁽²⁾
	\$000's	\$000's
Loans Receivable April 1	5455	2971
Add: Loans Granted During the Year	2786	3509 ⁽³⁾
Third Party Payments	23	77 ⁽⁴⁾
Prior Period Adjustment		16
	8264	6573
Less: Loan Repayments	1430	1118
Loans Written Off	276 ⁽⁵⁾	
Prior Period Adjustment	31 ⁽⁶⁾	
	6527	5455

(1) Includes only the principal portion of operations. 1983 is included for comparative purposes.

(2) Restated as identified in notes (3) and (4).

(3) Payments made on behalf of loan clients in order to protect the security position of the Commissioner. Such payments were for legal fees, receiver fees and insurances. Prior to this fiscal year, these types of payments were paid from appropriated funds in the pertinent year and recorded in a suspense account. Payments of \$31,000, on behalf of the Eskimo Loan Fund are included here.

In theory, when clients honoured their debts, the suspense account would be cleared. In practice, many of these accounts were never cleared and these items became an illegal charge against the appropriation.

This year these payments were cleared from the suspense account and established as outstanding loans. Those debts found not to be recoverable are submitted for write-off approval in the normal manner. They also bear interest from the date of payment.

(4) Loan issued in fiscal year 1982/83; but not reflected in "Statement of Operations" for the period ended March 31, 1983.

- (5) Authorized by FMB Recommendation FB-84-3-5(a). This is the principal amounts of the debts written-off. Refer to note 1 "Effect of Business Loan and Guarantees Fund on Government of the Northwest Territories Operations" for details.
- (6) Third party payments on behalf of the Eskimo Loan Fund were established as accounts receivables and invoiced to the Government of Canada.

Government of the Northwest Territories
Business Loans and Guarantees Fund

Effect of Business Loan and Guarantees Fund
on the
Government of the Northwest Territories Operations
for the Period Ended March 31, 1984

	<u>1984</u>	<u>1983</u> ⁽¹⁾
	\$000's	\$000's
Interest Earned and Credited to the General Fund	1341 ⁽²⁾	475
Less: Principal Amount of Loans Written-off ⁽³⁾	276	
Accrued Interest Written-off	114	
Provision for Doubtful Accounts	1610	
Guarantees Paid Out ⁽⁴⁾	<u> </u>	<u>84</u>
Operating Gain (Loss) for the Year ⁽⁵⁾	<u>(659)</u>	<u>391</u>

(1) 1983 is included for comparative purposes.

(2) Includes \$430,000. of accrued interest.

(3) A submission was approved by the Financial Management Board in May 1984 for approval to write-off existing bad debts and to establish an allowance for bad debts for the fiscal year 1983/84.

	Principal \$000's	Interest \$000's	Total \$000's
Write-Offs			
Loans	266	111	377
Third Party Payments	10	3	13
	<u>276</u>	<u>114</u>	<u>390</u>
Allowance for Bad Debts			
Loans	1268	283	1551
Third Party Payments	42	17	59
	<u>1310</u>	<u>300</u>	<u>1610</u>
	<u>1586</u>	<u>414</u>	<u>2000</u>

- (4) At the time of the submission to the Financial Management Board for write-offs and bad debts, the Department also identified \$142,000. In loan guarantees which had been paid out from its appropriations without proper authorization.

<u>Year Paid</u>	<u>\$000's</u>
82/83	84
81/82	23
80/81	35
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	142
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- (5) No costs have been included for the management and administration of the fund.