Nunavut

Nunavut Development Corporation

Nunavut Business Credit Corporation

Crown Agencies Assessment

Final Report

RT Associates Ltd.
April 2007

EXECUTIVE SUMMARY

The Nunavut Development Corporation (NDC) and the Nunavut Business Credit Corporation (NBCC) are agencies of the Government of Nunavut mandated to stimulate economic development and employment in Nunavut. While it is true that NDC and NBCC have similar *general* mandates, these agencies operate in different ways. NBCC is primarily a financial institution, providing loans and loan guarantees to business enterprises, as well as bonds and bond indemnities in the case of the construction sector. NDC, on the other hand, is both a financial institution and an operating company directing the fortunes of nine subsidiaries in addition to venture capital investments. Further, NDC focuses on the creation of economic opportunities for Nunavummiut who work in traditional economies, through development of the meat and fish, and arts and crafts sectors, while NBCC provides financing across all sectors of the Nunavut economy.

The purpose of this report is to provide an assessment of the contribution of NDC and NBCC to economic growth in Nunavut; their contribution to the fulfillment of the Government of Nunavut priorities as expressed in *Pinasuaqtavut 2004-2009*; and to provide recommendations to ensure their effectiveness as agents of economic development into the future.

NUNAVUT DEVELOPMENT CORPORATION

NDC is a Crown corporation of the Government of Nunavut with a mandate to:

- create employment and income opportunities for Nunavut residents, especially those in smaller communities;
- stimulate local business development and growth;
- promote economic diversity and long term-term stability; and
- promote the economic objectives of the Government of Nunavut.[1]

In meeting its mandate, NDC owns and operates nine subsidiary companies – five arts and crafts companies and four meat and fish companies, in seven Nunavut communities – as well as a wholesaling agency and two retail stores – see Table 1.

In addition, NDC is expected to make equity investments in Nunavut businesses, especially in the smaller non-decentralized communities where there is less opportunity for local businesses to raise equity financing.

[1] Per S.3 of the *Northwest Territories Development Corporation Act* as duplicated for Nunavut under Section 29 of the *Nunavut Act*.

ASSESSMENT OF NDC

The assessment of NDC has four parts:

1. Effectiveness in fulfilling mandate;
2. Impact on economic growth in Nunavut;
3. Contribution to Government of Nunavut priorities; and
4. Return on Investment to the Government of Nunavut.

Effectiveness in fulfilling mandate. NDC has demonstrated competence in carrying out its mandate, resulting in measurable, positive economic impacts. NDC creates income and employment opportunities in the smaller Nunavut communities including five communities where NDC subsidiaries exist (Pangnirtung, Arviat, Whale Cove, Baker Lake and Taloyoak). Although only two (Whale Cove and Taloyoak) are non-decentralized communities, NDC broadened its purchase of arts and crafts to many other communities including non-decentralized communities. NDC supports other Nunavut businesses through purchases of transportation services (e.g. airlines and local cartage companies), purchases of equipment and other supplies (e.g. local stores), and infrastructure and subsidiary products (e.g. tourist operators have local attractions and locally made products to draw tourists).

Impact on economic growth in Nunavut. Since its inception, NDC has generated significant wages and benefits for Nunavut residents. In its first year of operation (1999/00), NDC generated $3.8 million in sales, paid out $2.28 million in earnings and benefits to residents, while obtaining $3.0 million in government contributions. By 2005/06, NDC generated $6.78 million in sales, paid out $4.58 million in earnings and benefits to residents, while obtaining only a marginal increase in GN contribution to $3.4 million.

NDC maintains records of the number of people – a 'head count' – to whom it has paid income. The head count is a measure of the number of people impacted through NDC (i.e., people who have received some type of payment from NDC during the year). In 2004/05 the number totalled 1,180 residents – including those who earned income through a direct job, traditional job, or indirect job (see table 2) – a combined population equal to about 10% of the entire Nunavut labour force in 2004/05.

Contribution to Government of Nunavut priorities. NDC contributes to GN priorities and strategies in at least three ways:

1. By exporting products the corporation serves to make Nunavut more self-reliant and less dependent on federal government transfer payments. This is desirable if Nunavut is to become increasingly independent.
2. NDC saves the GN money that would otherwise be spent on social assistance. For example, seasonal harvesters can obtain unemployment insurance through the federal government thereby freeing up GN funding for other uses.
3. NDC preserves and enhances Inuit culture in the arts and harvesting sectors, allowing those who choose a more traditional lifestyle to earn a living through such activity.

