TABLED DOCUMENT NO. 52 - 12 (4) TABLED ON DEC 7 1993

1993 Audit

Office of the
Auditor General
of Canada

Department of Economic Development and Tourism, NWT Development Corporation, and NWT Business Credit Corporation

1992–93 and 1993–94. The contracts cover market research, advertising, putting on exhibitions in galleries, purchasing software to record retail sales, and purchasing a retailer's own sales information.

Most of these contracts include information that the contractors are to provide the Division. The contracts often contain specific requirements, yet the Division has not set up any procedures to ensure that the requirements are met. For example, we asked to see certain information that contractors should have supplied under the contracts. The Division was unable to produce much of it. Some of the missing information concerned us. For example, a 1992–93 $127,000 contract set a retail sales target of $500,000 in one country between April and December 1992. The Division's staff informed us that actual sales were only about $150,000. Even though the Department did not achieve this key objective, the Division entered into a further $107,000 contract for 1993–94. The new agreement does not specify any sales targets.

Last year the Department contracted to buy a European database for $50,000. Although the Department received a printed report in January 1993 it only received the software required by the agreement recently.

Consultant accountability is weak and the Division lacks appropriate information on sales and any other benefits obtained for the NWT.

The Department projected international sales as follows:

1991–92	$ 1,909,991
1992–93	2,777,450
1993–94	4,715,601
1994–95	6,564,365

As noted previously, only about one–third of retail sale revenues return to NWT producers. We did not see any analysis comparing the significant marketing costs with the returns to NWT industry. Without such analysis, the Department does not know if the costs are greater than the payback.

According to the Department's **Arts Strategy Working Paper**, NWT art is not yet positioned as a credible art form. Thus we question if these projections are not too optimistic. Management could not objectively support how they had arrived at these projections. The Department needs to track its international marketing costs, as well as the benefits it derives from international sales, and see if the NWT economy is gaining or losing as a result of these activities.

The Department should:

1. *identify key terms and include them in contracts;*
2. *enforce compliance with these key terms;*
3. *review the results of consulting contracts; and*
4. *prepare a cost/benefit analysis of the industry support.*

Management Response:

The Department will undertake this recommendation.

5.8 Telephone Enquiries

This division pays for two 1–800 numbers to cover Canada and the USA, to deal with arts and crafts enquiries. The $50,000 contract for the 1–800 arts and crafts numbers are separate from the $200,000 toll free number currently used by the Tourism and Parks Division, and are operated by a separate company. We could find no documented reason for a separate 1–800 number for arts and crafts, or any evidence that the Division had discussed sharing the existing service with Tourism and Parks. It might make more sense for both the Arts and Crafts Division and the Tourism and Parks Division to share a 1–800 number and make both tourism and arts and crafts promotional material available from one number.

The arts and crafts contract requires specific hours of operation of the 1–800 number, but sets no standards of service to callers. For example we expected the Department to have set out, in the contract, its expected standards of service on a basis similar to those it would develop if the service was operated by the Department itself.

Contracting out some services may be an attractive option for the Department and this can help to create jobs in the private sector. But the contractor should be provided with specific details of the Department's

5.4 Economic Benefits from Government Spending on Arts and Crafts

The arts and crafts cottage industry has long been important to the NWT, both as an expression of its various cultures and also as a means of earning money for its artisans. Yet with changing markets, the industry and Government have a new challenge to maintain the level of sales and hopefully expand into new markets.

The challenge for the Department to help the industry is made more difficult due to a lack of complete information. As we point out in this report, staff use their best estimates but they have little hard information on industry sales, foreign and domestic markets, etc. The consultant's statistics state that arts and crafts contributed $22.5 million to the NWT economy in 1990. As we note above, the various support programs have spent or will spend at least $16 million to support the industry.

We believe it is important for the Government to know how this public spending has helped or will help the industry and at the same time provide the public with appropriate information that the money was well spent. The Department does not have any formal effectiveness measures for the Government's arts and crafts expenditures. But we compared the expenditures to the anticipated increase in economic value of the industry to the NWT economy.

The Division estimates that by 1994–95, retail sales of NWT arts and crafts will grow to $38 million annually. Given that many sales are outside the Territories, the approximate value of this to the NWT is $17 million a year, about $4 million more than previously. We have not identified all Government support of the industry, and the Government will undoubtedly spend more by 1994–95.

The Department should:

1. *analyze the amounts of all Government support to the arts and crafts industry, including from DevCorp and BCC;*
2. *continue to develop an appropriate data base of information on the industry from which it can develop marketing strategies; and*
3. *evaluate its own and other expenditures periodically to see if they are achieving the appropriate results.*

Management Response:

The Department will undertake this recommendation.

5.5 Ways the Government Supports Arts and Crafts

Recently, the Government has introduced several new support initiatives for the industry. Yet the timing of these initiatives is open to question. The Division's knowledge of industry sales is limited, and as noted previously, a consulting study will attempt to increase this knowledge. Also, the Division has little knowledge of competition for NWT arts and crafts.

The Government has started several expensive initiatives without answering a number of basic questions about the nature and extent of competition for NWT arts and crafts products. We discuss some of these in the paragraphs that follow.

5.6 Arts and Crafts Diversification

DevCorp has set up a system to coordinate production and distribution of individually produced low cost soapstone carvings in several communities in response to market demand.

DevCorp management advises us that it has, jointly with ED&T, considered supporting the manufacturing of low cost, high volume souvenir type carvings. We encountered debate about the effects of such an initiative. Some believe that production of multiple small pieces will destroy the fine arts market, others see it as opening up new markets to different buyers. We are not aware of any market studies done to support either claim. Division staff have told us that they believe the NWT has a shortage of top artists and this activity may allow more carvers to develop their skills.

5.7 International Marketing

The Division has concluded that the Canadian fine arts market is saturated, and has started efforts to develop foreign markets. At the same time, DevCorp feels that it can increase sales of inexpensive carvings in Canada.

Consequently, the Division is targeting markets in the United States, Europe and the Pacific Rim. As part of this effort, the Division awarded several consulting contracts for more than $560,000 in

TABLE OF CONTENTS

chapter 6

TOURISM AND PARKS

chapter 5

SUPPORT OF THE ARTS AND CRAFTS INDUSTRY

5.1 Introduction

The Department has a separate Arts and Crafts Division which provides general support to NWT arts and crafts producers, who also obtain financial support from the other financial assistance programs.

This Division is set up to market NWT arts and crafts products through a combination of strategic market planning, program development and industry support. It has six staff in head office and five regional officers. The 1992–93 budget was $1.8 million, including significant funds spent on contracts.

The Division produces various promotional materials including catalogues, pamphlets, brochures, and media advertising.

5.2 Estimated Value of the NWT Arts and Crafts Industry

The NWT has a large number of producers, distributors and retailers involved in the arts and crafts industry. The large numbers makes it difficult to place a value on the industry. The Division recognizes that it needs to obtain better information on the industry's size and structure. So, it has issued a $40,000 consulting contract to contact parties in the industry and develop a database for this purpose.

Staff in the Division estimate that 1991–92 retail sales of NWT arts and crafts were about $28.4 million. However, the bulk of sales dollars stay with retailers and distributors, many of whom are outside of the NWT. The staff estimates that only about one–third of these sales dollars go to producers.

Estimate of the 1991–92 NWT Arts & Crafts Market

Location of Sales	*Retail Sales ($ millions)*	*Percent*
Within NWT	$ 4.4	15
Rest of Canada	21.8	77
International	2.2	8
Total	$ 28.4	100
Producers' share of revenue	$ 9.5	33

In 1990, a consultant's study estimated that arts and crafts contributes $22.5 million a year to the economy of the NWT.

5.3 Cost of Government Support of Arts and Crafts

The total cost of the Government's recent and committed support of arts and crafts is at least $16 million. Readers should note that these individual expenditures sometimes cover more than one year.

Source	*Amount (millions)*
DevCorp, investments to date	$ 4.3
DevCorp, future committed investments	4.6
DevCorp, approved subsidies, arts and crafts	3.2
Arts and Crafts Division, 1992–93 only	1.8
EDA, 1991–92 and 1992–93	1.4
Expo lost $4 million in support of tourism, food and arts and crafts, say 1/3 of loss relates to support of arts and crafts	1.3
BCC loans	Unknown
BDF contributions	Unknown
Total	*At least $ 16.6*

chapter 6

TOURISM AND PARKS

6.1 Introduction

The Northwest Territories has a large and diverse land mass with many features that visitors find attractive. While the remoteness, low population density and extensive wildlife are all selling features, the lack of development is also an impediment to large–scale tourism and the resulting economic benefits. Thus, while the lack of roads, railways and other means of year round access restricts the ultimate tourism potential, these same factors are appealing to some visitors. Because of the high cost of visiting the NWT and the limited transportation access, most visitors do not have the same characteristics as typical tourists. Instead these conditions attract outdoors oriented people, those seeking a different experience, and wildlife enthusiasts.

These realities create a formidable challenge to the people of the NWT and their Government. The tourist industry has to attract visitors, whatever their interests, and provide appropriate experiences for them, including transportation, accommodation, activities, social experiences, etc. Tourism in the north has to cater to both Territorial people travelling internally, and visitors from other places. Thus the challenge is two–fold, to market the Territories and its variety of attractions, and then to provide the infrastructure to meet the traveller's legitimate expectations.

Compared to mass tourism destinations, the NWT is a small player. Yet with increasing awareness of the world's shrinking wilderness, pressures on wildlife, and other unique natural attractions, the NWT has an opportunity to appeal to a growing sector of the tourist public. Realistically, the NWT is unlikely to become a mass tourism destination. Therefore it is important to identify its unique tourism niche, and to maximize the potential for economic benefits from interested visitors.

6.2 Mandate

The Government's Establishment Policy makes the Minister responsible for developing a healthy tourism industry.

With nature and wildlife being two important attractions, territorial parks, wildlife sanctuaries and infrastructure such as visitors' centres are important to tourism marketing.

One way the Department attempts to develop a healthy tourist industry is by marketing the NWT as a tourist site to visitors from outside the Territories. Departmental managers feel that a satisfied tourist is the best way to advertise the NWT. In this sense, we see building tourism projects as part of the Department's long–term tourism marketing strategy.

Organizationally, the Division has separate marketing and capital sections. We did not find strong co–operation between the two groups. Yet the need to work together is obvious.

6.3 Planned Transfer of Parks to the Department of Renewable Resources

The Executive Council has directed that the Department transfer responsibility for Parks Operations, Planning and Program Development and related Visitors' Services to the Department of Renewable Resources. At the completion of our field work, the transfer had not yet taken place. Our audit included Parks which was a part of ED&T when we started.

6.4 Target Groups for Parks

Certain NWT parks provide mainly recreational opportunities to NWT residents. One example is Reid Lake campground outside Yellowknife. Other parks primarily attract and service visitors from outside the NWT.

6.5 Lack of Strategic Plan

A strategic plan should set out what is to be done to attract visitors including the types of investment, both in capital assets and operating expenditures. The Department produces a five year capital plan but could not provide us with any kind of future oriented strategic plan. Thus we have concerns that spending in the tourism program, both on capital assets and other costs may not produce optimum results. In particular, the Department has no long–term plan setting tourism goals, and how individual projects, including parks and visitor centres will help to meet these goals. The cost of the Tourism and Parks programs has grown to an estimated $11.6 million in 1993–94.

In general, we found a lack of any strategic direction or plan with specific goals and objectives and time related targets for the Department's tourism efforts.

We also did not find a comprehensive management information system to track tourism statistics to allow ED&T to gauge the results of its efforts. We noted during our audit that the Department was developing a tourism marketing strategy. However, this work does not specifically address other key issues such as construction of visitor infrastructure.

The Department should develop a strategic plan for the tourism sector containing explicit goals and objectives along with a management information system to help it know to what extent the goals and objectives are being met.

Management Response:

The Department will undertake this recommendation.

6.6 Costs

A certain level of infrastructure must be provided for visitors. Over a six year period the Department has spent or plans to spend some $21 million on mainly tourism related capital projects ostensibly targeted at visitors from outside the Territories, using the implicit assumption that more facilities will bring more tourists or extend their stay. The Department is unable to demonstrate that these expenditures have paid off. In addition, the tourism program has spent or plans to spend about $44 million on other tourism related expenses. Similarly, the Department does not know if it has received payback from these.

The actual costs are higher since the Department's business assistance programs also provide financial

Expenditures of "Tourism and Parks" Activity (000's)

Year	O&M Costs	Capital Costs	Total Costs
1988–89	$ 7,003	$ 1,827	$ 8,830
1989–90	7,016	1,607	8,623
1990–91	7,566	5,561	13,127
1991–92	7,633	4,947	12,580
1992–93	7,164	3,749	10,913
1993–94 *(est.)*	7,608	4,000	11,608
Total	*$ 43,990*	*$ 21,691*	*$ 65,681*

help to tourism operators, associations and events. For example, in 1992–93 the Department approved more than $1 million in assistance to the tourism industry, in addition to this Division's expenditures. DevCorp has invested over $900,000 in lodges. Other departments also have tourism related costs but no one measures them in total. The tracking systems used by the financial assistance programs do not produce a total cost of Government tourism efforts.

6.7 Capital Projects

We reviewed eight recent Tourism and Parks capital projects. Seven of them had extensive project justifications, but no linkage to long–term strategy. The project without formal justification had a total cost of only $15,000. Two of the eight appeared to benefit primarily NWT residents, and six appeared to focus primarily on visitors.

Only one project used a cost–benefit analysis to support the capital spending decision.

Many justifications include what appear to be optimistic projections of visitors and economic benefits per tourist. Thus they may overstate the economic payback. But without accurate data it is difficult to predict benefits with certainty. In the case described on page 49, the projected economic benefits from improvements to a park located outside Yellowknife are unduly optimistic.

6.8 Ranking for Capital Projects

Tourism and Park's provides facilities for both NWT residents and tourists. Thus there is a need to balance the expenditures between services to residents and tourism.

We could find no rationale used by the Department to allocate scarce resources, to projects in competing

TABLE OF CONTENTS

chapter 5

SUPPORT OF THE ARTS AND CRAFTS INDUSTRY

The Department should consider developing Conflict of Interest Guidelines for its employees.

Management Response:

The Department will undertake this recommendation in conjunction with the Department of Personnel.

communities. With resources being tight, there is an even greater need for ranking the demands for projects. The Department also needs to provide sufficient information to allow managers and the Legislative Assembly to make the most appropriate choices. For example, the 1993–94 capital estimates show plans to spend $100,000 on improvements to Prelude Lake Park, but there is no comment on whether other communities have competing or greater needs. Without a comprehensive list appropriately analyzed, and a timed implementation plan, those making decisions may not make the most informed choices.

The Department should:

1. *develop a practical, realistic cost–benefit analysis model to be used for all capital projects;*
2. *ensure that all capital spending is supported by cost–benefit analysis; and*
3. *develop rankings for proposed projects to help it best allocate scarce resources.*

Management Response:

As part of its decision making process under the new organization, the Department has undertaken this recommendation.

6.9 Tourism Market Development

The NWT is a relatively new player in the tourism business designed to appeal to a broad market. Most NWT tourism expenditures involve offering a range of tourist products to a particular clientele. In this way, all tourism and parks expenditures not specifically for local residents can be looked at as

The 1993–94 capital estimates show the cost of improvements to Reid Lake Park as Campsite Upgrading, Yellowknife, $55,000.

We reviewed the Department's "Capital Plan Project Substantiation" for improvements planned over a five year period. The documents show a cost of $55,000 in 1993/94, and describe the work as trailer storage area, day use parking, and kitchen shelter.

The documents claim the following benefits:

The number of sites for the time the park is open provided a maximum of 3,472 campsite nights. Of this, the Department claimed that parties of visitors used 1,687 and calculates that 210 of these were from outside the Territories. The Department claims that each party spent roughly $69 per night, producing about $14,400 that could be attributed to Reid Lake camping by outside visitors.

The Department then added a further $200,350, for spending by residents using the park, including those who did not stay overnight, making a total of over $214,000. The Department justified the project because the estimated economic benefit from camping at Reid Lake over three years is $644,250, slightly more than the estimated $635,000 total projected cost of the Reid Lake project.

The Estimates for 1993–94 show the capital costs of $55,000 for upgrading the campsite, as a single year project. The five year total cost is $635,000. Because each year's expenditures are for the different upgrading projects for the same park, each appears to be distinct and could be cancelled. The analysis provided in the Estimates may give the Legislative Assembly a false impression about the spending it is approving in terms of the total cost of upgrading the park.

