Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT

Chairman

Harry Shafransky, M.L.A.

Constituency of Radisson

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THE LEGISLATIVE ASSEMBLY OF MANITOBA
STANDING COMMITTEE ON ECONOMIC DEVELOPMENT
10 a.m., Tuesday, May 11, 1976

Chairman: Mr. Harry Shafransky.

Order please. We have a quorum, we can proceed. This morning we are to hear from the Chairman, the Annual Report of the Communities Economic Development Fund for the year ended March 31, 1975. I am going to call on the Minister responsible to introduce the Chairman. Mr. Green.

HON. SIDNEY GREEN, Q.C.: Mr. Chairman, members of the Committee did meet Dr. Loxley last year at which time I gave a resume of his previous involvements. He is reporting I think this year for the first time having had responsibilities relative to this matter for a full year. I think last year when he reported he was really reporting on activities which had for the most part taken place without his involvement. This year I think he is able to report for a full year's activities. So without further amplification I would like to call on Dr. Loxley.

MR. CHAIRMAN: Dr. Loxley. I believe it is the practice they will give some general introductory remarks then we'll follow with the questioning and the report. Dr. Loxley proceed.

DR. LOXLEY: The report tabled today covers the operations of the Communities Economic Development Fund for the period April 1, 1974 to March 31, 1975. Apart from being over twelve months old the report covers less than one month of the time during which I was Chairman of the Board. What I would like to do, therefore, is to take members through that report, but also to compare it with events since that time insofar as data is currently available. I have tabled data relative to the year 1975-76. I would like to emphasize that this data is unaudited and preliminary.

If you turn to Page 11 of the report, the Balance Sheet, you will see that the most striking change since last year is the reclassification of what used to be termed the Fund's Accumulated Deficit $688,729 to Subsidy receivable from the Province of Manitoba. In 1975 this was paid by the province to the Fund and was initially placed on short-term deposit. After a short time the Fund deposited the amount with the Department of Finance at no interest, since this deposit really represents the reconstitution of the Fund's capital on a par with our authorized but undrawn capital authority of $2.3 million, and will only be drawn as needed. This can be seen in the preliminary and unaudited balance sheet of March 31, 1976, which is on the paper circulated separately.

The significance of this item is that the Fund has now satisfied the legitimate complaint of the Provincial Auditor in his report accompanying the 1974-75 accounts that the Fund was, "Not organized on a sound financial basis, because it was not in a position to cover its interest charges and risk losses." I would like to emphasize that the province has now explicitly recognized what has always been an implicit responsibility for the deficits of the Fund, and the 1974-75 accounts bear no such qualification by the Provincial Auditor. This welcome development does not, however, in any way alter the operating structure of the Fund, which gives rise to expenditures in excess revenues.

I explained at length last year why it is that as a lender of last resort dealing with relatively inexperienced, unsophisticated borrowers, located in remote and isolated communities, the Fund would always have high administrative costs, relatively large bad debts and a failure of interest income to cover even interest expenses. Nothing has changed since that time except the description to be attached to deficits. All the Fund can possibly hope to achieve is a minimization of these by more prudent loan selection, by better follow-up client advice, and by more efficient utilization of resources to keep the rate of growth of expenses down. I believe that we have made considerable strides in each of these three areas in the last twelve months, and I shall describe them later.

If we return to the Balance Sheet you can see that during 1974-75 the Fund drew down $200,000 of its loan capital authorization, making $2.2 million drawn out of total of 4.5. This you can see on the bottom line, Advances from the Province of Manitoba. No such drawings of capital were made by the Fund during 1975-76, the

(DR. LOXLEY cont'd) . . . . .year that's just closed. As at March 31, 1975, total loans outstanding amounted to $1.185 million, of which $45,042 represented loans to companies in receivership. Both of these figures are after provision for bad and doubtful debts of a total of approximately $650,000. This year the bad and doubtful debt provision has been broken down into that provided for receivership accounts and that provided for others, and this you can see again on the balance sheet under the items loans receivable. During 1974-75, 13 loans totalling $435,270 and three guarantees totalling $296,640 were approved. The details of those are to be found on Page 15.

The fact that loans outstanding on the balance sheet have risen by only about $117,000 much less than the $435,000 approved, reflects loan repayments during the year, increased provision for bad and doubtful accounts, the details of which are on Page 12, and the fact that some loans approved were undrawn, details of those are on Page 14, or simply withdrawn. The guarantees of $296,640 are a contingent liability; that is, they're ones which affect our cash flow only when they're called by the chartered banks. As such, they do not find reflection in our account as such but are mentioned separately under Notes to the Accounts, and can be found on Page 14. Total assistance approved during 1974-75 amounted therefore to almost $732,000 to 14 clients. This compares with a total of 16 clients receiving approval for 14 loans to the value of $298,470, four guarantees totalling $76,000, for a grand total of $374,470 approved for the financial year 1975-76. So for 1975-76 the total of $374,000 compared with a total for 1974-75 of $732,000.00.

Now while this may appear to represent a decline of about one half in assistance approved during the last financial year, this does not really give a true story of last year's business. The 1974-75 level of activity was unduly influenced by one account, the Me-Ke-Si account which represented 56 percent of total approvals. Three other loans were on account of receiverships totalling $32,500.00. Now if these four are allowed for then the level of activity of the Fund in 1975-76 was in actual fact higher than that for 1974-75 in terms of new clients and amounts approved. Also, further assistance totalling about $126,000 was approved by the board in 1975-76 but for one reason or another did not result in acceptances. Usually and desirably alternative sources of finance were obtained.

As at 31st of March this year, 1976, the Fund had 94 loan accounts outstanding, for a value of $1.87 million, and ten guarantees for $315,900.00. Total assistance outstanding equalled approximately $2.2 million. Of these 104 accounts, 32 with a value of $694,228 have some form of legal action being taken against them for recovery, five of which, for some $360,000 represent receivership accounts. Progress in clearing the receivership accounts for which ample bad debt provision has already been made, slow progress is due to the legal complexities involved, but we hope to see all of them cleared before the end of the current financial year. From the inception of the Fund to the 31st of March this year, loans totalling $2.8 million have been advanced, guarantees totalling $1.2 million have been issued; a grand total of $4 million from the Fund's inception. This had created, or has helped to sustain no less than 500 jobs at the remarkably low cost of $8,000 per job. This is a significant amount of employment to create in remote communities and does not cover any indirect employment effects.