Return on Investment. Over 7 years, NDC sales have increased 78%, and payouts 101%, while the contribution from the GN has increased only 13%. These performance indicators suggest that NDC has provided a positive return to the Government of Nunavut, in many ways exceeding what it was expected to accomplish.

In summary, NDC has demonstrated competence in carrying out its mandate, resulting in measurable, positive economic impacts, and has made a significant contribution towards the achievement of GN priorities and strategies.

Nunavut Business Credit Corporation

The mandate of NBCC is also to stimulate economic development and employment in Nunavut, by providing loans and loan guarantees. NBCC seeks to fill the financing needs of entrepreneurs who require between $125,000 and $1 million in loans or guarantees.

To carry out its mandate, the *FAA* authorizes NBCC to borrow no more than $50 million from the government through an advance. As of April 2006, the total outstanding balance was not to exceed $20 million. Interest on the advance is calculated monthly based on the average Selected Government of Canada three year benchmark bond yields at month end, compounded annually. During the 2005/06 fiscal year, the rate charged by the GN varied from 3.00% to 4.07%. There are no fixed repayment terms on the advance. Repayment is made whenever the Corporation has sufficient cash on hand not earmarked for lending, financing, or investment purposes.

NBCC's outstanding loan portfolio at March 31, 2006 was $17,828,000, an increase of 48.6% over March 31, 2005 and an increase of 141% since March 31, 1999. For fiscal year 2005/06, NBCC's net revenue (the difference between interest income earned on the loan portfolio, and the cost of borrowing money from the Government of Nunavut) was $588,000. However, total operating expenses (including loan loss provision) have always exceeded net revenue. As a consequence, NBCC has required a contribution from the government each year to cover its operating losses.

Assessment of NBCC

Effectiveness in fulfilling mandate. The loan portfolio comprises only loans outstanding, and does not take into consideration principal repayments made over the years. As shown in table 3, NBCC's 62 clients have actually borrowed $27.9 million since April 1, 1999 ($11.1 million has either been repaid or written off). $27.9 million in financing provides a significant contribution to economic growth in Nunavut.

Impact on economic growth in Nunavut. NBCC does not track the jobs created or maintained as a result of its loans, nor does it track other measures such as other capital leveraged, or wealth created. As a consequence, NBCC's effectiveness cannot be measured. There seems little question that 62 Nunavut businesses would probably be worse off without financial support from NBCC, but we are unable to quantify the economic impacts of NBCC activities without performance measurement data.

Contribution to Government of Nunavut priorities. NBCC contributes to GN priorities and strategies in three ways:

1. NBCC preserves and creates jobs, thereby contributing to Nunavut's economic growth.
2. NBCC directly contributes to the formation of physical capital, enabling Nunavut businesses to be more self-reliant. This is desirable if Nunavut is to become increasingly independent.
3. NBCC also saves the GN money that would otherwise be spent on social assistance.

Return on Investment. From 2000/01 (the first year under GN responsibility) through 2005/06, NBCC has received $3.5 million in cash and in-kind contributions from the GN. Over the same time period, NBCC has returned $2.3 million to the GN in the form of interest paid on the advance. The 'net' cost of support for NBCC has therefore been about $1.2 million, or about $200,000 per year. But again, without quantitative economic impact information, we are unable to determine if the GN has received a positive return on this investment in NBCC.

In summary, NBCC has provided a significant level of loan capital to Nunavut businesses since 1999, but it's true effectiveness as an agent of economic growth cannot be determined due to a lack of performance measurement data.

The Auditor General of Canada (OAG) has been critical of NBCC's financial management in the past, and is currently investigating some operating and governance issues. The first priority for NBCC is therefore to restore the Corporation to a level of administrative efficiency sufficient to proceed under any option. According to the OAG, many of the underlying problems can be traced to staff shortfalls. One of the factors critical to restoring and maintaining efficient and effective operations is a full complement of technically competent staff.