There are several flaws in the analysis of benefits:

1. It counts economic benefits from all visitors as justification for the improvements. But it should count only new benefits to be gained from this project, not those that will occur anyway. This means benefits from new visitors who would not have come without the projects being done. Therefore, the claim overstates economic benefits.
2. The analysis ignores any additional annual maintenance and other park operating costs required by the improvements. Thus the total cost of $635,000 may be understated.
3. The Department estimated benefits from local campers at $50 per person day visit, but had not based the claim on any kind of research. It assumed that an average Yellowknife family of four who goes to this park for one night's camping generates $200 in economic benefits. It is possible that if this park and the improvements to it did not exist, local Yellowknife residents would find another way to spend the $50 per person day.
4. It is not clear why the cost/benefit analysis assumed that each local resident spends $50 per day but a party of visitors from outside the territories spend only $69 per day.

targeted to the broader market. One example would be $1 million spent on constructing the visitors' centre in Dawson City, Yukon.

The Department does not segregate or track the costs of services to residents versus tourist visitors.

Deciding how much to spend on marketing NWT tourism is more complex than deciding how much to spend on parks for residents. The Establishment Policy requires the Department to develop a healthy tourism industry. Obviously this has to be done with the resources made available by the Legislative Assembly.

The Department does not know if it is getting the best return from its marketing activities. To be able to do this, it will need to know the total input costs plus what it achieves. Presently, the Department does not know the total input costs because it does not analyze financial assistance payments to tourism operators and associations. To assess this would require knowledge of how much the Government spends on tourism marketing through the Department plus other departments and agencies, and what it gets in return. This means measuring how many tourists visit the Territories and how much they spend in which areas and sectors. Presently, the Department has only a limited amount of such information.

In 1989, it did a major visitor study, covering the peak season from May to August. This study concluded that the NWT had about 56,000 visitors during that period, who spent about $1,000 each. The Department extrapolated the information to a full year basis and concluded that some 88,000 visitors annually spent about $88 million in the NWT.

We believe that the Department's use of the study is flawed for several reasons.

First, the Department defined all travellers from outside the NWT as visitors, including about 32,800 business travellers. Tourism marketing efforts are unlikely to influence business travel decisions given the type of advertising media used currently.

Second, some 10,610 of the 55,200 non–business travellers indicated that they were visiting friends or relatives. With family and friends visitation, tourism marketing efforts may not significantly influence travel decisions.

Also, the Department has done no comprehensive visitor study since 1989. Other indicators such as airline passenger counts and fishing licenses issued suggest that visitation has declined since 1989. We reviewed the 1991 version of **Touriscope–Domestic Travel: Canadians Travelling in Canada**, from Statistics Canada. The report revealed that travel between provinces peaked in 1988, travel to visit relatives and friends dropped by 5 percent between 1988 and 1990, and air travel continues to decline significantly.

In March 1993, the Department published **Quick Facts About the NWT Tourism Industry**, showing annual visitation between 1989 and 1992 at a constant 64,000 despite these other indicators of declining numbers. The Department's apparent misuse of information from the 1989 study and other sources may give a false impression of the health of the tourism sector. The 1989 study raises the possibility that few visitors to the NWT are potential targets for tourism marketing activities. Tourism marketing attempts to draw new or repeat visitors who would not otherwise visit the NWT.

In 1992, a consultant advised that the Department really does not know the marketing effect of its capital construction efforts. The consultant concluded that until the Department made the statistical research base on facility use more comprehensive and consistent, it would be premature to offer estimates of operation and maintenance costs or spin–off benefits. He also concluded that the Department has no historical visitor and capital expenditure information base, and lacks a model, or formula, simulating regional and territorial economic and tourism environmental conditions. The consultant advised that any attempt to forecast tourism benefits resulting from capital expenditures on parks and visitor services would be premature and would not yield reliable results.

It is not clear whether the number of tourists attracted by the marketing efforts result in enough incremental tourist dollars to cover even the marketing costs.

Without adequate information, the NWT Government may not be aware that the economy might be losing money with its marketing activities. The Department needs to develop ways to answer such vital questions.

Management informed us that expectations coming from Expo '86 influenced the large capital expenditure growth, although the forecasts of

same opportunity for employment as the more dominant groups. In the NWT, significant numbers of civil servants are southerners, fewer of them are aboriginal northerners. The plan attempts to provide greater equity of employment for aboriginal northerners, non–aboriginal northerners (those born in the north or having lived more than half their lives there) and other under–represented groups. As we point out in relation to EDOs, there may be opportunities to attract and train more aboriginal northerners for EDO positions. The AABED program could be an ideal tool for doing this.

There have been nineteen participants in the AABED program and its predecessors, with a flow through as follows:

Offered an AABED position, but declined	3
Entered AABED program, but did not complete the program	7
Completed education, but declined job offer from Department	1
Still in the program on education leave or training	4
Now serving as an EDO	1
Departmental employee currently in program	3
Total	*19*

A significant number of the candidates, seven out of 19, did not satisfactorily complete the academic requirements or failed probation. The Department cannot state the costs of training unsuccessful candidates because it does not know the earlier costs.

The Department informs us that it has started to revise its Affirmative Action Plan.

4.7 Conflict of Interest

With a small business community in the north, Government has to be alert constantly to possible conflicts of interest of individuals serving on boards, or as members of the Legislative Assembly, who need financial assistance for their business interests. Several of the cases we reviewed show ownership by people who may be in a position to influence approval of loans or contributions. While we have not seen any cases where this influence has been used, the mere association of public figures with government funding organizations may send the wrong message to the public. The problem becomes even more difficult for elected members because, while they are subject to the Legislative Assembly's Conflict of Interest rules, both they and their families may be involved in business interests.

Potential conflicts of interest exist in the operation of ED&T, BCC and DevCorp. Employees may become aware of information or business opportunities which can benefit them personally. Members of the Boards of BCC and DevCorp are business people who may become aware of information or have other dealings with ED&T, BCC or DevCorp. Appropriate conflict of interest guidelines are necessary.

We reviewed the various acts, policies and guidelines applicable to the boards, senior management, and staff of ED&T, BCC and DevCorp.

DevCorp has a good conflict of interest framework in place for all levels.

The Conflict of Interest Act applies to BCC's Board and manager. BCC management is developing a further guideline for the board. All ED&T and BCC employees are public servants, and like all public servants, are bound by a set of rules in the Public Service Act, Regulations and the collective agreement. Provisions include an oath of secrecy and prohibition of outside business or employment that conflicts with current duties.

ED&T employees have access to information that might benefit them personally.

> For example the Department gave a contribution to a business. One of the ED&T employees who recommended approval of the contribution subsequently went to work for the recipient.
>
> During this period, the employee signed a contract with ED&T as a representative of the company that previously received $100,000. Later, the employee returned to work for ED&T. There are no guidelines to cover this type of situation and consequently the individual was not acting in breach of the rules.

Given such possibilities, there may be a need for internal ED&T conflict of interest policies.

assistance in completing documentation may be a reasonable role for EDOs. But there may be a cut–off point beyond which advice becomes business specific and applicants act on that advice in making investment decisions. There may be a risk to the Department if EDOs give this specific type of advice, which may be shown later to be faulty.

Taking all these things together, the ideal EDO should:

- Have business training or experience and be able to pass this training on to residents.
- Be an advocate for residents and be trusted by them.
- Be able to communicate with residents, preferably in their own language.
- Be aware of the need to protect the taxpayers' interests.

This is a tall order. The most likely candidates with these characteristics are northerners. But they need training. The Department's Affirmative Action Business and Economic Development Education and Employment Program (AABED) can provide this.

Given the Department's mandate and its desire to develop northerners' entrepreneurial skills and aspirations, the role of the EDO is particularly important. EDOs have first hand contact with the target group and, if properly trained and motivated, can help clients significantly in developing business skills.

The Department should:

1. *profile an ideal EDO candidate, take steps to recruit individuals who meet it, and provide them with appropriate training; and*
2. *define clearly the role of an EDO and how they should interact with the region and headquarters.*

The Government should resolve the future of EDO community transfers.

Management Response:

The Department will work towards defining the role of the EDO once the community transfer initiative stabilizes. The Department, by way of qualifications and job descriptions, has in effect already profiled the ideal EDO. The Department is however, in the process of re–writing job descriptions to reflect the unique regional economic requirements and circumstances.

4.5 Affirmative Action Policy

The Government's Affirmative Action policy applies to all departments. The policy does not establish quotas. It requires departments to plan and implement affirmative action procedures.

The Department's affirmative action achievements in comparison with Government as a whole is as follows:

Category	*ED&T Dec. 92*	*GNWT Dec. 92*
Indigenous Aboriginal	26.9 %	35.9 %
Women in Management	5.3	22.4
Women in Non–Traditional Jobs	22.2	14.6
Disabled	0	0.4
Indigenous Non–Aboriginal	4.1	5.3

4.6 Affirmative Action Business and Economic Development Education and Employment Program (AABED)

The Department has an Affirmative Action Plan covering the period from 1990 to 1994. The Plan targets positions for possible action and identifies two approaches, recruiting and training.

The Department uses AABED, which succeeded an earlier program, for training both potential EDOs and other affirmative action candidates. Under AABED, the Department selects candidates for academic training, and helps to pay for that education. After graduation, the candidates work on the job, under supervision, to see if they fit and perform well in the Department. AABED candidates can be either departmental employees or outside recruits. The Department staff estimated that AABED cost $165,000 in 1992–93 and $101,000 in the previous year.

One of the biggest debates on affirmative action is to whom it should apply. Governments have tried to redress inequities where certain groups of people may have been disadvantaged by not having the

tourism growth turned out to be too optimistic. In 1989, departmental managers forecast about 100,000 annual visits, but subsequent data, albeit inadequate, reveal significantly fewer visits than that forecast.

The Department should:

1. *assemble data for all input costs;*
2. *endeavour to develop more precise and regular results information; and*
3. *examine the cost–benefit relationship of the tourism programs.*

Management Response:

As part of its decision making process under the new organization, the Department has undertaken this recommendation.

6.10 Maximizing the Effectiveness of ED&T's Marketing Efforts

The 1989 visitor study noted that approximately 95 percent of those surveyed were satisfied with their trip and would likely return. The survey asked participants for their suggestions for improvements which were:

% Response	
33.6	Improve roads/pave/dust control
11.7	Reduce prices
9.8	Improve transportation facilities/service
7.2	Need full service campground/more campgrounds
6.8	Clean up litter/toilets
6.6	Improve hotels/services/facilities
5.7	Improve communications/Information
4.4	Need bug control

Clearly some of these suggestions, such as prices and bug control cannot be addressed. Perhaps the roads and transportation facilities and services can be addressed by the Government's Transportation Strategy. Other issues such as the comments on litter, campgrounds, toilets and communications can be addressed by Tourism and Parks. Over the past six years the Department has spent $21 million on tourism capital facilities. The bulk of capital spending occurred in 1991 and later, well after the survey identified areas for improvement.

About $10 million of the total capital spending was on visitors' centres. The survey indicated that these were of less concern to tourists than litter and toilets. With new capital facilities coming on stream, the available O&M funding has stayed constant. Thus each facility gets fewer resources to operate it. Making already stretched funds extend to improve services such as better litter control may be impossible.

The 1989 survey contains a wealth of information that could have been useful to the Department in its tourism marketing efforts. Yet, as we noted above, since 1989 other travel indicators suggest that tourism has decreased. As people's expectations change, the Department also needs to find out if traveller profiles, satisfaction levels, etc., have changed over the last four years.

The Department did the 1989 study at a cost of $116,500. Another similar study would be very useful. The Department plans a new comprehensive study for 1994 at an estimated cost of $250,000.

The Department should:

1. *develop a policy setting out when to conduct periodic, comprehensive visitor surveys;*
2. *in the interim develop a model using proxy measures from other sources; and*
3. *use the results for future planning and operations, plus reporting.*

Management Response:

As part of its decision making process under the new organization, the Department has undertaken this recommendation.

6.11 Media Advertising and Results

Most NWT tourist advertisements are in magazines. Magazine advertisements cost about $750,000 each year. These advertisements identify a toll–free number for readers to call for more information. The toll–free service costs about $200,000 annually. Mailings in response to calls were 3,128 in July 1992, but only 79 in November of that year.

When Departments advertise in magazines designed to reach a target audience, clearly they need some way of measuring how many people read these advertisements and how many respond. In cases where the response rate is low in relation to the cost, management can then make a decision to delete future advertising in that publication.

For the Department, the operators get information from callers about where they first identified the NWT as a potential tourist destination. The results show that the response rate in terms of advertising costs for various magazines varies significantly. Ironically, a magazine in which the Department gets a free mention produced more enquiries than some in which it buys advertisements. The Department uses a media consultant for placing its advertisements. This year, the Department has started using co–operative advertising where tourism operators share the costs and information on results.

The 1989 study revealed that over half the visitors made their decisions to visit the NWT in May, June and July. It is not clear whether the wording of the original question caused respondents to misunderstand. For example, did they really make their decisions to travel on short notice in the summer, or did they decide earlier that they were going to visit the NWT in May, June or July? If the response means that they made their decisions in May, June or July to travel that same summer, one would assume that the magazine advertising would focus on those months. Yet the Department places the bulk of its advertising in February, which the study indicated was one of the lowest months for travel decisions. Given the cost of this advertising, the timing decision seems to need further study.

The Department should reappraise its media marketing approach to determine the most appropriate publications and timing for its advertisements.

Management Response:

As part of its decision making process under the new organization, the Department has undertaken this recommendation.

6.12 Use of Visitors' Centres

The Department has spent about $10 million building visitors' centres. In one sense, the visitors' comments about improving communications and information could be addressed through improved visitors' centres. But the Department has built some in areas where current or likely future visitation appears low. Also, the Department advertises these visitors' centres poorly, and some are off the beaten track for typical tourists.

As examples, we reviewed the various documents prepared by the Department to justify the Baker Lake and Arviat visitors' centres. While these documents cite benefits such as interpretative displays for local residents, in both cases service to tourists is the main purpose for the Centres. Given the needed improvements identified by 1989 tourists, the visitors' centres do little to address their main concerns. Some of the centres appear to provide more in the way of local employment during construction and subsequent operation, as they have few visitors.

The physical locations of some visitors' centres are interesting. For example, the centre in Baker Lake is at the end of most canoe trips down the Thelon and Kazan rivers. Even though this location is at the end of many people's visit, the Department felt the centre provided benefits. But the 1989 study indicated that the first impressions of visitors are more significant in influencing tourist choices.

As most visitors arrive by air, perhaps integrating future centres into airport terminals may be useful to arriving travellers in understanding local cultures and attractions.

The Department bases one justification for building visitors' centres on increasing visitors' spending by informing them of activities that they can do, and when necessary, connecting them with local guides, etc. This would also be a reason for locating these centres at arrival points rather than when visitors are ready to leave.

The Department does not mention all visitors' centres and other facilities in its own **Explorer's Guide**, produced at a cost of approximately $320,000 with recoveries of about $90,000 in advertising revenue. The **Guide** does not mention major facilities that opened in 1992 and 1993, including the Baker Lake visitors' centre, so readers may not be aware of their existence.

6.13 Costs of Visitor Centres

The construction and operating cost of visitor centres, compared to the number of visitors is high.

chapter 4

PEOPLE

4.1 Introduction

For 1993–94 the Department estimates that it will have 168 person–years, compared to actual staff on strength (excluding casuals and part time employees) as of March 1993 of 147.

4.2 Regional Operations

The Department has offices in all regions and many communities. As of 31 March 1993, 77 of 147 employees (52 percent) worked outside of the headquarters region. Each region, including Yellowknife, has a regional superintendent reporting to the Deputy Minister.

4.3 Headquarters Management

The Department has the third highest number of senior managers to total HQ staff, generally Director and above, compared to other departments. Directors head each of the three sections of the Tourism and Parks Division and the three sections of the Business Development Division. Typically in the Government, Directors head Divisions with managers heading smaller sections.

During our review, the Deputy Minister commissioned a consultant's study of Departmental organization. The results of this consultant's study and our findings complement each other.

4.4 Economic Development Officers (EDOs)

EDOs are the first level of contact between the Department and the business community. In 1991 the Legislative Assembly wanted the Department to hire more EDOs. Presently, one–third of communities have an EDO, others may be too small to warrant a full–time position.

The Department has EDO positions for thirty–four of 61 NWT communities, just over half. Presently, only 28 of the 39 positions (some communities have more than one) are filled. The high EDO vacancy rate is because of turnover and the Department has left some positions unfilled.

The Department expects EDOs to give advice and assistance, plus help to prepare applications. This is an advisory type of role. Also, they accept, analyze and recommend applications. This is more of a watchdog role. These two roles essentially conflict. It can be difficult to both critically evaluate and advocate, particularly where the recommendation is to reject. ED&T already has multiple review levels as watchdogs, but few providing general advice. If EDOs evolve towards a purely advisory–advocacy role, the Department needs to make sure they are properly trained and businesses are appropriately cautioned about the extent to which the Department accepts responsibility for any advice given. However, a pure advocacy role would remove individuals from having any accountability and needs to be examined carefully.

EDOs have heard that in the near future their positions may be transferred to community control, and funded by ED&T contributions. We believe the Department should clarify the roles of EDOs. If they are to be financial watchdogs they should work for the Government. But if they are to be advocates, then there is no conflict in transferring the EDOs to communities, although someone else will have to play the watchdog role.