If we turn now to the Statement of Income and Expense on Page 12, you will see that once again the explicit recognition of the province's liability for the deficits of the Fund is reflected in the last two lines of the accounts. The subsidy receivable from the province was well down from that of the previous year due largely to the fact that provisions for bad and doubtful accounts were less than in previous years. If you look also at the income and expense statement for 1975-76, the last financial year, you will see that the net deficit has been halved over the 1974-75 year; and once again the main reason for this is that a much smaller bad debt provision was required in that year relative to previous years. This is partly the reflection of the fact that the quality of the Fund's loan portfolio had improved over the last two years, partly because loan approvals have been lower than in previous years. Administrative expenses rose rapidly during 1974-75 and 1975-76 as the Fund built up staff to cope with the increased work load. Non-staff expenses were, however, cutback in 1975-76, and after a recent reassessment of our staffing position, we are budgeting a cutback of staff

(DR. LOXLEY cont'd) . . . . .expenses for 1976-77, from $234,000 in 1975 to $217,000 in 1976. We expect to receive $30,000 of this from cost-shared programs, thereby reducing the Fund's outlay by $47,000 or by 20 percent. At the same time, we expect the work load of the Fund to increase by more than it did last year, hence the pressures on our small dedicated staff are likely to grow. Our Board feels however that it has to take a lead in exercising restraint and that further economies and improvements in productivity though difficult will be possible. After receipt of federal cost-sharing of training programs we anticipate total expenditures in 1976-77 to be 13 percent below the level of 1975-76, even after providing for the normal inflation of costs, including wages and salaries.

We have in recent months put considerable effort into the training and upgrading of our existing staff. Efforts which we hope will be rewarded by increased efficiency, as mentioned earlier. With the recruitment of the Fund's Vice-Treasurer we have been able to put on an internal training course in bookkeeping, accounting, financial analysis and project appraisal, designed to improve the skills that our staff can make available to clients. Support is also being given to staff wishing to enrol in relevant formal courses in established institutions and a small in-house library is being developed. Future courses, hopefully with a cost-sharing by DREE will be built on this base.

We are also encouraging clients to seek formal training and the Manager of one of our client companies has recently completed a small business management course at Oo-za-we-Kwun in Rivers, Manitoba, sponsored jointly by CEDF and DREE. A considerable amount of on-the-job training of clients is also performed, and in the last twelve months especially in the area of bookkeeping and accounting. We have, in fact, been working very closely with the Provincial Auditor's Department, in establishing or strengthening relevant, i.e. simple but effective, bookkeeping and record-keeping systems for all but the smallest of our clients. This has not been an easy task, and in fact would have been well nigh impossible had the Fund not hired its own full-time accountant. The development of these client systems has been time consuming, costly, and far from easy, but it has already paid off in terms of assisting clients to understand their own business better and enabling them to make sounder decisions. It has also enabled much improved control by the Fund and has enabled us to introduce a more detailed monthly record of supervision of clients. As a result the Provincial Auditor has expressed satisfaction with the progress made in this direction. It is, of course, an ongoing task, but one which should become easier, over time, as the introduction of a prescribed record system is now a firm condition for disbursement of all new loans.

It can be seen from the account submitted that the MDC continues to finance the operating expenses of the Communities Economic Development Fund, to act as Trustee for the assets of the Fund and to provide a treasurer to the Fund. This arrangement worked well in the early years of the Fund's existence and indeed we have always been well served by Mr. Milne, our Treasurer. In recent years it has, however, become increasingly clear that the CEDF needed its own accounting strength, partly because it is cumbersome to have the accounting section physically located outside the Fund, but more importantly because it makes little sense for the MDC Board and management to have financial responsibility for a Fund which has its own board and management; also, the level and type of financial assistance required by our clients is not one which the MDC could easily handle. For these reasons the legislation of the Fund is currently being changed to establish the CEDF as a separate entity from the MDC. The Fund will have its own treasurer and will receive operating revenues from the Provincial Government. The bylaws of the Fund will also be amended to reflect the changed relationship with the MDC.

I hope I have shown in my discussion of the projected expenses for the current financial year, 1976-77, that this change need not, indeed will not, be accompanied by increased administrative expenses. On the contrary, expenses are expected to fall this year and the change will certainly improve our efficiency.

On the subject of the changes in the Act, I would like to take the opportunity to respond to recent suggestions that they constitute an important departure in principle from the original objectives of the Fund, in that they now permit the Fund to establish

(DR. LOXLEY cont'd) . . . . .businesses in its own right and to buy and sell assets in its own name. What I would like to emphasize is that it is quite clear under Section 9, of our existing Act, before the changes, that the Fund has always had these powers. Thus Section 9(b), for instance, allows the Fund to cause, and I quote, "to be incorporated, establish, make loans to and operate corporations and dispose of shares, assets or interests in the shares or the assets of such corporation and grant options respecting the same to prospective purchases." So the changes in the Act which refer to these powers are therefore strictly of a routine housekeeping nature, and the Fund has always had those powers.

One further change approved last year by the Board of the Fund, was a change in interest rates. Hitherto, we have been charging two percent above the rate charged the Fund by the province. Henceforth, in recognition of the tremendous burden that recent high rates have been on small businessmen, the maximum rate to be charged will be equal to the rate charged the Fund by the province, and subject to a minimum rate of 6 percent deductions will be made from the maximum rate according to the number of workers employed by the project in question. This is an attempt to tie the rate of interest to social benefits generated, as we are encouraged to do under Section 11(3) of the Act.

This change will of course have implications for the Fund's income. Discussions have been going on now for some time concerning the possible restructuring of the CEDF's finances; it is expected that an announcement will be made later in the year as to precisely how this will be approached once government has decided upon a course to be followed. In a very real sense, therefore, 1975-76 has been a year of consolidation and of cautious but pronounced progress. I'd like to express my thanks to the staff of the Fund and to the Board for their contribution. Thank you.

MR. CHAIRMAN: Thank you, Dr. Loxley. Mr. Minaker.

MR. GEORGE MINAKER: Yes, Mr. Chairman, through you I would like to thank Dr. Loxley for the complete report and also for bringing us up to date on what the Fund is presently doing with its operations, it's appreciative when we can get a general up to date picture of a department or a Fund like this.

I'm wondering, there was many figures presented and not being a financial specialist, I might be in error in some of the questions that I raise, I hope Dr. Loxley won't mind if I do recap possibly some questions. I believe, Mr. Chairman, that Dr. Loxley indicated that in the period of 1975, I guess relating to this report that it has been audited, there was 14 new clients for that year and $732,000 were authorized for these clients. Mr. Chairman, I wonder if I could ask Dr. Loxley, that it would appear that the administrative costs to handle those particular loans for that year are somewhere in the order of something like $382,527 which represents salaries and administrative expenses, that is it normal for an operation like this. It would appear that for every dollar that you loaned out you had fifty-two cents in operating and administrative expenses. Is this a normal type of operation, do you believe?

DR. LOXLEY: Well I think to be accurate, the operating expenses of the Fund cover not just the new business which has been generated, not just the new loans that are approved, but the expenses involved in processing applications which are subsequently rejected or applications which don't even get to the board, there are also, and increasingly so, in the last twelve months, in fact the last two years I would say, those administrative resources are increasingly being put to work in monitoring existing clients. And if the base of the Fund is expanding in terms of the number of clients outstanding and the amount of loans outstanding, then the operating burden on the Fund is also going to increase annually. I think having said that though, that there's no grounds for complacency. What one has to do is to ensure that the increases in operating expenses are legitimate and are absolutely necessary. And this is what the Board has been trying to do ever since its inception.

MR. MINAKER: Mr. Chairman, I know the Honourable Member from La Verendrye pointed out that in actual fact it's dollar for dollar, I would think, the administrative costs if you consider the guarantees I think for the year were they not something like $374,000.00, so in actual fact dollar for dollar was almost spent in the administration.

