

TABLED DOCUMENT NO. 70-88(1)  
TABLED ON

**FEB 22 1989**

Government Library

FEB 24 1989

Government of N.W.T.  
Yellowknife, N.W.T.

ANNUAL REPORT

of the

BUSINESS LOANS AND GUARANTEES FUND

for the

FISCAL YEAR 1986/87

PRESENTED

to the

LEGISLATIVE ASSEMBLY OF THE NORTHWEST TERRITORIES

by

HONOURABLE NICK SIBBESTON

**Minister**

**Economic Development and Tourism**



## Introduction

The Business Loans and Guarantees Fund was created in 1970 by Indian and Northern Affairs Canada to provide business financing to those unable to obtain commercial debt financing from conventional lenders at reasonable terms and conditions.

Since its transfer to the Government of the Northwest Territories in 1977, the Fund has undergone several changes in scope and funding levels. In terms of scope, the provision for loan guarantees was added in 1977. The loan and guarantee limits have increased from an aggregate \$50,000. to \$500,000. In a 1982 amendment to the Business Loans and Guarantees Act, the word "small" was deleted, thereby opening the fund to all eligible business enterprises in the N.W.T. Previously, businesses whose gross revenues exceeded \$1 million in the fiscal period in which they applied were ineligible. As well, in 1985, monies were committed from the Fund to provide contract security to businesses unable to obtain the necessary bonding requirements to bid on Northwest Territories Housing Corporation construction projects. No change in legislation was required.

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 and as security in lieu of bonding for specified construction projects.

In terms of funding, a 1986 amendment to the Act authorized increasing the Fund capitalization to \$13.5 million in 1987. The maximum funds which may be outstanding for 1986-87 are \$13,500,000. The amount will be increased to \$16,000,000. in fiscal year 1987/88.

Interest rates for the Business Loan Fund are set quarterly. The rate is determined by utilizing the chartered bank's prime rate plus 2% at the beginning of the quarterly period. Loan terms are available for a maximum of five years. Maximum amortization of a loan is twenty five years.

## Fiscal Year 1986/87

There are six Regional Business Loan Boards as well as the Territorial Business Loan Board. Members of the Territorial Loan Board, all of which are business community members, represent the geographic and cultural diversity of the Northwest Territories. A list of the Boards and their respective members is attached to Appendix A to this report.

The Business Loan Boards considered 120 applications totalling \$10,000,000. Of these, 75 loans were approved with an aggregate value of \$4.4 million. In 1986-87 26% more loans were approved compared to the previous year. As a percentage of loan applications, 63% of applications were approved in 1986-87 compared to 78% in 1985-86. The number of applications received in 1986-87 showed an increase of 58% over 1985-86. The average value of applications in 1986-87 decreased by 30% to \$59,000 from \$84,000 in 1985/86. Comparative details are set out in Table 1 of appendix B.

Tables 2 and 3 of Appendix A display the distribution of funds by region and amounts. In 1986-87 there was a 25% increase in the number of loans issues compared to 1985-86. The dollar value of issued loans remained relatively static showing a small growth of 2%. There appears to be a trend for businesses to apply for smaller loans so although the number of applications are on the increase the dollar amount of total loans issued shows a nominal change. (Average borrowings decreased from \$84,000 to \$59,000)

To assist the reader, a reconciliation of approved loans and distributed funds for fiscal 1986-87 is included as table 4 in Appendix b.

### **Financial Statements**

A statement of operations for the 1986-87 fiscal year are attached in Appendix C.

### **Outlook for 1987-88**

The new EDA Agreement will put increased pressures on the Business Loans and Guarantees Fund and we anticipate an increased growth in the use of the funds.

New administrative procedures are being developed. The audit reports have shown a gradual improvement which is a direct result of improved controls in operation procedures.

Board members have gained experience and are able to apply their expertise more effectively when making decisions. The Territorial Loan Board has been scheduling meetings in the regions and have been able to gain an insight into the development of the Business Communities. They have also been able to see first hand the Businesses that have received financing through the Business Loan Fund.

The Conventional Commercial institutes are still reluctant to finance the higher risk applicants. There is still a strong requirement for a lender of last report which is primary purpose of the Business Loans Fund. The trend of our department has been to give out fewer contributions and encourage more repayable loans.

The mandate of the Department of Economic Development and Tourism is to promote, develop and establish a healthy, expanding and diversified economy in the Northwest Territories. A primary objective of the department is to cultivate an economy compatible with northern lifestyles and aspirations while maximizing the use of the human, natural and cultural resources.