The private sector has a challenge to work with Government to create jobs. In many of the smaller communities the private sector is less significant than government and the people have to create entrepreneurial skills and ideas. They need help to do this, and EDOs can play a key role in providing this help. But to function effectively, they need skills and experience in business, plus cultural sensitivity.

As we mentioned earlier, giving help and advice to an applicant on how to apply for funding and

For example, the Department had opened seven visitors' centres by 1992 at a cost of $9.4 million, with total annual operating costs of $428,000. A total of 25,618 visitors was reported in 1992.

On the assumption that the buildings last 20 years, the average cost for each visitor is $35. But, some individual visitors' centres have a cost as high as $688 per visitor, as seen in chart below.

Given these high costs, and the objective of increasing visitor expenditures, it is important to have as many visitors as possible. Yet, the existence of many visitors' centres is not well publicized in advertisements, guides, or by the toll–free operators.

6.14 Service to Travel Enquiries

We tested the Department's responses to tourist enquiries compared with the Yukon and provinces. The response rate compared well with the time taken to receive tourist information through the mail from other areas.

Centre Location	*Budgeted Capital Cost (000s)*	*Annual Capital Cost over 20 yrs. (000s)*	*Estimated Annual Operating Cost (000s)*	*1992 Non–resident Visitation*	*Cost per Non–NWT Visitor*
Pangnirtung	$ 451	$ 23	$ 75	1,648	$ 59
Iqaluit	3,735	187	75	2,554	103
Dawson City	1,011	51	30	6,980	12
Inuvik	1,590	80	75	5,700	27
Baker Lake	972	49	50	213	463
Rankin Inlet	1,024	51	50	147	688
60th Parallel	641	32	73	8,376	13
Total	*$ 9,424*	*$ 471*	*$ 428*	*25,618*	*$ 35*

TABLE OF CONTENTS

chapter 4 PEOPLE

Management Response:

Authority has been delegated to the regional offices as follows:

Business Development Fund	**Maximum**	**$ 250,000**	**(Full authority)**
Grants to Small Business	**Maximum**	**$5,000**	**(Full authority)**
Economic Development Agreement	**Maximum**	**$200,000**	
Contracting	**Maximum**	**$200,000**	

The specific levels of authority delegated to each region is dependent on the financial analysis capability of each region. Through training and a reallocation of resources it is the intent of the Department that each region will reach the maximum capability as soon as possible. Full financial accountability frameworks have been developed for each area of authority.

3.6.6 Service to Aboriginal Applicants

Case files do not always identify applicants by ethnic origin. Therefore we could not identify aboriginal applications and how they were handled. But from our work, nothing came to our attention that suggested any different treatment among the groups.

3.6.7 Service in Aboriginal Languages

Five of twenty–five EDOs interviewed were born in the NWT. When we asked EDOs to tell us of any communication difficulties, fourteen cited a lack of ability to speak aboriginal languages.

The Department should:

1. *increase its efforts to hire and train local people with the language skills to communicate with people at the community level; and*
2. *also consider the costs and benefits of offering language training to existing EDOs.*

Management Response:

The Department will undertake this recommendation. The Department's Affirmative Action Business and Economic Development Education and Employment Program (AABED) is being revised to encourage hiring and training local people.

3.7 Background of Applicants

We noted that the Department has no guidelines for staff on how and when to check the background of applicants for records of any previous wrongdoings. This is not an easy issue and staff have to balance protection of public funds against recognizing society's forgiveness for past mistakes.

The Department, in conjunction with BCC and DevCorp, should develop guidelines on when an applicant's past is relevant to current applications. There should also be procedures outlined on how to investigate such matters.

Management Response:

This has been reviewed in the past and will be considered again.

TABLE OF CONTENTS

chapter 7 **NWT DEVELOPMENT CORPORATION**

3.6.3 Large Number of Small Applications and Long Processing Times

We analyzed approved BDF applications from April to December 1992. Eighty percent of approvals accounted for only 35 percent of the dollars. In other words, most of the contributions are small. The Department does not seem to process small applications faster, or at less cost.

3.6.4 Sample of Processing Times, Application to Signed Agreement

The analysis below, based on a sample of 44 files, shows an average of 90 days from the receipt of an application to a signed agreement. Realistically, we expected larger cases to take more time because of the higher amounts of risk. But smaller cases are not processed faster than large ones. For example one BCC loan for $4,300 took 82 days while another for $100,000 took 19 days. Similarly in BDF, one contribution for $11,400 took 272 days while another for $100,000 took 58 days. Management of BDF informs us that they track applications from receipt to internal ED&T approval, which for 231 cases in 1992–93 averaged 56 days.

The time taken to approve projects is long. The Department needs to streamline its review and approval processing and provide improved service to small and often new businesses which comprise the bulk of its clients. Streamlining the approval process may free up time for staff to work on other important areas.

Long approval times do not help the clients. Approvals of business assistance may come too late, as could needed assistance to the short–season tourist and construction industries.

If a condition is important to the agreement, it should be included and imposed without exception. If it is not important, it should be excluded. We noted one case where a condition was seen as holding up a case and staff recommended changing the agreement to get around the problem.

The Department should:

1. *reconsider its screening and review processes to improve turnaround times; and,*
2. *develop less complex process for small cases; and*
3. *ensure that administrative costs are reasonable in relation to the value of the contribution.*

Management Response:

The Department is currently implementing this recommendation as part of its reorganization. Program delivery has been transferred from headquarters to the regional offices. In addition, the application, screening and evaluation process is being refined. Both of these initiatives will improve turnaround time significantly. Policies have been re–written so that information requirements of loan and contribution applicants will be a function of dollar value. In addition, the security requirements and conditions of loans and contributions will be a function of dollar value.

3.6.5 Delegation of Approvals

Although the Deputy Minister has delegated BDF project approval authority to regional superintendents of up to $25,000, the BDF Registrar in headquarters must still ensure that all conditions have been satisfied before releasing the funds.

The Department should consider whether to delegate authority for program delivery to the regions, after assessing the risks versus the potential savings in processing time. Increased delegation should be linked closely to a full accountability system.

Program	Sample Size	Average $ Value	Average Days from Application to Agreement	Highest Number of Days	Lowest Number of Days
BCC	18	$ 202,633	85	302	19
BDF	18	51,041	104	294	11
EDA	8	101,120	69	160	18
	44	*$ 122,161*	*90*		

The Department should:

1. *ensure that it has all pertinent details of funding applied for or obtained from other programs before finalizing its assessment; and*
2. *ensure that all conditions set out in the agreement are monitored and verified before releasing funding.*

Management Response:

The Department will undertake this recommendation.

3.6 Client Services

3.6.1 Service to Applicants – Aftercare Service

Aftercare service is following up with clients after they have received the money. There are three important reasons to do this:

1. Where assistance is repayable, the Government should monitor the client's business to ensure that repayments are made when due.
2. To offer management help to maximize the chances of business success including sustaining jobs.
3. Allow ED&T to determine if its financial assistance programs are working.

We asked the EDOs to tell us how they spent their time. The following chart shows the average time allocation across all EDOs, but we recognize that the type of effort varies significantly between EDOs in larger centres and those in the smaller communities.

Area	*Time %*
Talking to potential clients	20
Marketing programs to the community	9
Processing applications	33
Departmental or regional meetings	5
Other non–client paperwork	10
Following–up previous cases	11
Other	12
Total	*100*

General service to the public, including business counselling, and aftercare are both important to develop the business community and to help the economic strategy to succeed. But EDOs told us that they spend, on average, about 11 percent of their time on followup and aftercare. This may be insufficient to provide the kind of client service apparently needed.

3.6.2 Service to the Business Community

The Department is mandated to provide business management assistance to new and existing businesses. ED&T does this mainly by providing contribution money so that businesses can hire consultants to advise them, rather than Departmental staff providing this advice directly. A 1992–93 BDF report shows that there were 17 applications for business skills money and 13 were approved with funding of $113,000.

Management indicates that they prefer this method because of the risk that businesses may act on inappropriate advice. However, from our interviews with EDOs it is clear that some are providing business advice to clients and their communities. There is a need for the Department to establish a clear policy of whether staff should give advice and what limitations and caveats should be placed on the advice.

The Department should:

1. *develop explicit policies for all staff setting out what business advice they can give. The policy should ensure that appropriate disclaimers are given to the users of this advice;*
2. *ensure that any staff empowered to give business advice have the appropriate skills and training; and*
3. *develop explicit policies covering the loans of any staff to individual businesses, including any restrictions on the roles staff can fill, and any necessary disclaimers.*

Management Response:

The Department will undertake this recommendation.

chapter 7

NWT DEVELOPMENT CORPORATION

7.1 Background

On August 24, 1990, the Government created the NWT Development Corporation (DevCorp) as part of the government wide economic strategy. After two years of operations, DevCorp has acquired a significant portfolio of investments and is maturing.

All DevCorp's funding comes from the Government through ED&T, and interest earned. For 1993–94 ED&T budgeted a total of $6.6 million in contributions to DevCorp.

DevCorp is a relatively new operation with only two years of experience. It may be too early to critically review DevCorp's achievements, although we make the following observations on areas where we feel the Corporation can improve its practices and procedures, to help it to provide a better framework for accountability and future in–depth evaluation, and to improve current operations. During our audit, management has continued to develop systems and processes with the result that many of our initial concerns are being addressed.

7.2 Mandate

The NWT Development Corporation Act (DevCorp Act) has four main objectives: create jobs and income primarily in small communities, stimulate growth of businesses, promote economic diversification and stability, and promote the economic objectives of the GNWT.

The Act gives DevCorp an unique mandate. While other major assistance programs assist businesses or, in some cases, industry or community–wide development, DevCorp becomes either an operator or a partner in a business.

This role follows from the Government's Economic Strategy defined in the 1990 **Agenda for Action.** The **Agenda** specifically mentions that DevCorp would invest in smaller communities where the private sector has been unwilling to invest, and to provide improved access to venture capital. A characteristic of the DevCorp program is recognition that maintaining sustainable private sector jobs is not always possible, and annual operating subsidies may be needed.

DevCorp can make two types of investments:

7.2.1 Subsidiaries

DevCorp can buy or create businesses. Its investment guidelines, supported by the Financial Management Board (FMB), allow a maximum capital investment of $100,000 for each job directly or indirectly created. In addition, if subsidiaries lose money, DevCorp can give an annual operating subsidy of up to $10,000 per job with FMB approval.

7.2.2 Venture Investments

DevCorp can become a minority (less than 50 percent) owner in businesses which then become venture investments, and can invest up to $100,000 per job. It does not pay operating subsidies to venture investments.

7.3 Corporate Objectives

DevCorp's Board of Directors has established five objectives for the Corporation. These have been approved by the FMB:

1. Promote the economic objects of the Government.
2. Be an effective member of the NWT business community by stimulating growth and promoting economic diversification and stability.
3. Operate its investments and subsidiary companies at the least possible cost while maintaining an acceptable level of employment and benefit to NWT residents.

4. Develop the Corporation's investments and subsidiary companies into commercially viable enterprises that will be attractive to investors.
5. Improve the public's perception of the Corporation throughout the NWT.

Management sees the Corporation's key mandate as creating jobs through facilitating business expansions and start up, particularly in the lesser developed communities.

DevCorp also has the responsibility of providing active management to subsidiary investments, both to help them prosper and to protect the public interest.

DevCorp is a tool to implement Government's economic policy, not to make the policy. Thus while the objectives set by the Board provide a framework for DevCorp, it also needs a more detailed plan setting out a future direction for its Board and management, and to allow for longer–term strategic discussions with ED&T on economic strategy and FMB on likely future funding needs. We did not see any corporate strategic plan analyzing its role within the broad NWT economic environment or setting plans for investment acquisition, management and sale. In the cases we reviewed, we did not see any consideration of alternatives to investment, such as whether a repayable contribution from ED&T or a loan from BCC would have been more appropriate. Management informs us that it now does this automatically.

Basically, without such plans, the Corporation appears to be making piecemeal investments.

One consequence is that DevCorp has no corporate targets or other specified goals against which management can be held accountable. The Corporation has started planning and setting goals and targets for its individual investments, as stated later in this chapter.

DevCorp should:

1. *develop a strategic plan showing where it will interact with ED&T in the NWT economic strategy; and*
2. *set specific targets and goals for its overall operations on an annual and multi–year basis, showing where it plans to position itself in the NWT economy, and this plan should be approved by the Board of Directors.*

Management response:

The DevCorp is now participating in a process that the Department is leading that is intended to result in a fisheries sector strategy. The DevCorp looks forward to actively participating in other Department lead initiatives that would result in the development of additional sector strategies.

A role of the DevCorp is making strategic sector investments as may be identified by the Minister of ED&T in his annual letter of instruction, subject to the availability of funds.

The DevCorp Board now annually considers job, revenue, subsidy and other performance targets on an annual and multi–year basis, in terms of individual businesses, the various regions, level 2 and 3 communities, and the NWT as a whole. These projections represent quantifiable targets for the overall performance of DevCorp operations, and do describe the likely dimensions of the NWT DevCorp contribution to the NWT economy.

The Minister of ED&T, through his annual letter of instruction to the Board, may set additional specific performance targets for the DevCorp on a sector, regional or NWT–wide basis.

7.3.1 Relationship of DevCorp to ED&T

As noted above DevCorp helps to implement the Government's economic strategies, it does not create them.

To date, DevCorp has operated autonomously from ED&T and the rest of Government. At present, the Minister responsible for DevCorp is now the Minister of ED&T, and the DevCorp Act allows the Minister to give formal directions to the Corporation. To date, Ministers have issued three letters which give the Board of Directors general direction on where to focus its investments and in one letter to consider specific investments. However, the letters do not direct all aspects of DevCorp's operations and still allow significant autonomy to the Directors and Management.

While we noted the autonomy and found no formal consultative process, DevCorp management informed us that it has ongoing, informal communication with ED&T management.

There may be opportunities to better integrate DevCorp's and ED&T's contribution towards the

3.5.4 Co–operation Between Staff of the Assistance Programs

We noted that co–operation between program staff could be improved. For example, each maintains separate databases of businesses assisted, and there is little sharing of this information. A program manager has no routine way of finding out about past assistance experience with a particular applicant in other programs, especially whether they were successful or not.

In one example, we found one program actively working to overcome a condition of another:

> A BCC loan, made previously under the Business Loans and Guarantees Fund, with a balance of $230,000 was in arrears.
>
> The business approached the Department, and asked for a $10,000 BDF contribution towards marketing expenses. Staff argued that the marketing expenditures might help make the operation viable, and ultimately benefit BCC's loan position. But staff was concerned that any contribution would go to repay the delinquent BCC loan. To get around this, BDF staff approved and paid the contribution to a related company rather than the one with the delinquent debt.

ED&T, BCC and DevCorp should increase co–operation between the programs and make any necessary changes to permit sufficient program flexibility to allow for meeting genuine needs in the most effective way.

Management Response:

Management of the Department will work with management of the Northwest Territories Development Corporation and management of the Northwest Territories Business Credit Corporation to ensure that the programs offered by each agency are complementary.

3.5.5 Multiple Dipping

We observed cases where some businesses got monies from several different programs. Management told us that it is their normal practice to use BDF contributions to improve an applicant's financial position to the point where he may qualify for a BCC loan. We saw no written policy to this effect. While this may not be inappropriate in all cases, clearly it is important for the staff of the various programs to share information and be aware of the potential impacts of multiple funding. For example, in one case, over a three year period, one business received funding from DevCorp and BDF, plus service contracts. In total it received cash and offers of cash totalling $216,146.

In another instance, over a multi–year period, a business received or will receive a total of $2.6 million from a combination of DevCorp, ED&T programs, and other Government programs. We extracted this information from the Government's Financial Information System, but it is not clear from the files whether the staff approving each payment knew about the others.

> **Amount of BDF funding.**
>
> In Section 3.1.4 we note that the BDF Policy is confusing. In one case, there was some debate within the Department whether the recipient was eligible for BDF funding under BDF's Opportunity Identification & Research Program (Schedule A, maximum 80% funding), or BDF's Business Creation, Expansion or Investment Program (Schedule B, maximum 30% funding).
>
> Initially, the Acting Deputy Minister ruled that the applicant was not eligible for Schedule A assistance, but may be eligible for Schedule B assistance in the future. Approximately one month later, the Department approved Schedule A assistance totalling $100,000, but did not document its reasons for changing the initial decision. Had Schedule B been applied instead, the maximum assistance would have been about $59,000 less.
>
> This demonstrates poor distinction between eligibility for Schedule A and B of the BDF.
>
> **ED&T's enforcement of the agreement**
>
> Assistance agreements contain various conditions. In this case conditions included proof that expenditures were for specific purposes, and that the recipient complied with the Business Incentive Policy (BIP). We reviewed copies of vouchers on file supporting the recipient's expenditures which ED&T had received and certified as acceptable. We found the documentation inadequate.

or the Aboriginal Business Development Program (ABDP), but more significantly, seven of the 25 avoided BCC. Reasons cited included high legal costs to the applicant and delays in processing. Management informed us that the EDO recommends a routing approach in conjunction and after discussions with the regional superintendents.