DR. LOXLEY: Well, again, the point would apply that a guarantee involves just as much work for the Fund's staff as a loan does, and the base of the Fund is expanding in terms of volume of work, in terms of controls, in terms of supervision. The Fund's administration is really quite small. We're talking now about a total of twelve staff in total, which includes secretaries. If you look at the number of loans that have been made since our inception, number of loans and guarantees is about 170, divide that by the staff available. Each of these loans is monitored monthly. The Board also requires very detailed reports on the larger accounts from time to time and then at the same time these same staff have to go out, they have to advise clients, they have to work with clients, and simultaneously bring forward new proposals to the Board. I would argue that the staff of the Fund is really quite overworked, and the non-staff expenses have been pruned to a bare minimum. I think the figures that I read out in terms of the budget for this year, which is a 13 percent cut, is really quite significant.

MR. MINAKER: Mr. Chairman, through you to Dr. Loxley. It appears that there's something like $316,000 in guarantees that the Fund is liable for. Can the Doctor advise us how they monitor these guarantees, the accounts, because it represents, I would think, somewhere in excess of 15 percent of the outstanding commitments of the Fund at the present time.

DR. LOXLEY: We monitor the guarantees in exactly the same way as we monitor the loan accounts. We don't see any difference in terms of our liability, and therefore we require of these accounts exactly the same monthly reporting, record supervision they call them, as we do of loan account clients.

MR. MINAKER: Mr. Chairman, Dr. Loxley indicated that of the $2.2 million of loans or guarantees outstanding, that something like 31 percent of the accounts, I think 32 of the 104, that were in some type of legal situation with, I would presume, creditors, for something like $694,000.00. I wonder if he has the figure that would represent of the $694,000 how many of those particular accounts would be in terms of guarantees at the bank, not direct loans. I don't think that was mentioned in the report.

DR. LOXLEY: Mr. Chairman, could I check some of these figures with the staff of the Fund?

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Unless Mr. Minaker needs that information for his next question, perhaps he could go on and then that could be dug up.

DR. LOXLEY: Could I just answer that now, Mr. Chairman. I was somewhat confused by the absence of legal accounts among the guarantees. The answer is there are no legal accounts against guarantees because the guarantees have been paid out. So all our legal accounts refer to loan accounts.

MR. MINAKER: I believe, Mr. Chairman, Dr. Loxley said of the 32 accounts, that 5 of them were in receivership, or was that a total of 37 accounts were in receivership?

DR. LOXLEY: It's inclusive . . .

MR. MINAKER: . . . It's inclusive in the original 32. I wonder if Dr. Loxley has an idea of what kind of recovery the Fund would have following receivership on the $360,000 once they're completed.

DR. LOXLEY: Yes, we have a preliminary estimate. If I could run through each one of these. I think it has to be appreciated though that these are preliminary and we're not as yet sure what the legal fees involved are going to be or indeed how the assets are going to be shared in some cases. There are four clients and five accounts.

If we take the first of these, the R & M Construction, we expect, or should I say that so far the receiver has recovered just short of 20,000, and there is the possibility of a recovery of a further 14,000, that from that legal fees and receivership fees will have to be deducted. So that's the R & M Construction. The loan outstanding on that one with accrued interest is exactly $86,627 and we have a bad debt provision against that.

The second account is that of William Lamirande, an amount outstanding of $84,896.00. We have recovered so far $31,424.00, and action is being taken which might result in a further 17 being recovered. The bad debt provision against that is so far $65,000.00.

(DR. LOXLEY cont'd)

The third client is Therrien Forest Products. The outstanding is $71,399, and we expect no recovery, realistically, on that one.

The final one is Frank McIvor Limited, which has an outstanding of $117,167.00. We have realized 31,000 so far, we are in pursuit of a further $29,000.00; and a bad debt provision again in that case exists and is $95,000.00.

MR. MINAKER: That's all the questions I have at the time, Mr. Chairman.

MR. CHAIRMAN: Mr. Blake.

MR. DAVID BLAKE: There will be lots more detailed questions. Mr. Chairman. There's just one or two observations that I want to make on the activites of the Fund. It just seemed the Fund started in 1972 and built up a tremendously active year, next year lending out something over a million dollars with about 80 some clients including guarantees, and then dropped off last year something of $300,000.00. Do you anticipate the activity will step up to that previous level that you attained before?

DR. LOXLEY: That's a difficult question to answer. I think there are many reasons why the business has fallen off. Maybe I could start by giving my versions of that. I think that business has fallen off for a number of reasons. First of all, when the Fund first started, there was obviously a very large unsatisfied backlog of demand for this kind of facility. The applications and enquiries that came in, I think you can see this on Page 7, the enquiries were quite tremendous; 312 enquiries in one year, for a small fund like this is really quite a lot. The Fund dealt with that backlog by making quite a few loans in its earlier years, and it will obviously in future always be difficult to reach that level of enquiry.

I think that it's also more difficult to find enterprises that are worthwhile supporting if the Fund simply sits back and waits for them to come in. I think those that would have come in, most of them have come in. So really what it involves in future is a need for the Fund to go out and find clients. That's on the demand side. I think on the supply side, the Fund has also changed since its inception, I think that it's learned a lot of lessons since it was first established, that business is difficult. Like all businesses the Fund had to learn as it went, and I think that it has learned, I think that it has very clear ideas now as to what it wants to do. So we do turn down quite a few. This year our business was higher than last year in many respects, but we turned down more. I don't think at the present time we are overcautious. I think that in 1974-75 there might have been that problem. What we're trying to do now is to retain a balance. The number of enquiries last year was down to 125 compared with 173.

So I would say that we are anticipating, should I say we are planning to almost double our loan activity in terms of volume, but in order to do this we are having to change our approach and the Fund's staff are systematically going from community to community in the north, they started this and this will be expanded, discussing with people in these communities and trying to investigate new investment possibilities for this community.

MR. BLAKE: It just seemed odd to me that that tremendous backlog of enquiries that you had, that they should be settled in an election year and you may be planning on stepping it up again.

MR. CHAIRMAN: Mr. Blake, if you wish to ask that question you can ask the Minister in the House, I don't think it is for you to ask the question of the Chairman of the Communities Economic Development Fund. I don't believe it is up to him to determine those things, if you wish to discuss it you can talk with the Minister responsible and you can raise those questions I'm sure in many ways in the House.

MR. BLAKE: I was merely asking him the activities on the account, Mr. Chairman, and he explained to me what was planned for the activities of the account and I was merely drawing a conclusion possibly from his reply.

MR. CHAIRMAN: Well that conclusion, as I indicate, you can draw it up with the Minister . . .

MR. BLAKE: I wonder if Dr. Loxley would care to comment on the, I shouldn't say success or otherwise, but I'm speaking of direct loans as opposed to loans that are guaranteed, and if I say guaranteed by a bank I'll be accused to wanting the

(MR. BLAKE cont'd) . . . . . government to take all the chances and the banks make all the profit, so I'll say loans guaranteed by credit unions, this might make it a little softer for the members opposite. Do you not feel that there is a different attitude by the borrower when he feels that he is dealing with a financial institution rather than dealing with a government agency, have you noticed any difference in the loans that are provided through a guarantee and the loans that are provided directly by the Fund? You would have some indication probably on your losses.