We are committed to serving:

"The Business Community of the Northwest Territories"

Territorial Loan Board Members 1986-1987

Members:	A. Chang	Yellowknife
	G. Hinchey	Yellowknife
	J. Villeneuve	Fort Smith
	D. Webb	Fort Smith
	R. Hardy	Fort Norman
	R. Leonard	Eskimo Point
	A. Tautu	Chesterfield Inlet
	R. Newmark	Tuktoyaktuk
	J. Manning	Cape Dorset
	J. Maksagak	Cambridge Bay
	S. Peter	Iqaluit
Chairman:	G. Braden	Deputy Minister, Department of Economic Development and Tourism.

Regional Loans Boards Members 1986/87

North Slave

Members: A. Chang Yellowknife  
G. Hinchey Yellowknife  
J. B. Zoe Rae-Edzo

Chairman: R. Trudeau Chief,  
Business Development,  
Department of Economic  
Development and Tourism

Fort Smith

Members: C.B. Davidge Hay River  
D. Webb Fort Smith  
J. Villeneuve Fort Smith

Chairman: R. Snyder Regional Superintendent,  
Department of Economic  
Development and Tourism

Inuvik

Members: Rita Pascial Inuvik  
R. Newmark Tuktoyaktuk  
A.R. Hardy Fort Norman

Chairman: F. Koe Regional Superintendent,  
Department of Economic  
Development and Tourism

Baffin

Members: M. Kilabuk Pangnirtung  
S. Peter Iqaluit  
N. Arnarsiaq Iqaluit

Chairman: K. Trumper Regional Superintendent,  
Department of Economic  
Development and Tourism

Keewatin

Members: L. Bruce Coral Harbour  
R.K. Leonard Eskimo Point  
A. Tautu Chesterfield Inlet

Chairman: L. Griffore Regional Superintendent,  
Department of Economic  
Development and Tourism

Kikitmeot

Members: J. Maksagak  
F. Ipakohak  
H.W. Geary

Cambridge Bay  
Coppermine  
Cambridge Bay

Chairman: C. Evalik

Regional Superintendent,  
Department of Economic  
Development and Tourism

Table 1

Loans Submitted and Approved by Region

	<u>Submitted</u>				<u>Approved</u>			
	1986-87		1985-86		1986-87		1985-86	
	No. of	Loans \$000's	No. of	Loans \$000's	No. of	Loans \$000's	No. of	Loans \$000's
Baffin	5	825	13	1,853	4	391	11	1,679
Fort Smith	33	3,111	22	1,921	23	1,230	14	1,508
Inuvik	43	4,534	19	1,272	26	1,826	14	647
Keewatin	33	1,333	9	411	18	685	9	411
Kitikmeot	6	262	7	431	4	291	7	427
	<u>120</u>	<u>10,065</u>	<u>70</u>	<u>5,888</u>	<u>75</u>	<u>4,423</u>	<u>55</u>	<u>4,672</u>
<u>Fort Smith Region</u>								
a) North Slave	10	1,263	8	872	5	403	6	760
b) Fort Smith	<u>23</u>	<u>1,848</u>	<u>14</u>	<u>1,049</u>	<u>18</u>	<u>827</u>	<u>8</u>	<u>748</u>
	<u>33</u>	<u>3,111</u>	<u>22</u>	<u>1,921</u>	<u>23</u>	<u>1,230</u>	<u>14</u>	<u>1,508</u>

Table 2

Loan Funds Distributed by Region

	1986/87		1985/86	
	No. of Issues	\$000's	No. of Issues	\$000's
Baffin	2	300	10	1,676
Fort Smith	18	1,057	14	1,208
Inuvik	23	1,314	8	340
Keewatin	13	419	6	298
Kitikmeot	4	516	7	155
	<u>60</u>	<u>3,606</u>	<u>45</u>	<u>3,677</u>



Fort Smith  
Region

North Slave	4	242	6	536
Fort Smith	<u>14</u>	<u>815</u>	<u>8</u>	<u>672</u>
	<u>18</u>	<u>1,057</u>	<u>14</u>	<u>1,208</u>
	—	—	—	—