There is an important dimension to this issue. If staff avoid using BCC, they are steering applicants to other programs where the assistance is not repayable, even if the business is a success. As Government money gets tighter, it makes sense to route applicants into programs that give them the needed support but which provide for payback if they are successful.

We noted that routing decisions were seldom if ever documented. Also, under the program criteria, agreements can contain specific conditions with which the applicant is supposed to comply. Yet we noted some cases where the agreed conditions are not met although the Department still makes payments. See the example in the box below.

The Department should:

1. *document the analysis and approvals of assistance with indications why the selected program is the best choice to fund the application; and*
2. *ensure that all its staff adhere more rigorously to the agreed terms of specific cases.*

Management Response:

The Department will undertake this recommendation.

3.5.3 Pathfinding

This is a term used to describe how staff can help clients find the most suitable solution to their needs. For example, for some a loan may be best, for others a contribution. To do this, staff need to know what types of assistance are available, including those from other sources such as other governments and the private sector.

With Government funds becoming tighter, helping clients to access other funding sources, or other non–funding sources of help, can be an advantage. Several EDOs indicated to us that they do this routinely. It would be helpful if the Department provided to staff a check list of all assistance programs operating in the NWT, along with their eligibility criteria. Staff can then simply annotate the list whether they have advised or helped their clients to access these other programs.

The Department should continue to encourage staff to try to obtain non–NWT Government assistance instead of, or in connection with Government assistance where possible. Staff should document their efforts and successes in doing this.

Management Response:

The Department will undertake this recommendation.

We examined a BDF case where an existing NWT business received a $94,500 Business Expansion contribution to expand into southern Canada. The analyst's justification was that the business would continue to make purchases from the NWT thus creating 22 new jobs.

The agreement required the business to purchase a minimum of $180,000 initially from NWT suppliers, and continue to buy 75 percent from northern suppliers for three years. The business agreed to supply records proving the initial purchases. The business supplied the records to ED&T staff, who certified that this condition was met before making the final payment.

This project may help to market northern products in the south. But there are some questions on how this agreement was arranged.

We enquired why this business was given non–repayable money rather than a loan. We could find no explanation, except for the fact that the BCC Act does not allow the Corporation to make loans for businesses outside of the NWT.

We examined the invoices supporting the initial purchases certified by ED&T to be from northern suppliers. Of the initial $188,000 purchases, one–third was paid to suppliers with addresses outside of the NWT. We could not determine how ED&T had satisfied itself that these purchases were from NWT residents. Similarly, the files contain no documentation to indicate that ED&T had reviewed the following three years of purchases to see if 75 percent of them were from the NWT.

Government's overall economic strategy. For example, ED&T's management has plans to identify and target specific sectors of the economy for assistance in the near future. To the extent that ED&T defines economic policy for the Government, DevCorp could participate in a more focused approach. If DevCorp and ED&T do not work closely, there is a serious risk that money could be wasted, for example:

The table on page 60 shows that DevCorp plans to spend $12.1 million on the arts and crafts sector over five years. DevCorp projections indicate that it expects to create or maintain about 200 jobs as a result. ED&T estimates that in 1991–92 the arts and crafts sector provided 946 person–years of work and that the sector will grow by 326 person–years over three years.

DevCorp emphasizes production of arts and crafts, although it does some direct marketing through ownership of a small shop in the Toronto airport, and plans to make a small venture investment in another retail arts and crafts operation. ED&T and a variety of private sector organizations focus on marketing. It is vital that future production and sales be linked. Otherwise, in the worse case the Government, through DevCorp, could finance production of arts and crafts which cannot be sold.

DevCorp and ED&T should clarify their respective roles and working relationships.

Management Response:

The Department and DevCorp have begun the process of improving co–ordination efforts and communications. Specifically, regional superintendents are now the prime point of contact between DevCorp and ED&T. DevCorp will participate in strategic investments identified by the Department.

7.4 Structure and Operations

DevCorp is operated by a President and a small headquarters staff of seven: comptroller, investment manager, operations manager, capital projects manager, office administrator and receptionist. A Board of Directors oversees operations and investments.

DevCorp's management has an unwritten philosophy of letting the local subsidiary managers operate the businesses without specific day–to–day direction from DevCorp staff. Management indicates that this is to allow subsidiary company managers to develop the independence needed for the businesses to become viable operations.

With this approach, DevCorp's staff are in a position to play an objective detached role by reviewing and monitoring the growing portfolio of investments, as shown in chart on page 60.

7.5 Investment Life–Cycle

With DevCorp's legislated mandate and corporate objectives, the life–cycle is conceptually simple:

Step	*Action*
1.	Identify and respond to investment opportunities.
2.	Evaluate against mandate and corporate objectives.
3.	Make investment (capital or venture), and identify any subsidy needs.
4.	Monitoring and managing investments.
5.	Divest, if investment meets the criteria.

7.6 Identify and Respond to Investment Opportunities

Most of the initial investments were in existing businesses, and preserving jobs was the primary rationale. More recently DevCorp has invested in new businesses.

7.7 Evaluate – Investment Projects

DevCorp uses consultants to help evaluate business opportunities. This is a good use of company funds as different investments need different types of expertise, and clearly, DevCorp cannot afford to employ many experts permanently.

After receiving consultant's reports and making the investments, we would expect DevCorp to set targets for jobs, and financial performance in a multi–year operational plan for the entity. This would set out targets for management to achieve including a time frame for profitability and subsequent sale of the investment. Management assures us that it is now doing this.

It would be helpful for Devcorp to set out a model in checklist form to be used in evaluating all investment projects. This would ensure that all pertinent data is considered in each case.

DevCorp should set up a project file checklist containing all of the types of information it needs for assessing a potential investment. Staff and consultants should then use this checklist to make sure they consider and document all important aspects before making investment recommendations to the Board.

Management Response: Accepted.

7.8 Making Investments

To date DevCorp has invested predominantly in arts and crafts, fisheries, lumber and meat, with investment decisions based on maintaining or creating jobs.

An investment that may create new opportunities is the Arctic Canada Gift Boutique located in Terminal 2 at the Toronto airport. This provides an outlet for northern art in a southern marketplace. Employees in the kiosk are local Torontonians. The capital cost to date is just under $400,000 and DevCorp has budgeted operating subsidies of some $144,000 over three years.

Some entities now operated by DevCorp, including the community store in Nahanni Butte, may not have long–term potential for privatization. The Government supports these because they provide essential services.

In keeping with its mandate, DevCorp has invested extensively in small communities. This may create a dilemma. The investments provide jobs and income opportunities where they might not otherwise exist. But making the investments viable for ultimate sale may not be possible in the foreseeable future.

Thus, DevCorp is faced with the reality of having a portfolio of longer–term investments to support both financially and with management well into the future.

7.8.1 Operational Subsidies

DevCorp's ongoing subsidies to subsidiaries raises the question of whether it is an economic development agency or a social agency. While many economic development programs benefit social development, in DevCorp's case, there is a stronger element of social development than some other programs.

Government policy identifies that Group 2 and 3 communities have special needs, and should be targeted for economic development. If the private sector is unwilling to invest in a particular community – a situation explicitly considered by the **Agenda** – then the Government has three broad options for providing income for residents:

DevCorp's planned assistance over 5 years

Type of Investment	*Subsidiary Investments*			*Venture Investments*		*Grand Total*
	#	*Investments (millions)*	*Subsidies (millions)*	*#*	*$ (millions)*	*$ (millions)*
Arts and Crafts	7	$ 8.9	$ 3.2	1	–	$ 12.1
Fisheries	1	4.3	2.0	–	–	6.3
Lumber	2	3.7	.2	–	–	3.9
Meat and Fish	3	2.5	.6	–	–	3.1
Stores	2	.9	1.0	2	$.4	2.3
Tourism	–	–	–	2	.9	.9
Communications	–	–	–	1	.7	.7
Environment	–	–	–	1	.4	.4
Other	1	1.4	.5	2	.4	2.3
Total	*16*	*$ 21.7*	*$ 7.5*	*9*	*$ 2.8*	*$ 32.0*

wherever it comes from, is a privilege, not a right, and the funds available should be used carefully. For example, BCC cannot fund operations outside of the NWT by way of loans, but BDF can by way of contributions. This does not make sense from a fiscally prudent perspective. If financing an operation in southern Canada creates NWT jobs, with good prospects for profitability, then it may make sense to make a loan. Yet, presently, an NWT enterprise doing business in the south, even if it is prosperous, can get free money but not a BCC loan; but one that has been rejected by a bank as too risky, can get a loan. Perhaps it should be the other way around.

Whatever the source of assistance from any of these programs, the money comes from Government to the private sector to create jobs.

The parties should meet to review the logic of each one's assistance criteria, and how they fit together.

Management Response:

Management of the Department will work with the management of the Northwest Territories Development Corporation and the management of the Northwest Territories Business Credit Corporation to ensure that the programs offered by each agency are complementary.

3.5 Routing of Applications

3.5.1 Payback to the Public Purse

BCC loans are the only type of assistance that must be repaid. This may no longer be appropriate. Since all assistance is from public money, it makes sense for successful recipients to repay the Government, as provided for in the BDF policy, once the need for assistance no longer exists.

A simple comparison shows the differences:

1. If a BCC loan recipient is successful, the loan is repaid with interest.
2. If a BDF business contribution recipient is successful, it keeps the money. The BDF Policy allows for repayable contributions, but none of the cases that we reviewed actually had repayment conditions and we are not aware of any that have.
3. If a recipient of EDA assistance is successful, there will be no repayment.
4. If a DevCorp subsidiary becomes profitable, Government policy requires DevCorp to sell the investment and there will be payback. To date, DevCorp has not sold any of its investments. For DevCorp venture investments, the Corporation anticipates that its minority positions will ultimately be saleable.

To date, only BCC loans have resulted in any payback, albeit with big losses. Yet, BCC is a lender of last resort which means that its risks are highest. Also, it has the lowest approval rate of the programs. In other words, it is harder to get repayable money from BCC than non–repayable money from the Government.

The Department should investigate whether it would be cost–effective to change the routing of applicants in a way that requires successful recipients to repay the funding.

Management Response:

The Department will undertake this recommendation.

3.5.2 Internal Routing

Routing cases to the most appropriate program is an important economy issue since BCC loans and DevCorp investments could have a payback to the public purse. Other programs will not.

We noted that cases often have a blend of funding from more than one program.

The Department designed a single application form for BDF, BCC and DevCorp assistance. In reality DevCorp applicants do not use this form. EDA applicants use a separate form.

Departmental staff have a great deal of discretion to select the financial assistance program offered to an applicant. Our regional interviews reinforced this view. Twenty of 25 Economic Development Officers (EDO's) surveyed indicated that they usually did all or most of the application work.

We also asked EDOs how they decided whether to route an application through BCC for a loan, or BDF for a contribution. Three of the 25 preferred non–GNWT programs, such as Community Futures

In most economies, governments realize that full employment is not achievable. For Canada, some believe that an unemployment rate of eight percent would effectively constitute full employment, given that some unemployed may not have the skills required for the jobs available, and others may not be interested in working at jobs for which they feel they are overqualified.

The Government wants the private sector to create self sustaining jobs. With the available funds, Government has to make a decision on how it wishes to allocate funds. Its programs can give one time assistance to the private sector to create sustainable jobs. Or it can continue to support businesses with subsidies on a longer–term basis, or a combination of both. The Business Development Fund and BCC support the one–time approach, but DevCorp provides both ongoing subsidy support and one–time assistance.

3.2 Labour Force Participation

There are two related issues. The first is the number of people in the workforce who want to work. The second is how many of them actually have jobs and how many are unemployed.

In 1991 the number of people in the labour force was 85 percent in developed communities but only 64 percent in underdeveloped communities. Both the **SCONE Report** and the **Agenda for Action Economic Strategy** saw this as a problem. The main onus for providing education, training and work preparation programs rests with the Department of Education Culture and Employment (ECE), Arctic College and Social Services. Once an individual is qualified to be in the labour force, the economic development programs through ED&T/BCC/DevCorp can help the private sector to find that person a paying job.

The **SCONE Report** calculated that the NWT would need many new jobs to bring the small community labour force participation and employment rates up to developed community levels. Based on the 1991 census we calculate that the NWT needs about 6,000 new jobs to do this.

3.2.1 Future Payback

Even with contributions from BDF, loans from BCC, or investments by DevCorp public funding alone will not solve all economic development challenges. For illustration, if typical government funding is $50,000 per new job, the cost to create 6,000 jobs would be about $300 million, significantly more than the public resources available. At the current annual expenditure level of $26.1 million, it would take 11 years to solve present unemployment even if we ignore the many other factors such as the effect of population increases, the net increase in working age adults due to births, jobs created by the private sector without Government assistance, and jobs lost due to business failures.

3.3 Job Subsidies

The Government gives one–time subsidies greater than the annual wages of a job. For example, BDF can pay contributions of $25,000 per job, where a job is defined as $12,000 or 40 weeks of employment.

3.4 Comparison of Financial Assistance Programs

3.4.1 Introduction

Some of the major financial assistance programs are easier to change than others. For example, the BDF is relatively easy to change by either ED&T management or the Executive Council. BCC and DevCorp programs are also relatively easy to change by management, other than items in the enabling acts which require approval of the Legislative Assembly. The EDA, however, is relatively difficult to change because of joint administration with Canada.

A key principle of the programs is that collectively they meet the needs of all NWT business people. Management referred to ED&T as having a seamless wall of programs from contributions to equity investments. For example,

> Need a loan? Talk to BCC.
>
> Need a partner? Talk to DevCorp.
>
> Need a contribution? Talk to EDA for contributions relating to community based projects, or BDF for individual business projects.

3.4.2 Program flexibility

We examined each program and noted some problems with the concept of the seamless wall. It is important to keep in mind that government funding,

1. Social assistance or other support payments.
2. Direct government jobs.
3. Hybrid programs – such as DevCorp's investment in subsidiaries and annual subsidies as required.

In these cases, DevCorp has the potential benefit of providing some incremental economic development. For example, in dollar value, DevCorp's biggest project is Pangnirtung Fisheries. DevCorp has invested or plans to invest $4.6 million and provide another $2 million in operating subsidies over 5 years. The odds against a viable fishery without Government assistance are high.

> DevCorp started investing in Cumberland Sound Fisheries in 1990. So far it has written off $250,000, and invested a further $550,000 before transferring the business to Pangnirtung Fisheries in which DevCorp is controlling shareholder. Over a three year period DevCorp plans to invest a further $3.8 million in this subsidiary while propping up its business with an estimated $2.0 million in operating loss subsidies over five years. In total, the cost to the GNWT will be at least $6.6 million over five years, including $1.1 million of working capital. Because of the remoteness from market, and the prevailing sea ice conditions, this company has to air freight its products to market, at high cost. The Company also receives subsidized shipping from ED&T.

Management believes that DevCorp can still provide an important role in Group 2 and 3 communities and that such projects are beneficial if:

- They provide opportunities/reduce social assistance/housing/unemployment costs where few other opportunities exist.
- Increase resident pride.
- Improve the skills of the workforce.
- Provide an essential service (such as stores).

7.9 Monitoring and Managing Investments

To recap, DevCorp:

- has approved 25 investments.
- has a small headquarters staff.
- has a hands off philosophy towards day–to–day management of investments.
- is separated by great distances from many of its investments.

One essential concern is that DevCorp was set up as a separate corporation, not as a program within a department. As such it has to be operated under a different set of management philosophies, one of which is a recognition that it, and it alone, is accountable for its results. This accountability includes a need for separate financial statements on which we comment in 7.9.3 below. One major difference between a contribution program and DevCorp is that the latter has invested public funds to buy into existing and new businesses. This gives DevCorp managers added responsibility to mange not only the program objectives of their mandate, but also a stewardship responsibility for the investments made. Our comments below address our concerns over some areas of DevCorp's operations where we feel it needs to make improvements.

Together, all these factors give DevCorp a critical need for high quality and current information to allow headquarters management to maximize the results of the investment spending made to date.

Some of the businesses taken over had inadequate systems and processes. DevCorp does not have guidelines or procedures ready to pass on to the subsidiaries when it becomes involved in them. Subsidiaries are only now getting standardized accounting systems and receiving some direction on what kind of reporting headquarters requires.

As its investment portfolio grows, DevCorp must find a way to manage what it has while continuing to seek out new opportunities. Each new investment adds to the challenge. Part of DevCorp's role is evolving, including stewardship for the public in managing and safeguarding the public investment.