DR. LOXLEY: First of all the Fund is charged under the Act to act as a lender of last resort, so that if a client is in a position to obtain commercial bank assistance then the management of the Fund really have no mandate to persuade the client to take a loan. I think what tends to happen is that the banks would obviously, knowing that the Fund exists, they would move the Fund where they felt this was advisable from their point of view; from the point of view of the client guarantees are really quite expensive. The client ends up paying a rate of interest which is well in excess of what is reasonable on account of the two percent guarantee fee that is charged. So from the clients point of view, he may have some incentive to go for a loan rather than a guarantee, but I think our experience has been that people do want to use the established commercial outlets where possible. There are a number of clients who I think benefit considerably by using the Fund. Commercial banks while they can perform many many services that we can't they don't really have the time or the resources to follow up and to provide training and managerial assistance. I think that for many of our clients this really is important; I don't think that's ever been a deciding fact in terms of where they got their finance from, but I would argue that many clients could not have received this kind of service from chartered banks.

MR. BLAKE: You mention in your remarks that the provision for doubtful accounts had been halved almost or better in the preliminary statement that you provided. It's a round figure and I would assume is just an estimate. Is this a hard estimate or . . .

DR. LOXLEY: The bad debt provision for last financial year is less than a third that of the previous year, it's down from 99 to 30. This is not something that the Fund fixes arbitrarily; the way this is fixed is that we go through, the management and the board go through each individual account.

MR. BLAKE: That's what I'm asking, these are realistic figures . . .

DR. LOXLEY: Right. It's really, I suppose, what commercial banks would call looking at the break-up value and in the last analysis what would you get back. Now again there's a check on what the Fund does in that the Provincial Auditor also goes through these accounts and if he's not satisfied that sufficient provision has been made then he will ask the Fund to raise that provision. So the figures that you see as far as we and the Provincial Auditor's department can judge, realistic figures. And again I think the timing is important. The large amount of $600,000 was made because of the backlog which had developed in terms of accounts which hadn't been provided.

MR. BLAKE: Could you tell me what remuneration is paid to the directors or what they receive for their attendance at meetings . . . ?

DR. LOXLEY: Yes, the directors receive $250 per quarter plus $40.00 for every meeting that they attend over, I think it's 16 per year. This is probably the lowest remuneration of any Crown Corporation and in some respects has not been satisfactory, particularly where individuals lose income as a result of attending board meetings, and we do have two or three in that position.

MR. BLAKE: And you mentioned your staff was at now 12, number 12?

DR. LOXLEY: Yes, that's right.

MR. BLAKE: In total. Also, you mentioned in your remarks that someone had taken an upgrading course in small business management at Oo-Za-We-Kwun. Is that a regular course run jointly with the two funding agencies and could you give me some idea of how many enroll in that course, how many take that course? It's odd that you only have one, that's what . . .

DR. LOXLEY: I'll answer as much of that as I can, I think that's a fairly detailed question which I should turn over to the staff. First of all the person attending was an assistant manager from Easterville Harvesting Company. The course was a

(DR. LOXLEY cont'd) . . . . .five-month course which ended in March this year. I think it's a recurring course. It's not financed by the Fund and DREE. The fees of Turner were financed by the Fund and by DREE. How the institute is financed I'm not sure, but perhaps the management could give you further details if you need that.

MR. CHAIRMAN: Mr. Jones, would you care to?

MR. JONES: Well, in that particular centre, Mr. Chairman, the main financing agency is the Department of Indian Affairs which really was the catalyst for pulling this centre together, in terms of a residential community as well as a training course. The Department of Indian Affairs is the prime financier.

MR. CHAIRMAN: Thank you, Mr. Jones.

MR. BLAKE: Have you any idea of how many would take the course? Is it run twice a year or once a year, how long is it or . . .?

DR. LOXLEY: Well, it's a five months course, generally. I'm sorry, Mr. Chairman, I can't answer the details in terms of the numbers who attend in terms of the fund's clients.--(Interjection)--Twenty took the last course, I believe.

MR. BLAKE: I see. Has this proven very useful, the person that came out of this course, has he been able to bring those skills back to the operation that he was engaged in?

DR. LOXLEY: I think that's a difficult question to answer at this stage, the course only ended in March this year and the season for the Harvesting Company ended just before that time. So we will be in a better position to assess that within the next twelve months.

MR. BLAKE: We can maybe pursue that later on. I think that's all the notes I have, Mr. Chairman, for the time being. I'll pass it on to someone else who has more detailed questions. Thank you very much.

MR. CHAIRMAN: Thank you. Mr. McGill.

MR. McGILL: Mr. Chairman, as Mr. Minaker said, I think Dr. Loxley has made the work of our group much easier by the way in which he has presented his information, it's been very helpful in getting an up-to-date picture up to March 31st of 1976, so it's, I think, an indication that we are going to be able to get the information we need very quickly and much of it has already been volunteered in the opening statement.

MR. CHAIRMAN: Yes, it must be also noted that it was indicated these are unaudited, just preliminary figures.

MR. McGILL: Some of the questions I had have already been answered by Dr. Loxley as a result of Mr. Blake's questions, and the one that I had noted here was the number of enquiries in 1976, and I believe the number quoted was 125. So that from 1973, a peak of 312 are down to . . .well almost a figure comparable to the year of inception. And the staff in 1973, how did it compare with the present staff of 12 that are handling all of your enquiries now?

MR. CHAIRMAN: Dr. Loxley.

DR. LOXLEY: This is a difficult one for me to answer. I'll attempt to answer, but you must bear in mind that this was three years before my chairmanship resumed. The staff has been up as high as 15, I think, - 16, but one person was seconded to another organization. As far as I know, never been higher than that.

MR. McGILL: So, it might be fair to say that the staff has remained almost constant over the period of the years. And the work load, in terms of total enquiries, it seems to have - well it definitely has declined - and you gave the reasons for that. The fact that there was a backlog and that most of the businesses that were obvious clients, people who could use your assistance have now been serviced in one way or another. I'm wondering if you're now preparing to move rather aggressively into the field of soliciting clients. Is this likely to occur where you have an established operation and an established staff pattern where they begin to notice some - well some real decline in the number of people that are coming forward - I'm wondering if you're going to become sort of a soliciting agency now for this kind of business. Is this likely to take place?

DR. LOXLEY: I think, Mr. Chairman, if I could answer that in two parts. Although the number of enquiries has gone down I wouldn't argue that the administrative

(DR. LOXLEY cont'd) . . . . . responsibilities of the Fund have reduced accordingly. I think that the volume of loans outstanding has increased and the amount of reporting that we are requiring of our clients has also increased, so I think the volume of work is probably not reflected accurately in the enquiries.