Table 3

Range of Funds Distributed

Range \$000's	1986/87		1985/86	
	No. of Issues	\$000's	No. of Issues	\$000's
0 - 10	16	102	8	43
11 - 25	12	240	7	122
26 - 50	14	567	15	607
51 - 100	5	372	6	492
101 - 250	10	1,484	5	717
250+	<u>3</u>	<u>841</u>	<u>4</u>	<u>1,696</u>
	<u>60</u>	<u>3,606</u>	<u>45</u>	<u>3,677</u>
	—	—	—	—

Table 4

Reconciliation of Approvals and Distribution of Funds

	1986/87		1985/86	
	No. of Issues	\$000's	No. of Issues	\$000's
Loans approved during year	75	4,423	55	4,672
Loans approved, not fully issued	<u>(22)</u>	<u>(1,096)</u>	<u>(19)</u>	<u>(1,438)</u>
Net Loans approved and fully distributed in period 1	53	3,327	36	3,234
Loans partially distributed	2	221	2	100
Loans approved in prior period, distributed in subsequent period	2	50	4	289
Third party payments	<u>3</u>	<u>8</u>	<u>3</u>	<u>54</u>
	<u>60</u>	<u>3,606</u>	<u>45</u>	<u>3,677</u>
	—	—	—	—

1. Includes 3 Contract Security loans distributed totalling \$89,900. While not a cash outlay from the Fund, an Irrevocable Letter of Loan assignment is issued to the Northwest Territories Housing Corporation on behalf of the contractor. Public Works and Highways projects are also eligible for this program. The funds are committed until the security is released.

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

Statement of Assets  
March 31, 1987

---

	<u>1987</u>	<u>1986</u>
	\$000's	\$000's
Free Balance	3,701	1,823
Loan Receivable	9,222	7,843
Loans Guaranteed	217	75
Loans Security	<u>360</u>	<u>259</u>
Authorized Limited	<u>13,500</u>	<u>10,000</u>

1. Guarantees made to financial institutions 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 clients become indebted to the fund. These bear interest at the prevailing rate when the guarantee is paid. The amount stated is the current amount guaranteed.

2. On April 1, 1985, a Contract Security Pilot Project was introduced for a two year period. The program provides contract security to contractors bidding on Northwest Territories building contracts who are unable to obtain construction contracts because they cannot meet bonding or security requirements. Contract Securities become payable to the Owner if there is a breach of contract by the Contractor. Such contract securities, if paid, are subject to recovery from the Contractor by the initiation of legal action based on securities held for the contract.

3. The Business Loans and Guarantees Act establishes the maximum of principal amounts outstanding in respect of loans, guarantees and contract securities per fiscal year.

1985/86	10,000,000.
1986/87	13,500,000.
1987/88	16,000,000.

GOVERNMENT OF THE NORTHWEST TERRITORIES

Business Loans and Guarantees Fund  
for the year ended March 31, 1987

STATEMENT OF OPERATIONS

	<u>1987</u>	<u>1986</u>
	(thousands of dollars)	
Loans receivable, beginning of year	\$ 7,843	\$ 6,136
Add: Loans and disbursements during the year	<u>3,631</u>	<u>3,417</u>
	11,474	9,553
Less: Principal amount of loans repaid	1,808	1,710
Loans written off	<u>444</u>	<u>-</u>
Loans receivable, end of year	<u>\$ 9,226</u>	<u>7,843</u>

Effect of Business Loans and Guarantees  
Fund on Government Operations

Interest earned and credited to general revenues	\$ 1,165	\$
Less: Provision for doubtful accounts expensed during the year - principal portion	419	32
- interest portion	<u>68</u>	<u>366</u>
Contribution for the year	<u>\$ 678</u>	<u>\$ 215</u>

(1) Loans receivable are net of an allowance for doubtful accounts of \$1,907,000 (1986 - \$1,932,000).

(2) During the year the allowance for doubtful accounts was increased by \$419,000 for the principal portion and \$68,000 for the interest portion (1986 - \$321,000 and \$366,000 respectively). The allowance is an estimated accrued expense charged against the Consolidated Revenue Fund, during the fiscal year in which accounts are identified as doubtful.

GOVERNMENT OF THE NORTHWEST TERRITORIES

Business Loans and Guarantees Fund  
for the year ended March 31, 1987

- (3) Loans amounting to \$444,000 (1986 - nil) were written off during the year.
- (4) The Fund has guaranteed an additional \$556,000 (1986 - \$334,000) to financial institutions.
- (5) No costs for administration of the Business Loans and Guarantees Fund are included.

Approved:

  
Deputy Minister,  
Economic Development & Tourism.

  
Director,  
Finance & Administration.