7.9.1 Reporting and Accountability from Subsidiary General Managers

To manage these investments in the future DevCorp will need good, standard corporate systems and appropriate staff to use and react to them, plus reliance on the local general managers and the local boards of directors being set up for subsidiaries. General managers are the hands–on operators and responsible to the DevCorp President for success or failure of subsidiaries or ventures. DevCorp staff make investment decisions, should help the subsidiaries set up appropriate systems, processes and policies, and then monitor performance. But the general managers carry a significant responsibility for the operations. Employees depend on them for their jobs, and the public depends on them to manage the investments properly.

Thus, DevCorp is highly dependent on local managers and therefore has a responsibility to train and develop them to run these businesses. Because DevCorp lets the managers manage, it can play a more strategic monitoring role. Thus it needs to have a rigorous reporting protocol with the local managers who must provide regular information about all aspects of the operations of their entities. This is usually a combination of regular oral contact, plus regular periodic formal reporting on operations, regular financial results and other related factors.

7.9.2 Monitoring Operations

Monitoring investments can be helped by receiving operational statistics regularly including the number of units produced, sold, shipped, etc., the hours worked and the productivity per hour, inventories unsold and various other data. Business managers build their financial information by using these operational data to help them make sales, control costs and value inventories. Subsidiaries do not send regular operational statistics to Yellowknife. We expected to find regular, detailed operational information reports from each subsidiary.

Monitoring has to combine formal and informal approaches. It has to be much more than waiting for monthly reports. For example, a recent incident points to a need for improved central monitoring and to the risk of managing investments without a strong monitoring framework:

> In one subsidiary, local management sold products at wholesale prices to retail customers. DevCorp became aware of this through a third–party complaint.

DevCorp has a bonus program for general managers based on net income generated and subsidies saved. DevCorp management calculates the savings annually based on financial statements. But general managers propose their own budgets and are responsible for financial statements. DevCorp approves the subsidiary budgets and the FMB approves the subsidies.

Operational monitoring is necessary for a number of reasons including providing assurance to management that investments comply with key DevCorp and Government policies, and ensuring that investments are themselves operating efficiently, and thereby creating jobs at least cost.

During our audit, there was some evidence of operational monitoring, but no evidence of ongoing, periodic monitoring of all investments. Such monitoring is critical. For example, two of DevCorp's most expensive planned projects over 5 years: Pangnirtung Fisheries and Patterson Sawmills both produce commodities: in general they must take whatever price for their production that the market sets. In such situations, the operations must be as efficient as possible, both to operate at minimum cost to the Government, and to increase chances that a private firm will want to buy the operations in the future.

7.9.3 Monitoring Financial Results

Along with operational monitoring is a need for regular and accurate financial reports. Typically, a parent corporation such as DevCorp receives monthly, interim financial statements from investments in order to monitor their financial health.

Monthly financial statement submissions from subsidiaries had just started in May 1993. By the completion of our audit work in June 1993, DevCorp was still not consistently receiving monthly financial statements from its investments. As of August 1993, management indicates that interim financial statements are now being received consistently. As mentioned previously, monitoring should combine financial and operating information.

The Comptroller's position is important to help subsidiaries introduce or improve systems, provide hands–on management help, and closely monitor both subsidiary and company operations. Present Comptroller responsibilities cover administering the Corporation's financial systems, including development of policies, procedures and guidelines for financial accounting and control throughout the Corporation and its subsidiaries. This is a particularly important position for safeguarding the public funds invested in projects.

DevCorp should set up a formal reporting process that requires the managers of each entity to provide key operational and financial information on a regular basis.

Management Response:

There is now a formal requirement for each

Indian Affairs and Northern Development, Industry Science and Technology, and Forestry, will fund 70 percent of projects. The EDA Directorate maintains contribution files on behalf of both Canada and the Government. ED&T makes all contributions and recovers the federal share which it accounts for as revenue. The Agreement has eleven sub–agreements or target areas:

		1992–93 Approved Assistance ($ thousands)
1.0	Fine Arts, Crafts and Souvenirs	$ 1,230
2.0	Cultural Industries	262
3.0	Community Sponsored Development	1,303
4.0	Minerals	1,591
5.0	Agriculture	681
6.0	Wildlife Harvesting	185
7.0	Fisheries	1,365
8.0	Forestry	486
9.0	Entrepreneurship	24
10.0	Tourism	1,028
11.0	Administration	861
	Total	$ 9,016

Regional Management Committees consult the public and develop regional work plans. Thus, the EDA is quite proactive in identifying and targeting economic development opportunities. The EDA has two or three banking days each year when applications are received formally.

3.1.6 Comparison of ED&T to Similar Organizations

As an economic development department, ED&T is similar to departments in other governments. While the mandates may not be exactly alike, they may have enough similarities for meaningful comparison of, for example, the ratio of administration costs to contribution dollars.

For example, the federal government set a new policy for all departments requiring all business assistance contributions to be repayable unless they meet specified exception categories outlined in the policy. Although ED&T's Business Development Fund provides for repayable contributions, no contributions we reviewed required repayments. Presently all contributions are essentially free money to the recipients.

We also noted that the Department's administrative cost appeared high in relation to financial assistance payments.

In making any comparisons, management can allow for the fact that ED&T's financial assistance spending should include EDA and BCC disbursements because the Department incurs most of the delivery costs for these programs.

The Department should review its administration costs in relation to financial assistance spending and compare this important measure against similar organizations on a regular basis.

Management Response:

The Department will undertake this recommendation, but the comparison will reflect the environment in which the Department operates.

3.1.7 Comparing the $26.1 Million Annually with the Magnitude of the Economic Development Challenge

The 1989 **SCONE Report** analyzed the labour market by developed and underdeveloped communities. We updated this with information from the 1991 census:

	Total Population	Developed Communities	Underdeveloped Communities
People 15 and over	38,555	17,470	21,085
Less those not in the labour force	(10,325)	(2,700)	(7,625)
People in the labour force	28,230	14,770	13,460
Less employed	(24,475)	(13,775)	(10,700)
Unemployed	3,755	995	2,760
Unemployment rate	13%	7%	21%
Workforce participation rate	73%	85%	64%

Equipment Grant program, a community works program, and a commercial fisheries subsidy program.

3.1.3 Business Development Fund

BDF consists of a group of business contribution programs grouped under a single policy. The policy uses a life cycle model of financial assistance. Separate schedules cover each phase in a business life cycle. The policy has both general and specific provisions for each schedule. Some of the more significant general provisions are:

> Employment creation is the primary criterion used in assessing benefits of any proposed project.
>
> The BDF is not an entitlement program. An applicant does not automatically receive assistance just because the application meets all BDF's rules.
>
> Repayable contributions are permitted by the Policy.
>
> Applicants must contribute a minimum percentage of equity based on the community level, 20 percent for level I, 10 percent for II, and 5 percent for III.

The amounts approved in 1992–93 by BDF Schedule are as follows:

BDF Schedule and Description	***1992–93 BDF Approved Assistance****
A. Opportunity identification & research	$ 462,000
B. Business creation, expansion or investment	1,183,000
C. Market and product development	439,000
D. Business skills	113,000
E. Business relief	235,000
F. Venture capital	300,000
G. Business bailout	25,000
Total	*$ 2,757,000*

* This combines assistance approved in 1992–93 part of which may be paid in subsequent years.

3.1.4 Program Clarity

The BDF group of contribution programs is tailored to businesses in all stages of a life cycle. The Policy is complex, and has 28 pages of confusing text. It also contains some errors such as an incorrect definition of debt to equity.

Some sections, such as that on Venture Capital, are poorly worded, leading to potential confusion by readers. For example, Appendix 1 on market disruption is so badly written it is basically incomprehensible.

We tested the BDF policy together with a BCC loan agreement, a BDF agreement, and the Economic Development Agreement (EDA) agreement with a computer readability program. The software measures the grade levels and how easy the documents are to read. In every case, the documents are difficult to read for most people. They all require an education level above grade 11 to be able to understand and most used vocabulary that may be too advanced for readers. The BDF and EDA agreements also use long sentences, too complicated for most readers to understand. Many governments are attempting to make services to the public less complex. In these types of communication where the readers may not be well educated, simple communication is vitally important.

Each policy and related agreements should be re–written to simplify the language.

Management Response:

The Department is in the process of re–writing all of its policies to better reflect client's needs and expectations, and address the changing economic circumstances in the NWT. Language will be simplified in the revised policies. As of October 31, 1993 the Business Development Fund Policy and the Grants to Small Business Policy and Support to Industry Policy are being addressed.

3.1.5 Economic Development Agreement

The Government and Canada negotiated a new five year Economic Development Agreement effective 1 April, 1991. The Department of Energy, Mines and Petroleum Resources is also involved with the EDA. We have not audited this involvement.

The Department and the EDA Directorate representing Canada have joint control of this program under a series of EDA agreements and sub–agreements. Over the five year life of the agreement, Canada, through the departments of

manager to produce monthly financial statements, and year–to–date financial performance data, and variances from established budgets. Qualitative notes concerning significant events are also reported monthly, in writing.

Further, several businesses now report key operational data (level of inventory, stage of processing of inventory, cost of production, gross margins, etc). Over time, it is intended that the balance of companies involved in the manufacturing/processing of goods, will report additional operational performance data.

7.9.4 The Trade–Off Between Minimizing Costs and Creating Jobs

The table on page 60 above illustrates that management plans to spend about $24 million over five years, plus operational subsidies of $8 million for a total of $32 million.

Given the strong emphasis on social development, DevCorp could find itself in a quandary. The Board of Directors' third objective sets a challenge to manage at least possible cost while maintaining an acceptable level of employment. The quandary is whether DevCorp should manage the investments as efficiently as possible, or create the maximum number of jobs.

As an illustration only, we noted above that DevCorp's largest project is Pangnirtung Fisheries. Company data shows the following wage and salary expenditures for the 1993 fishing season:

	Payments	***Number of People***
Fishermen	$ 659,000	98
Plant workers	139,000	33
Office workers	90,000	4
Total	*$ 888,000*	*135*

In addition, the company spent $441,000 on capital contracts within the NWT

Given the Corporation's focus on jobs, and Pangnirtung's high unemployment, DevCorp needs to decide to what extent it wishes to strive for maximum efficiency in the fishing and processing operations to get the best quality product at the lowest cost if this means fewer jobs. If the fishing company is to compete with southern companies offering similar products, it will need to be highly efficient by producing at the lowest cost. Given the short fishing season, this might mean low incomes for the workers.

7.9.5 Reliance on Outside Accountants and Auditors

Many smaller businesses have difficulty keeping good control over accounting and financial issues. DevCorp relies on outside accountants to help prepare and audit financial statements.

DevCorp has now arranged for some of its investments to be audited annually, although at the time of our audit not all were completed for 1992 and 1993. With subsidiaries operating in different businesses, and different auditors working on them, it is important for DevCorp to issue a standard set of year–end instructions both to all the subsidiaries and venture investments and to the auditors. This will ensure that each prepares common information of the right standard and timeliness needed for DevCorp to prepare its own consolidated financial statements.

The Corporation has not established periodic or year–end reporting requirements. Nor has it issued written instructions to accountants and auditors for reporting, accountability and format of information and financial statements.

DevCorp needs to ensure that its staff have the experience and time to manage the monthly and year–end reporting processes. To this point, the Corporation has had to rely on others to do this job.

Subsidiary company financial statements should be designed by DevCorp for monitoring, management and comparability across the portfolio, but tailored to each business. There are also crucial financial control practices that DevCorp should establish, including bank reconciliations, reporting dates, report types, information content and distribution. We had expected DevCorp staff to do this.

DevCorp should:

1. prepare a detailed list of year–end requirements for each subsidiary and venture investment, whether audited or not, setting out such items as bank reconciliations, inventory counts and related valuations, accounts payable and *receivable, fixed asset records, and other accounting requirements;*

2. *provide copies of these instructions to the auditors with further information on format and timing of financial statements; and*
3. *ensure that staff have the time and experience to manage monthly and year–end reporting processes.*

Management response:

1. **Accepted.**
2. **Accepted.**
3. **On–going training programs have been initiated to upgrade the skills of staff. In addition, it is planned that a new staff person will be hired to provide hands–on assistance to managers in this regard.**

7.9.6 Reliance on Auditors for Internal Control

Management informed us that the Corporation relies on external accountants and auditors to monitor internal controls of the subsidiaries. Management becomes aware of any problems from the management letters prepared by auditors. Yet establishing and maintaining good internal controls is a management, not an audit responsibility. DevCorp should not wait for outside auditors to pick up problems in the subsidiary operations. When this occurs it may be too late to correct them.

DevCorp should ensure that its review and monitoring processes include the internal control practices of the businesses in which it has invested.

Management Response: Accepted.

7.10 Divestment

Management has no clear targets for investments to become profitable with subsequent sale to private investors. Yet the FMB requires DevCorp to consider the potential life of a project when it makes investments, including possibilities for future divestment along with subsidy requirements, and report these in the OpPlan. The 1992–93 OpPlan we reviewed did not contain information on likely sales of investments.

The Board of Directors approved a divestment policy in July 1993. This may be somewhat academic because Management has advised us that most of its subsidiary investments are unlikely to become profitable in the near future, and divestment is not an immediate reality. Further, the investments are now being structured with private sector partners who could be future buy–out prospects.

DevCorp should comply with the FMB's requirements with respect to setting specific targets or objectives for divestment of the investment portfolio.

Management Response:

Accepted. However, it is noted that there is very little if any opportunity for sale of majority ownership of existing subsidiaries over the next one to two years.

The need to always work towards the eventual sale of all subsidiaries is reflected in the Act, and accepted by the DevCorp Board. As such, policies and practices have been set by the Board to facilitate the divestment of subsidiaries when they are self–sufficient and there is an interested and capable community based alternate owner.

7.11 Results

For a corporation such as DevCorp, information on what it does and has achieved needs to be reported in two separate ways. The first is through regular and reliable reports to management to enable them to manage the program and to provide necessary information to the Board of Directors to help them fulfil their responsibilities. The second is to meet the highly important needs for public accountability through the Legislative Assembly.

We discuss each of these in the following paragraphs.

7.11.1 Internal Results Measurements and Reporting

To its credit, DevCorp management has recently spent significant effort attempting to measure the results of its operations. As DevCorp continues to mature it will need to invest in processes to measure both efficiency and effectiveness. Recently

chapter 3

ASSISTANCE PROGRAMS

3.1 Financial Assistance Programs

3.1.1 Introduction

In 1989 and 1990, both the Legislative Assembly and the Government worked on economic development issues. In October 1989, the Special Committee on the Northern Economy issued the **SCONE Report**. In February 1990, the Government issued **An Agenda for Action** outlining an economic strategy.

At the same time the Department issued **Building on Strengths: A Community Based Approach**. One of the resulting concepts was targeting communities. The concept defined three groups of communities. Level I has the most developed economies. Level III has the least.

The **Agenda's** economic strategy has different components, and indicates which departments will take a lead role in achieving the objectives. For example, the strategy recognized the key role for education to combat high illiteracy and prepare people for work. Another component required departments such as Public Works and Services, Transportation and the NWT Housing Corporation to continue emphasizing purchases from northern suppliers. We have not examined this part of the strategy.

ED&T's responsibility has four elements covering jobs and income opportunities in disadvantaged areas, improving access to capital, the Buy North program, and revising the Business Development Fund (BDF).

A main feature of the economic strategy was the creation of a Development Corporation (DevCorp) to take advantage of, and enhance, the natural resources and skills in the smaller communities where the private sector has been unwilling to invest. The Corporation was to focus on the economic sectors which will optimize the use of local skills, such as arts and crafts, renewable resources, small business, and tourism. DevCorp was to be an important tool for assisting industry in developing the required public sector infrastructure needed to maximize the commercial potential of NWT resources and opportunities. We comment on DevCorp in Chapter 7. The term public sector infrastructure is used in the economic strategy. The DevCorp has invested in centralized processing facilities that operate as a business and provide a market for fishermen, hunters and loggers.

The strategy also proposed revisions to the Business Loan Fund, which the Department managed, to provide flexible repayment terms in recognition of the needs and abilities of businesses operating in underdeveloped areas. To do this, the Government set up the Business Credit Corporation (BCC) on which we comment in chapter 8.

The Government proposed, but never set up a new micro Self Employment Loan Fund.

3.1.2 1992–93 Direct Financial Assistance to Businesses

Program	*Assistance (millions)*
Business Development Fund	$ 2.4
EDA	7.5*
Other ED&T contributions	3.1
Total of ED&T assistance	*13.0*
DevCorp investments and subsidies	8.0
BCC loans	5.1
Total Financial Assistance	*$ 26.1*

* Under the agreement, Canada is to provide 70 percent of the total EDA funding over a five year period.

The almost $3.1 million of other ED&T financial assistance covers several small programs, including tourism associations, Arts and Crafts Tools and management has begun monitoring investments by creating a spreadsheet to track financial information and jobs statistics. This is a step in the right direction.