As to the Fund aggressively seeking new business, I think that's probably not really what we have in mind. What we would like to see is a judicious encouragement of initiative in a number of communities. We certainly don't want to give the impression that we have money to give away from the people that control it. What we'd like to do is to encourage communities which do have ideas, and there's a number of these which for one reason or another they haven't had the skills to put the proposals together. We would like to work with individuals or with community groups to do that, and we would like our staff to spend a little more time finding out what kinds of ideas exist or are in an embryonic stage in a community level.

MR. McGILL: Mr. Chairman, Dr. Loxley pointed out the Act permits the Fund to buy and sell businesses in its own name and to set up businesses if that should be considered to be a useful operation. Have you any plans at the moment for the creation of businesses in the communities in which you are now providing assistance to established companies?

DR. LOXLEY: No, we have no concrete plans, we have no specific plans. You know this power has been on the books, it's been unused and at the present time we have no specific proposals for doing otherwise.

MR. McGILL: Then your interest in the business is in terms of the amount of capital you've supplied; have you actually acquired equity in any businesses in the north?

DR. LOXLEY: Yes, we had acquired equity, it has been used to enable the Fund to buy nominally into some of our client's businesses. This was a practice which we have not continued in recent years, but we did acquire nominal holdings in a number of companies. The idea then was that the CDF would put a member on the board of the company, in order to theoretically give the CDF greater control over what was happening. I think the general manager went into that last year. This did give rise to a number of problems, possible conflicts of interest and so on, and we've decided that . . . at least there have been no occasions recently to consider doing that again.

MR. McGILL: So, since your assumption of the Chairmanship you have not pursued this particularly. I take it then that you're not really personally very enthusiastic about that kind of operation.

DR. LOXLEY: Well, it's a practice that was commented upon in the past, we did receive some advice from the Fund's lawyer that in certain situations this could lead to potential problems. For instance, it's difficult to pursue a client for bad debt if the Fund's own staff have been sitting on the board, that kind of problem arises. I personally would prefer we, as far as possible, avoid that situation but I wouldn't rule it completely out of consideration.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Mr. Chairman, through you to Dr. Loxley, in further questioning with the same subject that Mr. McGill was questioning on. There has been as you know amendments come through to the Act this year in the Legislature, and in fact in your year-end report on Page 8 there's a paragraph stating, "A further change to take place will be the subject of amendments to our Act to provide for autonomy, distinct from the Manitoba Development Corporation, and following approval of such changes, the administration costs and provision for bad debt losses will be provided by means of an appropriation from the Department of Mines and Resources." I wonder if, possibly, Dr. Loxley, you could expand on that? Under the present status of the Fund as we have it - and I appreciate they're unaudited reports before us - what do you anticipate the provision for bad debt losses will be, that will be provided for by the Department of Mines and Resources and will they be a write-off, is that what is intended here, that there will be a one-time payment then start afresh?

DR. LOXLEY: I think, Mr Chairman, it's difficult at this stage to project what bad debt provisions are likely to be. The way in which the system works is that the charge on the Fund as far as bad debt is concerned rises once the provision is made in the income and expense account, it rises at that point and finds reflection in a deficit, (DR. LOXLEY cont'd) . . . . .if that's the case, in the accounts of the Fund. That has to be covered formally, but of course once a deficit has happened the money's already been expended. The formal covering in the past has taken the form of the Department of Finance making provision I think through the Department of Mines anyway, which is our parent department. So this is not a departure from established practice, at least as far as the bad debt provision is concerned. The provision would refer to the amount approved for writing off.

MR. MINAKER: Well, Mr. Chairman, I believe I've added the figures wrong, but there appears $681,465 shown as bad debts from inception that was, I believe, given as a subsidy by the government. Now is that still on the books as being a commitment by the Fund to pay back to the government or is that a grant that's accepted and will become part of the operating capital or funds of the Fund itself.

DR. LOXLEY: That's right. The grant that was paid by the province simply re-establishes the Fund's capital.

MR. MINAKER: Then we're looking at probably somewhere around $65,000 then for this last year's operation. I again appreciate that it's not an audited statement . . . I'm trying to pick that figure out of what anticipated bad debt is up to date.

DR. LOXLEY: If I could assist in that. The net loss for 1975-76 is $93,136.00, and of that $30,000 was a result of a provision for bad and doubtful debts. And the difference is really a difference between interest income and interest expense, more or less.

MR. CHAIRMAN: Mr. Green. Point of order?

MR. GREEN: No, I'm asking for permission to intervene and ask would you not also include the $396,520 which you list as administrative expenses recoverable as being a grant.

DR. LOXLEY: This is in fact a grant, or at least when the ties with the MDC are broken that would also have to be refinanced from somewhere and presumably would come from the appropriation . . .

MR. GREEN: So there would have to be an appropriation to cover the administrative expenses. In other words, you figure out your net loss of $93,000 after receiving $396,000 from the government. So if you charged your administrative expenses to the Fund then your loss would be $480,000.00.

DR. LOXLEY: That is correct.

MR. MINAKER: That, Mr. Chairman, might explain, my next question was with regards to staff for the coming year. I think Dr. Loxley indicated that they were looking at something like $217,000 for salaries, and I was wondering why in the Estimates under Communities Economic Development Fund for the coming year, it shows $555,100 for the Fund, whereas the previous year it only showed a $100,000.00. There's an increase of $455,000. I wonder if Dr. Loxley can indicate the reasons for this.

DR. LOXLEY: If I could be given a couple of minutes, I can find a man that could explain the breakdown of that. Mr. Chairman, what that entails is the covering of the Fund's administration costs and its interest commitment on moneys advanced by the province.

MR. MINAKER: Mr. Chairman, also relating to the amendments of the Act, and Mr. McGill sort of questioned briefly on it. Is there any anticipated new policy with regard to the operation of the Act, because there is one basic amendment to the Act that I know I was personally concerned about and many of the members of our Caucus was, that it now will authorize the Fund to own properties and there was brief indication about part equity in companies. I wonder now if there's any anticipation that the Fund might look at developing on its own and making it a Crown agency, the particular company.

DR. LOXLEY: I think, Mr. Chairman, if I could read out the full text of the provisions under Section 9 of the existing Act, I think the members would appreciate that the Fund already has considerable powers to do more or less what it wants. Section 9(a) reads, "That the fund may subscribe for, obtain or otherwise acquire and hold and dispose of shares, share warrants and securities of any company or acquire assets or any interest of any person carrying on any business capable of being conducted to

(DR. LOXLEY cont'd) . . . . ."enhance the economic development of remote and isolated communities; (b) Subject to the approval of the Lieutenant-Governor-in-Council cause to be incorporated, established, make loans to, and operate corporations and dispose of shares, assets or interest in the shares, or the assets of such corporations and grant options respecting the same to prospective purchasers." Those two clauses really give the CEDF the power to do whatever it likes in terms of business.

As I said earlier, the changes in the Act were suggested simply to clarify the relationships between the fund and the province. There has been no major change in terms of policy at the Board level. The fund has the power to go directly into business if a situation arises where the Board feels that that is so then it will recommend that this be done to the Minister, I think that's the accepted procedure, and the Minister would then give his verdict. So I would argue that we've always had those powers, we haven't used them, and the changes in the Act do not reflect any dramatic shift of policy within the Fund.