Presently, measuring economic effectiveness is often difficult because the Corporation is part of a larger family of programs with similar objectives, all of which need to be reviewed together. Since DevCorp delivers programs on behalf of the Government, it may be difficult for DevCorp to measure its results in isolation. For example, internal DevCorp reports show that the Corporation has already created 128 new jobs in the arts and crafts sector, and has maintained a further 71 for a total of 199. Assuming these data are accurate, is this the result of the DevCorp investment, superior ED&T marketing, superior private sector marketing or a combination? Will both DevCorp and ED&T claim the 199 jobs as created by their efforts?

In order to analyze the total impact of DevCorp on the Government's economic strategy, the effect of DevCorp's activities on other programs needs to be assessed. For example, we have not examined whether the almost $900,000 fisheries payroll in Pangnirtung caused any commensurate reduction in social assistance payments in the community. This is a part of management's investment rationale as shown in 7.8.1 above.

Obviously, given management's perspective on DevCorp's mandate, an important measure of performance is jobs.

Often, the investments resulted in preserving existing jobs, but not always creating new ones. DevCorp has rescued businesses in trouble and preserved jobs, it has also created new businesses and new jobs. For the purpose of defining a "job", DevCorp has set up various criteria. First, DevCorp counts jobs in three categories: saved, maintained and created. DevCorp considers a seasonal job as 20 weeks of work, and in the arts and crafts cottage industry, it considers $10,000 earnings to be a job. Management defines a full–time job as 40 weeks of employment. The FMB agrees with these definitions. There is a risk in defining jobs this way. For example, if a person earns $20,000 in a cottage industry, this could be counted as two jobs. The President told us that DevCorp counts actual jobs as the number of people working, not by the definitions for investment purposes. But as counts are done at

Pangnirtung Fisheries illustrates the difficulties with determining the number of jobs a project creates:

Information supporting ED&T's 1993–94 Main Estimates reported that DevCorp created 402 jobs, including fishermen, arts and crafts cottage workers and hunters.

We reviewed DevCorp's breakdown of the 402 jobs which shows that Pangnirtung Fisheries Ltd. accounted for 112 of the 402 jobs as follows:

Full–time jobs	25
Part–time jobs	7
Fishermen	80
Total	*112*

We reviewed actual payroll information for the 1993 fishing season, summarized in paragraph 7.9.4 above. This information shows 135 actual jobs created, but most of these are seasonal.

Other internal DevCorp reports show different job information for Pangnirtung Fisheries.

- A report that DevCorp gave to us in August 1993 classifies jobs as new jobs, jobs maintained, and jobs saved, (jobs that would have disappeared without DevCorp financial assistance). This report shows 135 jobs saved for Pangnirtung.
- Another report dated 16 August, 1993 shows a total of 135 jobs for Pangnirtung Fisheries, with 30 full time, 7 part time, and 98 fishing jobs. Management indicates that this report contains an error, and it should read 7 full–time, 30 part–time, and 98 fishing jobs.

Most jobs created by Pangnirtung Fisheries are short term seasonal jobs, with average earnings of only some $6,578. Merely quoting summary statistics – for example the 112 Pangnirtung jobs included in the reported 402 DevCorp jobs – can create quite a different impression.

the time of peak employment during the year, people using the information should take care to understand clearly what it means. Imprecise job counts can also make the capital and subsidy costs per job suspect.

These standards may not be unreasonable, but to report them accurately, management needs good information. It also would be useful for management to report the jobs preserved separately from new jobs created, presently done only internally.

DevCorp should:

1. *set out clearly what results it needs to know;*
2. *obtain specialized expertise to help it refine its results measurements; and*
3. *ensure that it gives all pertinent data such as seasonality and average earnings along with any jobs information.*

Management Response:

The DevCorp has recently produced comprehensive "benefits" and other "results" data. It will take steps to solicit feed–back in its "performance reports" from the FMB, the Standing Committee on Finance, the Public Accounts Committee, and other interested groups to ensure that relevant and accurate data is presented in a timely and understandable fashion.

7.11.2 Public Accountability to the Legislative Assembly

7.11.2.1 Financial Statements Problems

When the Government established DevCorp as a separate corporation, it inadvertently created a significant accounting problem. DevCorp has to produce its own financial statements that meet generally accepted accounting principles (GAAP). These are set out by the Canadian Institute of Chartered Accountants. One of the most important principles concerns the value which DevCorp puts on the investments for accounting presentation. In many cases, because DevCorp made the investments primarily for social reasons rather than immediate profits, they may lose value rapidly. To meet GAAP, DevCorp has to reflect real values where these are lower than cost. Thus it may have to recognize significant losses on the carrying value of its investments. While management holds the view that these investments may have greater value in the future, this is not an acceptable assertion for financial statement purposes.

DevCorp had invested in several companies without arranging for each subsidiary's books to be audited and these audited financial statements consolidated with its own. Valuing investments and consolidating statements is somewhat specialized, and DevCorp has had difficulty doing this. Thus it has been unable to meet the Government's critical time table to organize and prepare these statements and have them audited in time to consolidate them with the Government's. At the time of our audit, DevCorp had not yet completed its 1992 or 1993 statements.

A major cause of this delay is the decentralized nature of DevCorp's operations: the corporation itself is a holding corporation, with all activities carried out by its subsidiaries and joint venture investments. Management is having difficulty preparing accurate financial statements for its investments. DevCorp has contracted with private accounting firms to prepare and audit year–end statements for its investments. As of late August 1993, management indicates that only four of eleven financial statements of investments have been finalized for DevCorp's 1992–93 year.

7.11.2.2 Results Information Reporting

DevCorp management indicates that to date no annual reports have been prepared nor performance information given to the FMB, both required by the FAA.

Management further indicates that some information on jobs created by DevCorp has been provided to the Legislative Assembly's Standing Committee on Finance, and other job information provided during the Assembly's 1993–94 review of ED&T's budget. Otherwise, there has been no public accountability by DevCorp for its expenditures to date.

DevCorp should improve the timeliness and extent of information supplied to the Legislative Assembly to provide better accountability for its spending and achievements.

Management Response: Accepted.

TABLE OF CONTENTS

chapter 3 **ASSISTANCE PROGRAMS**

7.12 The Future

As noted above, DevCorp is new and growing and evolving rapidly. Its operations have not yet matured. This makes it difficult to form definitive audit conclusions at this time.

At the same time, DevCorp has a unique mandate, unique operating structure, and spends significant amounts of Government money. This makes it important that DevCorp's achievements be reviewed in depth periodically to see if they meet the expectations set out for the Corporation by Government. Formal evaluations can be expensive and time consuming. In our view, it might be enough to review DevCorp systematically after five years of operation and then periodically on a regular basis thereafter.

The Government should conduct a detailed review of DevCorp and its results after five years of operations and then periodically thereafter.

Management Response: Accepted.

Program	*Regional Approval Levels*
NWT Business Credit Corporation	None. No regional presence. But BCC Act allows Regional Business Loan Boards. *$50,000 approved subsequent to our audit but not implemented. $200,000 being considered.*
Business Development Fund	Regional Superintendent can approve $25,000 for some sections. All others must be approved by HQ. *$25,000 for all sections subsequent to our audit. Full authority proposed.*
Economic Development Agreement	$100,000. *$200,000 proposed.*

impacts on the cost effectiveness of managing the assistance programs. The time to process applications is high (discussed in 3.6.4), but based on the few rejections, the likelihood of receiving assistance is also high. Information in italics represents changes made after our audit, but before the date of this report.

The changes noted above indicate positive actions by the new Deputy Minister.

The Department should:

1. *clarify the respective roles of the headquarters and regional groups, and*
2. *continue with its rationalization and work towards a more effective partnership between regions and headquarters.*

Management Response:

The Department commissioned a functional and operational review of the Department in March, 1993 to identify problems the Department is facing and make recommendations for functional, operational and structural changes. The review has just been completed and the executive summary will be tabled in the Legislature in November.

The majority of the problems identified in the review are the results of ill defined roles for both headquarters and regional offices. As a result, the roles and responsibilities have been redefined and a new direction has been implemented.

2.5 Shared Responsibilities

The Government has based its economic strategy on a strong private sector designed to develop sustainable jobs with government assistance. Other departments and agencies such as Education, Culture and Employment (ECE) and Arctic College have important roles to play in providing education and training programs, and assisting northerners to make informed career decisions.

2.3.2 Funding History including Supplementary Estimates, Spending and Lapses ($ thousands)

Year	*Budget plus Supplementary Estimates*	*Spent*	*Lapsed*
1987–88	*$ 30,151*	*$ 25,967*	*$ 4,184*
1988–89	*30,872*	*30,072*	*800*
1989–90	*36,758*	*33,370*	*3,388*
1990–91	*45,816*	*40,087*	*5,729*
1991–92	*53,608*	*52,001*	*1,607*
1992–93	*48,598*	*46,269*	*2,329*

For 1993–94 the Department plans to spend $43,670,000, down by almost $5 million (10 percent) from the previous year's total appropriations.

2.3.3 Divisional Spending

Between 1987-88 and 1992–93 payroll costs increased by 68 percent and contributions by 145 percent, while other O & M decreased by 13 percent.

2.4 Headquarters and Regions

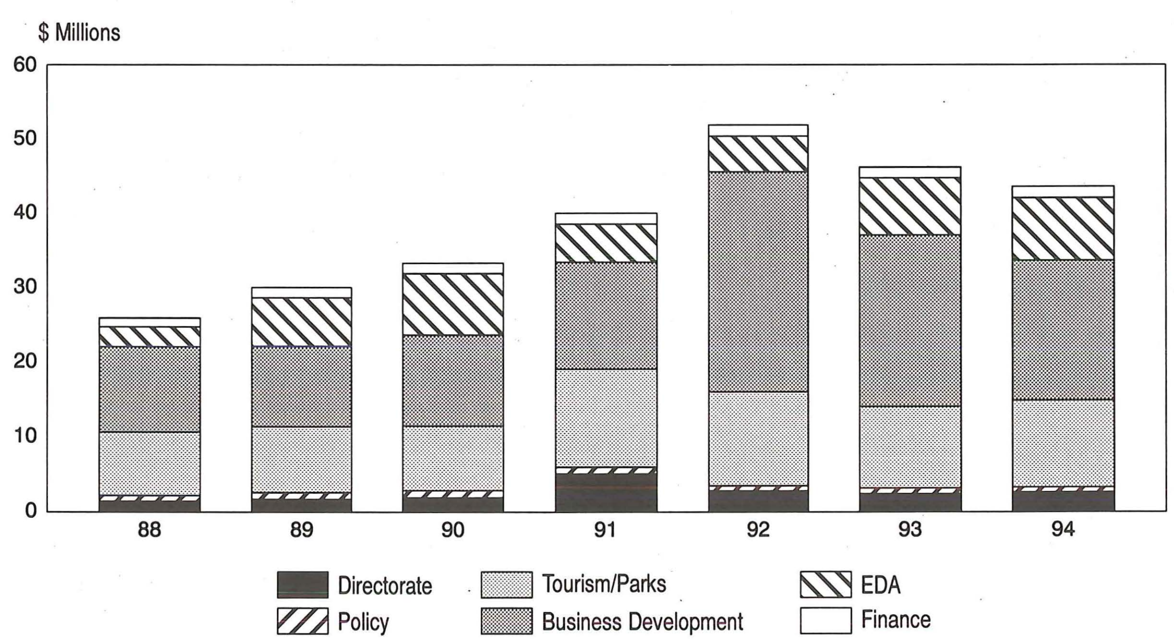
Our interviews with various HQ and regional staff revealed strains in the relationships between HQ and Regions. In general, HQ staff seemed to be happier with current arrangements than regional staff. This may be because most real power lies with HQ. Hints of regional dissatisfaction are contained in many of our regional interviews. We asked a sample of Economic Development Officers (EDO) what things they liked least about their job. Approximately one–half of them commented on bureaucracy or disorganization.

Typically, in regionalized programs, the role of headquarters is often strategic (policy making) and that of the regions more operational.

In the case of ED&T, the role of headquarters is not sufficiently clear as it has both a policy and operational role. To illustrate, for financial assistance programs, HQ has ultimate approval authority for all programs, although regions have a level of delegated approvals for certain programs, as seen in chart on page 17.

DevCorp does not operate through the Department's regional offices.

This centralized decision making affects service to the public by increasing response time. It also



1994 Amounts per Main Estimates

chapter 8 NWT BUSINESS CREDIT CORPORATION

chapter 2

DEPARTMENTAL OVERVIEW

2.1 Mandate

The Department's mandate comes primarily from its 1988 establishment policy and the Territorial Parks Act. In addition, annual revenue and expenditure plans are approved through Main/Capital Estimates, and related Appropriations Acts.

The mandate covers several areas including private sector business advice and development through to tourism. According to the Establishment Policy, the Department is supposed to do high level economic analysis as well. But instead, as a result of the recent government reorganization, the Fiscal Policy Branch (Department of Finance) has the goal of providing the Government with necessary information, analysis and advice on tax, fiscal, economic and demographic matters.

The Department provides financial assistance through the Business Development Fund (BDF), and by association with Canada, through the Economic Development Agreement.

As part of the Department's organizational review, it should update the Establishment Policy to reflect the change in responsibility for high level economic analysis.

Management Response:

The Department is in the process of updating the Establishment Policy.

2.2 Organization

Based on the 1993–94 Main Estimates, ED&T is structured as follows:

Area	*References in this Report*
Directorate	None
Policy and Planning	None
Tourism and Parks:	
– Product Development, Planning and Regulations	Chapter 6
– Parks and Visitor Services	Chapter 6
– Marketing	Chapter 6
Business Development:	
– Business Services	Chapter 3
– Natural Resources	None
– Arts and Crafts	Chapter 5
Economic Development Agreement	Chapter 3
Finance and Administration	None

2.3 Budgets and Spending

2.3.1 The Department's 1993–94 Budget ($ thousands), Excluding BCC & DevCorp.

	Departmental expenses	*Contribution to BCC*	*Contribution to DevCorp*	*Total*
Salaries and wages	$ 10,849			$ 10,849
Grants and contributions	13,652	$ 144	$ 649	14,445
Other O & M	8,376			8,376
Capital	4,000	___	6,000	10,000
Total	$ 36, 877	$ 144	$ 6,649	$ 43,670

1993–94 estimated person–years are 168.1. Actual on strength (excluding casuals and part times) as of March 1993 was 147.

chapter 8

NWT BUSINESS CREDIT CORPORATION (BCC)

8.1 Introduction

The Northwest Territories Business Credit Corporation Act (BCC Act) established BCC in October 1991. Previously the loan program was delivered from the Business Loans and Guarantees Fund (BLGF) by the Department. The Government transferred all of the assets, liabilities, and contingent liabilities of the old BLGF to BCC and repealed the old BLGF Act. At 31 March, 1993 BCC had 261 loan accounts, one $42,000 guarantee and no bonds. It also had total loans and interest receivable of $19 million with an allowance for doubtful accounts of $7.3 million. Previously, bad debts were charged to ED&T but now they are a BCC cost.

8.2 Origins of BCC

According to the **Agenda for Action** document, ED&T's role in the government wide economic strategy is to develop the small NWT communities. This is also intended to be one of the primary design functions of the Business Development Fund (BDF) and Economic Development Agreement (EDA). BCC, as "lender of last resort," provides loans to businesses that private sector lenders will not support. This is essentially the same as the previous BLGF approach.

Departmental management felt that the Business Loan Fund needed revision because small communities lacked access to banks, restricting business starts or expansion. Only eight communities in the NWT have banks. Management felt that creating a corporation would provide an alternative to banks, as well as improve accountability, visibility of the government's business loan program, and better portfolio risk management. According to management, BCC is expected to break even on its operations. However, it is not clear why changes to the BLGF Act and departmental procedures could not have achieved the same thing.

There are some differences between the old lending fund and BCC, but loan collection procedures, loan accounting system, loan application evaluations, and business plan requirements are the same. Management informed us that it is currently developing a comprehensive list of operating procedures.

8.3 Independence

One of the reasons given by management for setting up BCC was to make it more independent of normal government operations. But there is a dilemma in how this was implemented. Fiscal restraint prohibits BCC from setting up its own regional and headquarters structures with sufficient staff to run its operations independently. Presently the Corporation is totally dependent upon ED&T for all analysis and support functions. BCC occupies office space in the same premises as ED&T. All evaluation and administrative support is provided by ED&T except for direct loan administration performed by the BCC loan clerk. The BCC manager has a close working relationship with the Department and, while these arrangements may make economic sense in avoiding expensive duplication of services, they do not create an image of independence.

BCC has a contribution agreement with ED&T for operational funding, and service agreements with ED&T. The 1992–93 agreement with ED&T for $280,000 covers operating costs excluding salaries and benefits. The Corporation and the Department have signed a contribution agreement for 1993–94 recently which may be adjusted for additional costs.

The private sector board of directors enhances the visibility of the Corporation and the perception of independence. Of the seven directors, five were members of the old Business Loans Board.