MR. MINAKER: Mr. Chairman, I don't have the new Act in front of me, but I'm just wondering if Dr. Loxley can advise, under the new amendments to the Act does the Board require the approval of the Lieutenant-Governor-in-Council to acquire the properties now under the new Act? I can't recall now, I don't have the Act.

MR. GREEN: Mr. Chairman, I don't know whether they do or not. I just wonder, we are going to have the legislation before committee, at which time, again, Dr. Loxley will be here to discuss particularly the legislation, so maybe that could be held to that point. I, too, have been trying to convince Mr. Minaker that I don't see any substantial change, but if there is one, we'll seek it out.

MR. MINAKER: The other question I had relating to this, Mr. Chairman, is that in the case of situations like say at South Indian Lake where the cash and carry store is, say, operated by Northern Affairs, and it's our understanding that there's questions whether or not, you know, legally the department can operate and run the store, whether the Fund would take over responsibilities like that and say purchase the store and operate it as a Crown agency. Has there been any anticipation in this regard?

DR. LOXLEY: I think, Mr. Chairman, the Fund does have that power under the Act, if it were desired that the Fund should enter into that particular case then the Fund could do so.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Thank you, Mr. Chairman. First of all, specifically dealing with Me Ke Si Construction. I note that when we go back in the annual reports of '73 they loaned or guaranteed a loan of $150,000 with no fee and in 1974 we had a loan of $158,000 at 11 percent interest and a guarantee of 75,000 at a charge of two percent. And then we go to '75 where you have again loaned them 209,000 at 13 percent and guaranteed at two percent, 200,000. What kind of an arrangement have you got with this company? There seems to be money sliding in and out all the time. The amount of input as far as the corporation is concerned seems to be climbing. Have the previous loans been paid back?

DR. LOXLEY: Mr. Chairman, the arrangements with Me Ke Si are really no different from those of arrangements with other clients except that there is a specific provision of a government guarantee in this case. The rates vary as the interest rates to the province vary and the amounts are varied, they're varied between '74 and '75 as the capital of Me Ke Si was reconstituted.

At the present time, in this present year we anticipate that Me Ke Si will be drawing down its loan with the Fund, its guarantee under the Fund's guarantee obligation, we hope by as much as 60,000 on the basis of earnings in the last season.

MR. BANMAN: I would just have an observation that in the 1975 Annual Report the majority of loans, well over 50 percent of the loans and guarantees that were handed out by this particular company were done to Me Ke Si, sort of seemed to get a lion's share of that particular thing. Have we got an ongoing commitment with these people or will this appear in next year's statement again. Or have we got them on a footing where we're going to be receiving payments then as we move along?

DR. LOXLEY: What we've done there, Mr. Chairman, is in the last year the Board of the CEDF took a position that it would not increase its support to Me Ke Si but

(DR. LOXLEY cont'd) . . . . .would rather wait and see what happened in the last season. And a review of this particular loan is due to come up at I think our. . . July meeting? The Board at the --(Interjection)-- June meeting, I beg your pardon, when we will go through it again and see where we stand.

The performance of the company does appear to have improved over the last twelve months. This preliminary information that we have shows that there is after receipt of some federal grant money a modest operating surplus, and that would be borne in mind when we look at the account.

MR. BANMAN: Some more questions, Mr. Chairman. I notice in the report that assistance to be granted in 1975 - 76, you vary the interest rates. For instance Manigotagan Community Development Corporation is paying 8-3/4 percent over a five-year loan, whereas you're charging people all the way up to 13 percent interest and I think the most common is about 11-3/4. Could you explain why you've varied the interest rates because we all know that the prime lending rate is more than that. Why are we subsidizing certain companies and not others?

DR. LOXLEY: I tried to cover that in my opening address by saying that during the financial year the Board had changed its interest rate policy. In the past we had been charging two percent more than the rate to which the province advances money to the Fund. We felt that for many of the enterprises that we're dealing with, this really is inordinately high. What in effect it means is that the CEDF is taking a large part of any earnings that are coming into small companies. So it's something that's been discussed on and off for three years. The Board of the Fund decided that with. . . from April 1st this year we should introduce the new interest rate policy whereby the maximum rate to be charged clients would equal the rate to which the province advances money to the Fund. The minimum would be 6 but in order to get anything less than the maximum, clients would have to employ more than 6 workers. Those employing between 6 and 10 would qualify, but not automatically get, would qualify for a one percent reduction in rate. Those between 11 and 15 would qualify for 2 percent and those employing more than 15 would qualify for 3 percent. And the loans at the bottom here, McPherson, Manigotagan and Baker, all fitted into this new interest rate system.

The other interest rates were not altered because under the Act we're not allowed to alter interest rates retroactively.

MR. BANMAN: Do you believe that a sound type of principle if you employ more people you're supposed to get a lower interest rate? I question that. I see the Minister of Industry and Commerce here too. I think the experience that we were having in rural Manitoba where we're attracting large corporations - and I need refer only to one in my community and one in Virden now where we're trying to really get large people in and create a large type of employer employing 15 or 20 people - we seem to have maybe more trouble getting them going than the small home grown type of businesses that grow naturally and evolve naturally, and I'm just wondering if maybe you should be giving the smaller people a bit of a break than the bigger people. It's probably a philosophical type thing, but I think our whole society right now is geared up to get the big corporation in and get those people employed, where very often what should happen is that we get small homegrown business started off and develop that and expand that as it goes along and maybe give those people that are starting the one, two, three-man shop a better break than somebody that's going in big. Bigness, I think we've found out, isn't necessarily better.

MR. CHAIRMAN: Mr. Banman, I believe you answered your own question and that is something that you could discuss in the House when a bill comes in and you could make that reference. I don't know if it is fair for the Chairman, but if he wishes to comment, fine.

DR. LOXLEY: I think it's important to explain the thinking that went into this. The Board did have a position I think that it should be made known. We feel that the most significant problem in the areas that we're dealing with, particularly in the north, is the very high unemployment rate. And this rather than any other factor is probably most critical. We also feel that in a number of instances where capital intensive enterprises have been established they haven't done very well. So what we would like to encourage is that where there is the option of doing something, the capital

(DR. LOXLEY cont'd) . . . . .intensive way as opposed to doing it using more labour, then we should push plants in the direction of employing more labour.

The example that comes to mind immediately would be a skidder operation as opposed to a cut and pile operation. If clients can demonstrate they can handle this skidder and can do the work properly, then we would support that, and we have supported skidder operations. In other cases it's been apparent to us that the enterprise would have been better employing unemployed labour and less machinery. So this is a philosophy on the . . .

MR. BANMAN: A further question. When we look at the loss of ratios and we're looking at the operation costs and we mentioned here before that for every dollar you loaned out last year you spent $1.06 in administration doing it. And I guess it's hard for many of us to reconcile that because I just picked up on the way in the other day from my riding, in the Steinbach Credit Union they handled 5,100 loans last year, in 1975, for a total of $25 million and their operating costs were about what yours are. Would you say that the Community Economic Development Fund is a social agency?