An independent corporation usually requires its own basic administrative and program support to be able to function independently. In this case, meeting the objective of clearly separating BCC from the normal operations of Government may require more than having an independent Board of Directors. Thus, to fulfil its tasks independently, BCC may presently be perceived as too close to the Department.

From our review of BCC files, we noted several accounts that have a combination of BDF contributions and BCC loans. Staff consult the Deputy Minister on BCC matters and the BCC Manager uses the Business Development Services of ED&T to analyze applications. BCC has, but does not yet use, its own separate bank account. Basically, the corporate structure is a different outer shell but inside still functions the same way as BLGF.

8.4 BCC Mandate

Legislated objectives for BCC are to stimulate economic development, encourage business growth and increase employment in the NWT. As a Territorial Crown corporation, it is also subject to the requirements of the Financial Administration Act (FAA).

In January 1993, the Minister issued a Memorandum of Direction to the BCC Board of Directors. One difference between the Memorandum and the BCC Act concerns the duties of the Corporation's manager. The BCC Act states that the manager performs duties in accordance with direction of the Board. The Minister's Memorandum states that the manager shall perform duties in accordance with advice and direction from the Minister. This significantly influences the Board's mandate and authority. Given that one objective was to remove BCC from the restrictions of normal government, this direction appears to negate the intent.

8.4.1 Conflicting Mandates

BCC has two potentially conflicting objectives. One is to stimulate the NWT economy, the second is to be a self–funding corporation. To stimulate the economy presumes that the Corporation will have to take risks when lending money, but to be self–funding requires strict financial management prudence whereby only reasonably secure loans would be approved.

This Catch 22 problem comes from the BCC Act. Section 32(1) indicates that no loan should be made unless it can be repaid. But Section 27(2) requires that a business be unable to obtain a loan from a financial institution on reasonable terms and conditions; or that there not be a financial institution in the applicant's community. A business that cannot obtain a bank loan would normally be considered a high risk. BCC has to face the same risk of non–repayment, but under section 32 must satisfy itself that the loan will be repaid. This dilemma may force BCC into only making safe loans, but that in turn may mean that it is not taking the kind of risks needed to stimulate the economy.

BCC loans carry an interest rate set by the FMB based on prime lending rates. Rates are fixed for the loan term. Management feels that the interest rate spread approved by the FMB is not sufficient to support a break even position or to even cover bad debts expense.

At 31 March, 1993 BCC had provided for losses of 38 percent on the loans, albeit that many of these poor loans were inherited from BLGF. With this potential for losses, one would question whether loans are being made with due regard to section 32 of the BCC Act. With such a high proportion of loan losses, the Corporation has experienced losses. Neither the Minister nor the Board of Directors have issued any specific operating performance targets.

8.4.2 Loan Case Examples

In our review of cases, we noted several that did not fit the corporation's criteria or policies.

Some relevant lending criteria from the Act include:

- A business enterprise is eligible for a loan if it is unlikely to obtain a loan with reasonable conditions from a financial institution, or there is not a financial institution in the community. (27(2))
- Total of all loans to any business or related businesses cannot exceed $1 million. (37(3))
- BCC must be 'satisfied' that the principal and interest will be repaid. (32(1)(f))
- The loan must stimulate economic development and employment in the Territories. (32(2)(b))
- Normally loans cannot exceed 10 times equity (assets – liabilities) unless special conditions exist. (32(2)(d))

TABLE OF CONTENTS

chapter 2 **DEPARTMENTAL OVERVIEW**

trapping fur bearing animals have been hit hard by market boycotts and some arts and crafts appear to have saturated traditional markets. Tourism potential may increase, but the high costs of travel and the lack of an extensive road network may be a detriment to large scale tourism growth.

1.10 Incomes, Unemployment and Living Costs

The NWT Bureau of Statistics in its **1992 By the Numbers** shows that average income in the NWT was $28,785 (1990), and that 20,342 people had jobs in 1991. About 50 percent of these (10,238) were in Government or government enterprises. The average salary from a full–time Government job is about $47,700.

More significant, however, is the high unemployment in the territories and particularly in some communities. While we have not been able to locate an analysis of unemployment by community, apparently this is extremely high in some places.

Living costs are significantly higher in the NWT than in the provinces. For example, food costs are 22 percent higher in Yellowknife than in Edmonton, and some remote communities are up to 87 percent higher than Yellowknife.

In 1991, there was an average of 3,668 monthly cases of social assistance and a further 1,984 received unemployment insurance.

1.11 Changing Expectations

Modern communications such as satellite TV have helped to expose northerners to different lifestyles where consumer goods are plentiful. This has influenced peoples' expectations and northerners want their share. The growth of consumer goods consumption in the north is evidenced by the popularity of the latest music by major pop stars and what some refer to as junk food products.

Traditional lifestyles are also changing. For example, snowmobiles and outboard motors have largely replaced dog sleds and kayaks. Yet Government cannot provide all of these desirable items. Given Government's limited resources, people will have to realize that they must generate their own incomes to be able to afford the consumer items they desire, and to generate sufficient income to have a net disposable amount for luxuries after taking care of the necessities. This requires good job related pay or entrepreneurial incomes.

With these changing expectations and the pervasive challenges, Government more than ever has to channel its limited resources into areas of greatest payback. This means designing programs that cater to the needs of the community, provide the most useful benefits, yet preserve the overall interests of the taxpayers.

1.12 Organizational Changes

At the time we started our audit overview, the Government had just appointed a new Deputy Minister for the Department, and just appointed the first full–time President of DevCorp. Concurrent with our audit, the Deputy had initiated a review of the organization, and had started to make changes even before we completed our work. Similarly, during our audit, management of DevCorp has responded to various issues by developing new or improved policies.

1.13 Contents of this Report

We examined the various programs in the Department with our main concentration being on the Business Development Fund, Arts and Crafts, Tourism and Parks, plus the Economic Development Agreement. Because of their importance to NWT economic development, we also examined BCC and DevCorp.

We comment generally on the Department in chapter 2, followed by assistance programs in chapter 3. In chapter 4 we deal with people issues.

Chapters 5 and 6 deal with Arts and Crafts, and Tourism and Parks, respectively.

Chapters 7 and 8 discuss the two corporations, DevCorp and BCC, and finally in chapter 9 we comment about program results.

- In one case, BCC provided a loan to pay off a business's short term debts, including Revenue Canada, even though this did not meet the objective of stimulating growth or employment.
- In another case, an EDO delayed a loan application. The EDO arranged for another BCC client to lend $25,000 to this applicant. When the applicant had difficulty repaying this loan, ED&T paid the $25,000 as a Business Relief Program contribution under BDF. Later, the applicant applied for another loan. Staff rated the applicant's credit as excellent. In the final analysis, this applicant had received two loans totalling over $26,000 plus a non–repayable contribution of $25,000.
- Another case saw BCC consolidating two existing higher interest loans into one with lower interest and a longer pay back period. This consolidation did not stimulate economic growth and employment. If every borrower wanted to consolidate loans when interest rates fell, it would make the economic stimulation mandate of BCC irrelevant and the lower rates would impact on BCC's ability to break even.
- A fourth case involved a business in financial difficulty. The Department gave a $150,000, FMB approved, non repayable contribution under the Business Bailout schedule to the BDF, $50,000 more than the maximum permitted. BCC also advanced a loan for over $600,000 to pay off debts including unsecured creditors.

  One of the conditions for getting Business Relief is a prohibition on further BDF funding for three years. A BCC loan may be one way of getting around this restriction. At 31 March, 1993, this new loan was not in default. While this arrangement may have preserved jobs, it is not clear how it met the objective of stimulating growth.
- One case saw BCC renewing a loan that financed a building leased by the owners to the Government. As in other cases, this does not stimulate the economy. This company could not provide any equity as it is in a deficit position.
- BCC would not advance funds to one applicant until the construction of a business property had been completed because it has no security mechanism for construction in progress. The applicant obtained construction money from a bank. In this case, we saw no evidence to indicate that BCC tried to leave the funding with the bank and give a guarantee. This could have had two advantages, the first to involve banks more in NWT business development, and the second to avoid tying up Government's increasingly scarce cash resources.

  Management has advised us that the Corporation could not disburse funds, or for that matter give a guarantee, because security was simply not available to commit exposure for a loan, or even a guarantee.

  Furthermore, management advises that at that time, the Corporation did not have operational procedures in place to permit lending for construction purposes. Operational procedures have now been developed and the Corporation has recently approved loans for construction and development of real estate.

The above cases illustrate that BCC may have moved away from its pure mandate and be functioning more in a banking mode. Some also illustrate a need to clarify BCC's eligibility criteria, particularly in cases where it is asked to bail out businesses in financial difficulties.

BCC should clarify its eligibility criteria including applications for debt restructuring and repayments of debts to third parties, and assess the impact on the Corporation's need to break even.

Management response:

BCC has developed operational guidelines for loans for debt restructuring and loans to third parties. The BCC is responsible for making business development loans to Northern businesses to create economic development opportunities in communities where conventional lending agencies are not prepared to participate. Therefore, BCC's role is a blend of being a "lender of last resort" and a "development agency" for higher risk entrepreneurial ventures.

8.5 Organizational Review

In October 1992 the FMB recommended that BCC conduct a comprehensive review of the BCC loan portfolio to assess the business evaluation criteria used and the process for securing collateral from clients.

Recently, ED&T hired a former BCC board member and businessman from Yellowknife on a six month contract to conduct an analysis of BCC's policies and procedures, analyze security procedures and recommend changes, develop new forms, implement a new data base and assist in day–to–day operations as required. The Department has also hired a consulting firm to conduct an organizational review of ED&T. BCC is included in this review.

8.6 Staff

BCC has only three staff. The manager is the chief executive officer of the Corporation and is responsible for supervising, managing, and directing the business of the Corporation under the direction of the Board.

BCC is using old job descriptions from BLGF. New job descriptions are being drafted for all BCC staff. Management expects them to be available in the spring of 1994.

8.7 Regional Boards and Regional Offices

The BCC Act allows regional business loan boards but none has been set up to date. Instead the BCC Board of Directors has approved, but not yet given, ED&T regional superintendents authority to approve and process loans up to $50,000. Again, this may conflict with the objective of operating independently of normal government operations, although it may help to improve operational efficiency.

8.8 Loan Eligibility, Criteria and Administration

ED&T staff evaluate all BCC loan applications based on the merits of the project, including its community economic benefits and potential viability.

Eligibility criteria differ between loans and contributions, with the BDF policy being more specific than the BCC Act on what types of projects it will cover. BCC has no stated project exclusions, nor are there lending restrictions by sectors or any other category. From our discussions with departmental staff, and our review of loan files, each application is evaluated for its individual economic merits and viability. A BCC proposal has to be completed separately, even if an applicant is seeking assistance from several programs administered by ED&T.

The maximum loan is $1 million to a "business enterprise" which includes related businesses. The Minister or the Directors decide if enterprises are related. Currently, BCC does not have a procedure to assess if a business enterprise, which has submitted an application, is related to any enterprise already in receipt of a BCC loan.

There is no standard format, such as checklists, for submitting or assessing loan applications. Staff use their judgement. Many banks have computerized pro forma loan application screens which not only collect applicants' data, but also provide benchmarks against which some conditions can be matched and assessed. The Loan Administration Manual provides some help to determine economic viability but it does not include eligibility criteria. Most EDOs feel the manual is not much use in their jobs. Thus, there is no certainty that staff assess all applications against the same standards. The manual does not define the types of economic benefits loans must demonstrate they are capable of creating in order to be approved, but application forms usually show estimates of person year employment, wages and salaries, exports and sales. BCC does not monitor whether these are later achieved.

EDOs have a great deal of discretion in steering applicants into either a BCC loan or a BDF contribution. Based on our interviews, many EDOs find the process to obtain a BCC loan cumbersome and time consuming. They tend to steer their cases into other areas. Another concern of EDOs is the high legal costs for borrowers to put loan securities in place.

In summary, the EDO prepares or checks an application. The region reviews it, so does the Business Development Division and finally BCC itself. There may be too many reviews, causing delays in approvals.

8.9 BCC Performance

For the nine months ending 31 December, 1992, BCC had approved 34 new loans and rejected 10.

One BCC objective was to support or develop the smaller communities. The statistics on page 75 indicate few loans to smaller communities. BCC has set no specific targets.

Regional distribution of new loans for the fiscal year ending 31 December 1992 is shown below. BCC does not keep statistics of the number of ideas put forward to the EDO or regional office that never become formal applications. This may be difficult to do, but may help staff to explain how they spend their time.

Approximately 50 percent of loans are under $50,000 and another 33 percent are in the

locations for trading posts in the past, and some grew up around the old DEW line sites. They were established initially to provide government services to nomadic peoples whose history for thousands of years has been hunting and gathering, a subsistence lifestyle. As the people changed from a nomadic to a community based lifestyle, the communities have evolved into permanent hamlets and towns with health centres, schools and other government services. Each community also has an airstrip and most coastal communities are resupplied annually by sealift.

This report does not consider the social changes imposed by settlement lifestyles, compared to nomadic ways. But the challenge to develop these communities economically may be as big a problem as changing the peoples' life habits by putting them into communities in the first place. It is difficult to change thousands of years of cultural history in one or two generations. However even though some of these communities support traditional lifestyles and values, many are remote, are expensive to reach and operate and may have limited potential for conventional economic development, particularly if transportation is to be a major key.

1.8 Subsidies

Many northern businesses could not survive without continued support from Government, either as suppliers or in some cases by ongoing direct subsidies. To many people, ongoing subsidies are not acceptable. Yet in some communities with fragile economies, some unsupported businesses may not succeed. For example, the fishing industry in the NWT is able to harvest high quality products from both salt and fresh water. Yet to get the products to market, mainly in the south, at competitive prices sufficient to provide a reasonable income to the harvesters and processors will continue to require extensive subsidies. In 1992–93 the Government budgeted over $800,000 for transportation subsidies to fresh water fishermen and other subsidies to salt water fishermen.

Of the investments made by DevCorp in which it owns all or the majority of shares, most lose money. Many need extensive subsidies to stay in business. As DevCorp puts more emphasis on current jobs, not long–term viability, there is a risk that many of these investments will stay dependent on public subsidies for many years to come. The Government may have to make some difficult choices as funding becomes tighter.

The question of subsidies is always a difficult one to resolve as members of the public may not appreciate that, without subsidies, some businesses would fold and Government costs would increase as people became dependent upon welfare.

Some northern businesses provide goods and services mainly to northerners, and these can help to substitute for those currently imported from elsewhere. Under the Government's Business Incentive Policy such businesses may justifiably have a higher cost structure. Other northern businesses are attempting to compete with southern Canadian businesses in other, often well developed markets. These northern businesses may find their costs too high to be competitive as southern businesses usually have lower transportation and labour costs or economies of scale from larger production volumes.

1.9 The Future

The challenge is to develop an economic base which has a chance of becoming self sustaining. The private sector is unlikely to provide this without help because, except for a few instances based on mineral or other natural resource development, most businesses may not be large enough, or sufficiently profitable with positive cash flows to support spin–off enterprises. Yet even mineral developments may be constrained by poor transportation routes. According to the **Transportation Strategy**, opening up the north to business may need the equivalent of the Alaska highway to provide the stimulus to business. However, with growth in the business sector comes a need for trained workers. Another challenge is to surmount the chicken or egg problem; invest now in training and hope jobs come, or invest in new jobs and risk unfilled job opportunities because the workforce is not trained to fill them. The NWT Bureau of Statistics reports that 27 percent of the population over age 15 have less than grade 9 education. High school graduation in the last few years has averaged about 200.

With the possible exception of large companies moving into the mineral exploitation field, most business developments are likely to be scaled more modestly with job gains in the single digits rather than in the hundreds. Developing large businesses is unlikely and some traditional pursuits such as imposed as a result of federal cutbacks. Thus it is doubly important that the Government invest its limited available resources wisely.

Because of its limited tax base the Government is dependent on federal funding for some 80 percent of its expenditure needs. For fiscal year 1992–93 only 12 percent of Government revenues came from taxation. The balance is from multiple small sources. Federal cutbacks and a downturn in the economy will continue to put pressure on the Government's ability to raise revenues for its programs. Finding the funding for large scale economic development, in competition with funding for social programs, will be an increasingly significant problem. For example, federal cutbacks in housing funding will place more of a burden directly on the Government to replace traditional funding for social housing projects.

1.4 The Challenge

There are few governments in the world that are not involved in providing direct policy and financial stimulus to their business community for economic development. Most have different challenges to those faced by the Government of the Northwest Territories. Some are facing new competition but suffer from an old industrial base. Others face changing public attitudes and expectations, including a surge of environmental concerns and quality of life considerations. Most governments are facing budgetary limitations and many are actively downsizing or seeking pay concessions from employees.

1.5 Population

According to the NWT Bureau of Statistics, the NWT population has grown rapidly, by some 22 percent over the past ten years, to reach its current level of 62,900. Of this total, about 33 percent, or some 19,000 are under the age of 15. In 1992, there were 1,580 births, a rate approaching 3 percent, high by western standards.