DR. LOXLEY: I would say it's a social agency which has got very clear business terms of reference which are qualified by the social aspect of its work. I would argue that the difference between the example you gave and the CEDF is that for credit unions and for chartered banks most of the work involved in managing and running businesses, and even in preparing submissions, is done by the client. There are very few clients who will come into CEDF with a proposal that makes any concrete sense in terms of detail. So the staff have to sit down and work it through. Many of the firms and individuals who go to chartered banks already have their proposal worked out and it's much easier to deal with. They're usually more sophisiticated.

I think also in terms of the credit union if the CEDF wanted to give personal loans we could very easily dispose our capital. The granting of personal loans is really a very straightforward business, but that is not the business of the CEDF.

I would also question your figures on administrative costs relative to the amounts disbursed. I think it is important to have the figures accurate. I simply repeat that this can't be the sole consideration. In chartered banks for instance during down-turns of business, the new business which chartered banks do may well be zero or negative. So if you were to compare the whole administrative costs with the new ones that they gave you'd have a negative ratio, I think we can't really do that to be fair to the staff and to the board of the Fund. We have to look at the total business, the total volume of business.

MR. BANMAN: When the people of the Fund sit down at the end of the year and plan a new year, do you set down and work out a budget? In other words do you project what your costs are going to be? Of course I think from the last four years we can see that there's no way that you're ever going to recoup any of the administration costs or salaries because of the write-offs that you have been incurring over the years. Do you sit down and say, okay, this year we're going to lose half a million dollars as far as administrative expenses. You have to have some kind of a balance sheet I imagine and you've got to sit down and figure it out. Looking at the loss ratio that you've been working on, you've been working on what? - about a 15 to 20 percent, this next year on a 25 percent, loss ratio, do you sit down and say, okay this year it's going to cost us half a million dollars to run this Fund?

DR. LOXLEY: What we do is we prepare a budget which takes into consideration the existing volume of work and the anticipated volume of work. I should add the reason why the fund makes losses - I did explain this last year, it's really very straightforward - the difference between the interest charges that we make on our clients, those that are able to pay, and what we pay the province, the two percent on the small volume of business is clearly totally inadequate to cover any kind of administration. In fact the interest that we earn is often less than what we pay. So if we judge the Fund from that point of view then we're always going to have this problem every year because it just can't do otherwise.

As far as budgeting is concerned what we do is we try to work out both staff expenses and other expenses relative to the workloads of staff members. What's been introduced this year, which I think is probably not very widespread in the province, (DR. LOXLEY cont'd) . . . . .every staff member prepared a detailed - well first of all he has very fixed responsibilities with regards to loans and accounts, and secondly each one prepares a monthly statement of activities. So we know exactly where each staff member is going to be and what he's going to be doing on any day of the month and if there's any slacking there then the work can be reallocated. This is the way we've tried to work into the budget the efficiency measures that I mentioned and we have in fact succeeded in reducing the budget which I think is something that is unusual and something that will put pressure on the staff of the Fund. So that answer is yes, we do sit down.

We also work out the cash flow of the Fund. We know roughly what we're going to get back each month, we know roughly what we anticipate in terms of losses and as I say the bad debt provisions which do vary from year to year, these are made by the Fund but they require the approval of the Provincial Auditor and they're not something that we can mess around with independently.

MR. BANMAN: For the year 1975-76, what does it look like as far as the expenditures and the losses? Will we be looking at about half a million dollars shortfall again?

DR. LOXLEY: I think if I can gather my thoughts on this because we're now talking about a third year. In effect we're trying to cover three years at once . . .

MR. BANMAN: I don't want to tie you down to any exact figures. I'm just asking for a ball park figure.

DR. LOXLEY: It depends upon the volume of business that actually takes place and we would argue that the administrative costs will be, as I've indicated, they will be about 13 percent below last year's. Then there will be some shortfall between interest earned and interest paid which last year was approximately 70,000, 80,000. On top of that there will be the provision for . . . Now that provision will vary with the amount of loans that we put out and with the conditions of the existing volume of loans. So it's difficult to put a single figure on to that. It would be unwise of me to do that in this context.

MR. BANMAN: A final observation. From looking at the different reports and that I'd just like to say that probably the fewer loans you put out the less money you'd probably lose. I know that defeats the purpose of the Fund but it would save the taxpayers some money. Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Blake.

MR. BLAKE: Thank you, Mr. Chairman. There's just one of two questions I'd like to ask the officials of the Fund. On Page 15 in respect of the loans ending March 31st, the first one, a loan to Ilford Northern Construction on a five-month term, $10,000. I assume that loan is turned over in the ensuing year.

DR. LOXLEY: Yes, Mr. Chairman, that loan was fully repaid.

MR. BLAKE: The second one, Me Ke Se Construction on a one-year term, $200,000 on a 2 percent minimum fee, guaranteed. That has turned over?

DR. LOXLEY: I'll just check that with the general manager.

MR. JONES: This guarantee would expire to coincide with the Federal Department of Indian Affairs' guarantee at the end of July and as the Chairman said earlier on we are not absolutely clear yet as to precisely what reduction can be made in that commitment. It's subject to negotiation between Indian Affairs and ourselves and the company. So that is not totally turned over yet.

MR. BLAKE: I see. There's a loan on a longer term to Interlake Custom Killing Plant. That plant is still functioning and operating?

DR. LOXLEY: Yes that's still a functional operation.

MR. BLAKE: Okay, a final one. Sasagiu Rapids, a $91,000 loan on a nine-month term or a guarantee on a nine-month term. Has that turned over or what was the purpose of that? Was that bridge financing pending mortgage funds?

DR. LOXLEY: That's correct.

MR. BLAKE: And that has turned over, and is being resolved, eh?

DR. LOXLEY: That has turned over, yes.

MR. BLAKE: Okay, Mr. Chairman, that's all the questions I have. I make comment on the operation of the Fund and I realize the type of communities they operate in and the type of people they're dealing with and I think it's very difficult to try and

(MR. BLAKE cont'd) . . . . .assess the operations of the Fund comparing it with any other type of financial institution. I don't think operating the way you do you would survive very long in the business world using hard-nosed business decisions. But my colleague from La Verendrye mentioned that it may be considered a social agency and I think when you look at it in that light it maybe makes it a little harder to criticize some of the losses, and as long as we're prepared to go into those areas with the type of funds that we're apparently going in with and be prepared to lose something in the neighbourhood of 20 or 25 percent of the funds loaned out, then you can justify the existence of the fund on that basis. That you, Mr. Chairman.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Yes, Mr. Chairman. Through you to Dr. Loxley. What type of liaison does your department have with, say, the Northern Affairs Department and the Indian Affairs Department because I would presume at times your clients will be working with these other departments or at times I would think these departments might be trying to achieve the same objectives as your Fund.

DR. LOXLEY: Yes, I think that's correct. We do have close working relationships with both departments. Sometimes that finds reflection in the actual loan accounts that we're dealing with so that the General Manager of the Fund would be in close contact with the Economic Development section of DIAND and also with their loan agency.

As far as Northern Affairs is concerned the department has on at least one occasion provided an input, a technical training input, into one of our loan accounts, in other words providing some framework, some groundwork upon which we could build our loan systems.

MR. MINAKER: Yes, Mr. Chairman. Through you to the Doctor. Has Northern Affairs ever approached your department requesting takeover of some of their operations or say of buying equity? I'm thinking particularly of South Indian Lake store where they have this situation. Have they approached your department to request maybe your department taking over the ownership or the operation of such stores?

DR. LOXLEY: The option of the CEDF taking over the store has certainly been raised as a possibility. I doubt whether that's ever been a formal possibility, it's been something that's been raised in passing. It has not been considered by the Fund or by the Board of the Fund as a concrete proposal.

MR. MINAKER: If I understand Dr. Loxley correctly, Mr. Chairman, there has been no formal request from the department, Northern Affairs Department, on these subjects?

DR. LOXLEY: To the best of my knowledge that is the situation.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: There's been no formal request per se. We've had some very informal discussions on that particular operation because we are in and out of that community.

If I may just add one comment, it is a legal entity. The store at South Indian is owned by a company.

MR. MINAKER: Right.

MR. JONES: If the Fund were to become involved, subject to Board approval, then I would say we would become involved on a loan basis. But this is something that we certainly haven't proceeded with.

MR. MINAKER: That's my understanding, Mr. Chairman, that the store is owned by a company but the Northern Affairs are operating the store, I believe.

My other question, Mr. Chairman. It's been indicated that the Fund is sort of a social agency and I'm wondering in their guidelines, when the grant loans or guarantees to companies or people, where does the Community Economic Development Fund begin or end and where does Northern Affairs begin or end or Indian Affairs? Because in discussions on Northern Affairs operations it's more or less been indicated by the Minister that quite often projects will be taken on on the basis of the social economic benefit to the community with the objective of having the people work rather than be on welfare. Dr. Loxley has indicated that to some degree employment, which we know as the objective of this Fund, to employ people, I'm wondering what kind of guidelines does the Board use when it grants a loan to people? How much do they consider this social economic

(MR. MINAKER cont'd) . . . . .benefit? Particularly I'm thinking of where the Minister of Northern Affairs indicated that in some cases they look at the operation of the facility and decide, well, if we're losing more money than what it would cost us to keep the staff on welfare, then we'll put them on welfare and close it down. What I'm raising is: is this another extended arm of the Northern Affairs Department or is it a separate entity and different guidelines that the Fund uses?

MR. CHAIRMAN: Dr. Loxley.

DR. LOXLEY: Yes, Mr. Chairman. The CEDF is certainly a separate entity within its own Act and with its own guidelines. But clearly, since Northern Affairs has responsibility for the communities within its area, an area in which the Fund is active, we meet you know fairly regularly and have common problems. At no time do we allow that to cloud the difference in our authority and in our responsibility.

I think that Northern Affairs is just one department operating in the north. Other departments which have the legal ability to establish Bill 17 corporations also operate there. The Federal Government operates, Special ARDA operates and we have to form a working relationship with all of these.

We have co-operated, as I've said, on at least one project: they handling the technical side, we handling the financial and the managerial side. We've also given some managerial assistance, some accounting and financial assistance to at least one of their projects. But the lines of authority are quite clear. There's certainly no conception on the part of the Fund that the two organizations are one. We operate with our own guidelines and criteria and they would be subject to those just as much as anybody else.

MR. MINAKER: Mr. Chairman, I know it's a difficult question to answer and I don't want to relate in hypothetical situations, but I'm thinking where if someone approaches you for a loan of say $80,000 that's going to employ maybe eight or nine people, to what degree do you look at the fact that this thing might go broke, or it's pie in the sky but on the other hand has a half-way chance and so forth. What basic criteria do you look at, because it's indicated it's a high risk business and also that employment is one of the main objectives of this as well as the social benefits of it. What I was getting down to was, how clearly do you look at in terms of dollars and cents and the potential of it?

DR. LOXLEY: The first criteria that we use is obviously the financial one. The Fund has not exercised its legal ability to give grants to projects. Therefore the first thing they look at is the cash flow of the applicant. If we find that on the basis of the cash flow loan repayments and interest payments could not be met, then we would try to assist that client in obtaining grant financing from ARDA or from one of the other agencies. We would not undertake that ourselves.

What we've started doing in the last twelve months, and for the larger accounts because this is quite a lot of work, is we have begun to undertake social cost benefit analyses as a guideline to assist in arriving at conclusions which are consistent with the guidelines as laid down in the Act. The Act does specify a number of general considerations that we must make and these are under Section 11(3), which are technical, financial, availability of other finance, employment created, the effect on the community, effect on the environment, the source of labour, local ownership and control, impact on welfare and linkage as to other enterprise.

What we've tried to do is to utilize social cost benefit analysis to show the impact on the community and on the province of going ahead with a particular project. We are nevertheless still confined in our activities to matching only cash flow. But what we would do with that is we would take that to other agencies and argue that in social terms this project is. . .

MR. MINAKER: In order that they're. . .

DR. LOXLEY: Yes, Northern Affairs could be one. It's normally not, it's more likely to be ARDA. Then argue that they should assist the project and we would work with them in obtaining finance.

MR. MINAKER: Mr. Chairman, that's all the questions I have and I'd like to thank Dr. Loxley for the answers to the questions I raised.

MR. CHAIRMAN: Mr. Osland.

MR. OSLAND: Yes, Mr. Chairman. Through you to Dr. Loxley. I'd just

(MR. OSLAND cont'd). . . . .like to pursue the Community Development Corporation. In Churchill - this goes back a few years now - we asked for help in formmg one and I'm just wondering if there's been any other communities pursuing this course of action of forming a corporation right at the local level.

DR. LOXLEY: Yes, Mr. Chairman. There have been a number of communities which have expressed an interest in community projects as such. The Manigotagan loan which is in last year's accounts is one such proposal. We've had community groups in Easterville and this is a consideration that a number of other communities are looking at.

One of the difficulties has been that under The Company's Act such corporations have not been given the full flexibility to operate businesses. I think this has acted as a constraint on the operations of the development of community development corporations.

MR. OSLAND: Well pursuing that. South Indian Lake, are they not going in this direction? There was some mention that maybe the Fund would go in and take over that store. Is there not a movement at the local level to do exactly that, to form a corporation and become a legal entity right at the local level?

DR. LOXLEY: Mr. Chairman, my understanding is that that is happening. That particular store is not a client of the CEDF so I'm not really in a position to say what they're doing and what they're not doing.

MR. OSLAND: The Garden Hill Enterprises Corporation, I'm not sure whether it's an incorporated body. Is it?

MR. JONES: Mr. Chairman, that again isn't a client of the Fund. My understanding is that it's just a normally incorporated company helped to be set up by the Federal Department of Indian Affairs.

MR. OSLAND: Can this Fund work through that as a legal entity?

DR. LOXLEY: Yes, Mr. Chairman, we can work through any legally incorporated entity.

MR. OSLAND: Thank you.

MR. CHAIRMAN: Thank you. That concludes the questions on the Report from the Communities Economic Development Fund. I'd like to thank the members for their co-operation. Would somebody care to move that the report be received? Moved. Is it agreed? (Agreed) Committee rise and report.