These data are important to consider in the context of northern society as a whole, and economic development in particular, because they frame the challenge for the Government to provide sufficient infrastructure in health, housing, education, transportation and jobs to keep pace. In 1999, the separation of Nunavut from the NWT will bring its own challenges for the people of the east and north.

1.6 Transportation Infrastructure

In its 1990 **Transportation Strategy**, the Government noted that "Without good transportation systems, a viable, self–supporting northern economy will never develop. Without a strong economic base, self–determination and a fully responsible government seems unlikely." This forward looking report envisioned major public expenditures on surface, air and marine transportation systems to open up the north. In particular, the report saw a need for an extensive network of roads to provide access to the coastal areas, as well as areas of mineral potential and access to communities. One of the many benefits of road development, predicted by the **Strategy**, would be greater tourism potential.

In the three years since this report was issued, there have been no major additions to existing transportation systems. Any significant changes will require vast amounts of resources, both cash and trained people. The **Transportation Strategy** report also comments on the differential transportation costs throughout the NWT and seeks to provide equitable transportation costs for all northerners. Yet realistically, many communities will be unable to obtain reasonable cost transportation systems in the foreseeable future because of remoteness, difficult terrain, off–mainland locations and extreme climactic conditions.

1.7 Communities

To meet the challenge, the Government has divided its communities into three levels in an attempt to steer economic development to where it is most needed, and to recognize the community potential. The first level comprises four communities, Yellowknife, Inuvik, Fort Smith and Hay River, where development is reasonably advanced. There are sixteen level two communities where development is less advanced. These have populations ranging from just over 600 to 3,500. Level three communities comprise all the others with populations from a low of 39 to 974. The Government considers these level three communities to be in greatest need. The economic assistance to entrepreneurs differs according to the community level.

Compounding the challenge is the number of remote communities and the lack of traditional entrepreneurial history. Some communities have existed formally for only a short time. Some were traditional encampments, others convenient

$50,000 – $200,000 range. The average loan was $141,376 for fiscal year 1992–93, compared to $98,132 for the prior year.

8.9.1 Bad Debts

At 31 March, 1993, BCC had provided $7.3 million for bad debts. This is 38 percent of the outstanding amounts. BCC had placed 63 loans totalling $5,389,200 in Credit and Collections.

Generally, the new loans made since BCC started are in better condition than the older loans inherited from the BLGF.

BCC had 261 loans on its books at that date, with 207 individual borrowers. But 28 borrowers with 88 loans owed a total of $4.7 million with bad debt provisions of $2.9 million. This is 61 percent of the bad debt total.

8.9.2 Monitoring for Doubtful Accounts

Headquarters staff rely on the regions to monitor accounts. Each region is required to complete a review of doubtful accounts quarterly, and client reviews annually. Annual reviews for 1992–93 were submitted, but quarterly reviews of doubtful accounts for the same period were not done.

Regions review monthly loan arrears reports sent by BCC headquarters. Superintendents advise BCC of any problems, or alternatively BCC contacts the regions directly. Superintendents discuss loans with the Deputy Minister and with the BCC manager. Regions do not have current loan review guidelines. Some regions still apply old BLGF guidelines.

While BCC remains dependent upon ED&T staff, it needs to strengthen the accountability and reporting relationships with staff. Because of BCC's dependence on the regions, it needs a clear and

BCC Approved Loans by Level of Community

	9 Months to December 31, 1992		1991–92	
	#		#	
Level I	15	$ 2,866,000	21	$ 2,685,648
Level II	12	1,631,245	33	3,435,150
Level III	7	309,536	13	454,050
Total	34	$ 4,806,781	67	$ 6,574,848

Comparative Figures for Regional Distribution of Approved Loans

	Nine Months to 31 Dec. 1992		1 Oct. 1991 to 31 Mar. 1992	
	#		#	
Fort Smith	8	$ 1,687,300	5	$ 261,425
North Slave	9	1,289,400	19	2,473,573
Deh Cho	3	206,000	18	1,890,300
Inuvik	2	195,000	8	298,750
Baffin	4	710,000	6	552,800
Keewatin	4	451,545	8	953,500
Kitikmeot	4	267,536	3	144,500
Total	34	$ 4,806,781	67	$ 6,574,848

BCC approves approximately 75 percent of loan applications.

Regional Distribution of BCC Loans for the Period ending 31 December 1992

Region	Accepted	Rejected
Fort Smith	8	2
North Slave	9	4
Deh Cho	3	1
Inuvik	2	1
Baffin	4	0
Keewatin	4	1
Kitikmeot	4	1
Total	34	10

regular exchange of program delivery results and client loan status.

BCC should advise regional offices and EDOs exactly what kind of information and reports it needs to fulfil its mandate and management responsibilities.

Management Response:

The BCC has developed, in conjunction with the regional offices of ED&T, a comprehensive set of operational procedures which will provide complete information to the regional offices on the information and reports required. BCC relies on the Department which provides regional lending, executive, program, and administrative support services. BCC looks forward to working closely with the Department and to ensure that the Corporation's activities complement initiatives set forth by the Department. In doing so, it is anticipated that the BCC will be in a position to fulfil its mandate to develop the Northern economy and create jobs.

8.10 Accounting and Reporting

Part IX of the FAA sets out BCC's annual accountability requirements, including audited financial statements, corporate plan, operating and capital budgets, and an annual report. BCC tabled its annual report for the fiscal year ending 31 March, 1992 in March 1993.

BCC has prepared a draft corporate plan which at the time of our audit was still under discussion with the BCC Board of Directors.

8.10.1 BCC Financial Accounting

As a separate corporation, the FAA requires BCC to prepare an annual financial statement, and this is audited by the Auditor General's Office. Presently, BCC does not have any staff with the knowledge to prepare such statements and it relies on ED&T, or outside accountants to do this.

The financial statements properly reflect the loans made, repayments of principal and interest, but they do not include the costs of operating the loan program. For example, as mentioned above, ED&T provides all the staff for loan application, assessment, monitoring, etc., as well as accommodation, accounting, and other costs. If BCC is to become a self–sufficient lending institution, it should be structured to recover all its costs through the interest margin, or at least show clearly to what extent it is subsidized by the Government.

8.10.2 Loan Accounting System (LAS) and Financial Information System (FIS)

BCC uses a Loan Accounting System run by Government Services with no user support in BCC or ED&T. Staff complained about poor reliability. Management is looking at replacement software packages, including a commercial bank's system. LAS costs are approximately $80,000 per annum.

The system produces monthly management reports and statements that are used in processing individual loan transactions and amortizing loans. LAS is not linked to FIS which disburses funds, accepts payments and balances the fund. Staff reconcile LAS with FIS monthly and at year end. FIS does not produce loan file reports.

We noted problems with LAS including incorrect aged arrears reports, accounting problems with early loan payments, inadequate computer support for the LAS, periodic system jams, inadequate segregation of duties, accounting problems with suspended accounts, and incorrect effective interest rates on loan accounts.

8.10.3 Tracking Results

BCC has no way of knowing whether it is achieving its objectives. Presently, BCC does not track the results of its program and therefore has no way to report to the Minister on whether it is stimulating the economy and providing jobs. Neither BCC nor ED&T have done any program evaluations on the BCC or former BLGF program. Basically, program

chapter 1

NWT ECONOMIC DEVELOPMENT ENVIRONMENT

1.1 Introduction

The Legislative Assembly requested the Auditor General of Canada to carry out a comprehensive audit on the Department of Economic Development and Tourism (ED&T). This is our report on the audit.

1.2 NWT Overview

The NWT has over 60 communities some with very few inhabitants. These are spread out over a huge remote area, with inadequate conventional transportation systems. Much of the workforce has not had job experience and higher education may be needed for most new jobs. Regionally, the people have different cultures where business and entrepreneurship are for the most part in the developmental stage. The active business community in the north is small and government sector employment provides about 50 percent of all jobs, according to the Bureau of Statistics' **1992 By the Numbers**. Government funding is getting tighter.

Although the Department has primary responsibility for economic development, in reality all government departments and agencies share this responsibility through such initiatives as the Business Incentives Policy.

The Government has created a family of programs that specifically address economic development through ED&T or that reports to its Minister. The Department offers contributions through the Business Development Fund (BDF) and by association with Canada, through the Economic Development Agreement (EDA). The Business Credit Corporation (BCC) offers loans and guarantees, and the NWT Development Corporation (DevCorp) takes investment positions in NWT companies to provide funding and management. This report includes comments on both BCC and DevCorp as well as the Department.

However, whatever the form of the program, all the money comes from the Government's budget and it makes sense to look at the total economic development funding as if it were one pool of money and people.

There are also other sources of dollars for economic development in the NWT through the federal government's Canadian Aboriginal Economic Development Strategy, money from land claims settlements, aboriginal development corporations, NWT Metis/Dene Development Fund, NWT Co–op Development Fund, and from various other funds. However, not all northerners are eligible to access these other monies. Thus, the only specific economic development funding totally within Government control and influence are the three entities comprising the economic development "family" mentioned above.

The Department has many activities but the principal ones cover the Business Development activities, the Parks and Tourism Program, and the Economic Development Agreement funded jointly by the Government and Canada. Canada provides 70 percent of the $50 million EDA funding over five years. Both BCC and DevCorp are linked to the Department. While the Parks Program was a part of ED&T during our audit work, the Executive Council has directed that ED&T and the Department of Renewable Resources submit a joint implementation agreement to the FMB that considers the transfer of Parks Operations, Planning and Program Development plus related Visitors' Services to Renewable Resources.

1.3 Government Financial Situation

As the Government responds to the challenges mentioned below, it recognizes that a major limitation is the current fiscal restraint program evaluation means a review of outcomes against objectives.

As a poor substitute for knowing actual results, the Department uses the information from applications, but none of these data is collected and reported on routinely. These data are intentions of what a project might achieve instead of actual results.

Tracking minute details can be expensive. We do not recommend that BCC develop a sophisticated system for this. A low cost option might be a simple pro forma report from the EDOs each year showing how the business is progressing, how many are employed and for how long. Along with other simple indicators, this may be sufficient to provide reasonable accountability information, providing the data are aggregated and analyzed correctly. This could then be backed up by periodic, more formal program evaluations using more sophisticated methods.

TABLE OF CONTENTS

chapter 1

NWT ECONOMIC DEVELOPMENT ENVIRONMENT

TABLE OF CONTENTS

chapter 9 RESULTS

TABLE OF CONTENTS

chapter 9

RESULTS

9.1 Introduction

The Government spends about $51 million a year on economic development, plus an unknown amount through the Buy North Program. With these resources at stake, the Department needs to know if programs are having the required results.

Before this can be done, ED&T must determine how much programs cost. Presently, ED&T does not know how much BCC and DevCorp spend in total to support the various sectors of the NWT economy.

For example, before the Department can compare the results of financial support of the various sectors to the cost of such support, it must know how much the Government spends on each one. The Department does not know this.

Results can fall into several different categories, such as program operational efficiency and effectiveness which is concerned with the cost of producing outputs (goods or services) delivered by a department, and overall effectiveness, often referred to as outcomes, which is concerned with the extent to which the outputs achieve the program's objectives. Both types of results are important for managers and the Legislative Assembly to know. In a complex environment where money is tight, working economically and efficiently to produce results at the least cost is an absolute must. We have noted throughout this report where we believe the organization can be improved, where better communications can help to avoid duplication and waste, and where broad policies can be harmonized to improve efficiency. But the fundamental question is whether the programs are effective,
i.e. accomplishing the purposes for which they were designed and approved.and whether there were any unintended results. We have pointed out various areas where the Department, program managers and Legislative Assembly need better feedback, such as after care service, a need for better knowledge of program results, and various other areas where no one knows how well the programs are doing.

Presently neither the Department nor the Corporations do formal efficiency and effectiveness studies. The Department's Management For Results System cannot provide reasonable information proxies.

9.2 Measuring Applicant Satisfaction, and Taking Action to Improve It When Necessary

Providing effective programs requires first establishing service standards, and then measuring them to see if they are being met. This does not mean that all applicants will necessarily be fully satisfied, but the Department will at least know how many were not, and possibly why.

Some parts of service are easier to measure than others. For example, it is easy to measure the number of days between an application and approval or rejection. It is harder to measure how satisfied clients are with the service. But none of the assistance programs tracks and reports service information.

We reviewed various case files of BDF, BCC, EDA and DevCorp. We noted that the average number of days between application and approval is high.

In October 1991, the Department tried to find out if clients were satisfied with its service. It surveyed 149 businesses with successful applications, and later, in May 1992, 146 businesses with unsuccessful applications. It received twenty–seven replies from approved applicants, and fourteen from non approved applicants. ED&T reported the results in a June 1992 internal report called **ED&T Program Review – Survey Results.**

This survey revealed useful information on client attitudes towards ED&T and its programs. For example, one question asked for impressions of the current loan and contribution programs, and whether they met client needs. The results are shown below:

Assessment	***Approved***		***Not Approved***	
Below	9	33.3%	11	78.6%
Met	15	55.6%	2	14.3%
Exceeded requirements	2	7.4%	–	–
Far exceeded requirements	1	3.7%	–	–
Don't know	–	–	1	7.1%
Totals	*27*	*100.0%*	*14*	*100.0%*

It is not surprising that rejected applicants had low opinions of programs, but even with the approved clients, just over one–half felt the program met their expectations, but one–third were negative.

ED&T, BCC and DevCorp should develop:

1. *standards for client service;*
2. *measurements to determine the actual level of service; and*
3. *procedures to take action to improve any substandard service.*

Management Response:

The Department will undertake this recommendation.

9.3 Re–inventing Financial Assistance Delivery?

A broad question is whether there should be four separate economic assistance programs or would it make more sense to consolidate some programs. This could improve efficiency, save money and increase effective service to the public. Presently, EDOs are less likely to steer clients towards BCC because of the perception of cumbersome paperwork, expensive client legal costs and a pervasive belief that BCC is acting like a bank with strict terms and conditions. BCC is caught between conflicting demands which force it towards fiscal conservatism. Because BCC is a lender of last resort, and because it is tasked with the two competing objectives, it may not be as flexible in stimulating the economy as intended.

Merging BDF and BCC would be relatively easy, both because their administrations are now highly integrated, and their programs are actually quite similar. The biggest difference between the two is repayment terms and related security.

Other governments, including the federal government, are moving away from unconditional contribution programs and towards repayable contribution arrangements. Coupled with a trend towards less bureaucracy and easier access, there may be less need for separate loans agencies. Such a program can still be tailored towards sectors most in need, such as the present community levels I, II and III. Similarly, reducing red tape and allowing departmental staff more discretion, coupled with a suitable accountability system, may help to speed up cash flows to those in need. Accountability systems are sometimes thought of as punitive when things go wrong. Undoubtedly there will be errors in any system, but if accountability is built around a positive reward for achievements, every player will have a greater incentive to do well.

A combined program could issue repayable contributions with less expensive compliance for clients. The Government's investment can still be preserved by careful rewriting of the rules, and the terms and conditions can be simplified making them easier for the clients to understand.

Repayable contributions also offer more flexibility than loans. For example, a new business may need a repayment–free period to allow it to get started, and the agreement can be tailored towards this, giving managers and their clients more flexibility. The **Economic Strategy** had the objective of creating a new loan program to give flexibility in repayments.

To go along with any program changes, ED&T will need a cost–effective monitoring system to ensure that clients pay back assistance at the appropriate time, such as that in place now for BCC loans.

The Department should:

1. *review all programs to assess their effectiveness, on a cost effective basis;*
2. *define clearly what it means by economic development, and conversely what funding is not permissible;*

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

The Honourable Michael Ballantyne
Speaker of the Legislative Assembly
Government of the Northwest Territories
Yellowknife, NWT

I have the honour to transmit herewith my report on our audit of the Department of Economic Development and Tourism, including the NWT Development Corporation and the NWT Business Credit Corporation, as requested by the Legislative Assembly.

L. Denis Desautels, FCA

OTTAWA, November 1993

3. *consider developing a less complex program of repayable contributions, with conditions tailored towards its economic development objectives;*
4. *develop appropriate systems to track contributions made and allow for accurate management of receivables; and*
5. *develop appropriate accountability systems emphasizing desired results, to cover all staff.*

Management Response:

The Department will undertake this recommendation.

© Minister of Supply and Services Canada 1993
Cat. No. FA3–14–1993E
ISBN 0–662–21171–5

NWT LEGISLATIVE LIBRARY
3 1936 00041 710 3

1993 Audit

Office of the
Auditor General
of Canada

Department of Economic Development and Tourism, NWT Development Corporation, and NWT Business Credit Corporation

Donald M. Young, FCA, Assistant Auditor General
Roger Simpson, MBA, CA, Principal, Edmonton Regional Office

N.W.T.
LEGISLATIVE LIBRARY
DEC - 8 1993
Yellowknife, N.W.T.