FUTURE OPTIONS FOR NDC AND NBCC

Pursuant to the terms of reference, the four main options are:

1. **Status Quo**. 'Business as usual' with no significant changes in mandate.
2. **Expansion of current operations**. This option implies not only growth through increased sales but also growth through new business opportunities, new programs and services, new acquisitions and/or new partnerships.
3. **Merging** (or amalgamation) of NDC and NBCC into a single entity. The amalgamation of NDC and NBCC into a single Crown corporation follows the example of the NWT's Business Development and Investment Corporation. Loan financing, venture equity investments, and subsidiary business operations would be managed by one Crown corporation, under one CEO reporting to one Board of Directors.

4. **Cessation of current operations**. Under this option, NDC and NBCC would remain "on the books" as corporate entities, but would wind down their business affairs, deal with their respective creditors in a responsible manner, and disburse any remaining assets in consultation with the Minister of Economic Development and Transportation. In the case of NDC, subsidiaries would be sold, amalgamated with other companies or wound up. For NBCC, cessation of operations is probably an inconclusive option, as further decisions with respect to the management of the existing loan portfolio would be required. Also, NBCC addresses the financing needs of all Nunavut businesses that require between $125,000 and $1 million in loan financing. How would these needs be met?

CHOOSING THE RIGHT OPTION(S)

A benefit-cost analysis of NDC options was undertaken. Because of the absence of impact information, a least-cost analysis of NBCC options was undertaken. A summary of NDC benefits and costs is provided in the following table.

SUMMARY OF OPTIONS FOR NDC [IN $000S]

	STATUS QUO	EXPANSION	AMALGAMATION WITH NDC	CESSATION
COSTS				
NET COST TO GN	-15,787	-19,219	-15,787	-4,805
DIRECT JOBS LOST				-9,720
OTHER PAYMENTS TO NUNAVUMMIUT FOREGONE				-5,977
TOTAL COSTS	-15,787		-15,787	-20,502
BENEFITS				
VALUE OF DIRECT JOBS	22,778	26,124	22,778	13,058
VALUE OF OTHER PAYOUTS TO NUNAVUMMIUT	14,942	17,143	14,942	8,965
COST SAVINGS TO GN				18,533
TOTAL BENEFITS	37,720	43,267	37,720	40,556
NET PRESENT VALUE (NPV)	21,933	24,048	21,933	20,054

The option with the greatest Net Present Value to the Government of Nunavut is **Expansion**.

Summary SWOT (strengths, weaknesses, opportunities, threats) Analysis of Options for NDC

	Status Quo	Expansion	Amalgamation with NDC	Cessation
Strengths	NDC is becoming increasing more efficient in managing subsidiaries	NDC has skills and expertise to apply to other opportunities; Greatest NPV	Potential for some cost savings	Potential for short-term cost savings in real terms
Weaknesses	Impact on economy, though positive, is limited	Long lead times to develop subsidiary capacity imply long time to achieve return on investments	Not a good fit: NDC and NBCC have different focus, different, cultures, and different operating modes	Smallest NPV, as costs of foregone employment and other benefits outweigh real cost savings
Opportunities	Maintaining focus on status quo allows for more efficiency and effectiveness improvements	Offshore fisheries, tourism, and support to mining industry	Creating an organization with a mandate similar to a merchant bank	2, or perhaps 3 subsidiaries would probably survive without NDC support
Threats	NDC is not sufficiently capitalized to achieve all objectives set by the Minister of ED&T	Risk and real cost of expanding activities to other sectors	Will one organization have sufficient capabilities to deal with the differing demands	Traditional economy is too important to Nunavummiut to leave without support that NDC provides

Again, the preferred option for NDC is **Expansion**. This is consistent with earlier observations and supports our contention that NDC's skills, expertise and history of increasingly efficient administration should be utilized in other sectors of the Nunavut economy, in furtherance of the objectives of the Nunavut Economic Development Strategy.

A summary of NBCC costs is provided in the following table.

Least Cost Comparison of Options for NBCC

	Status Quo	Expansion	Amalgamation with NDC	Consolidation with CFs	ED&T Mgmt	AC Mgmt
Interest Revenue	10,510	11,154	10,510	10,510	5,738	4,944
Admin Costs	-10,896	-11,405	-10,896	-10,896	-1,544	-2,242
Opportunity Cost	-5,042	-5,352	-5,042	-5,042	-2,753	-5,221
Incremental Revenue		1,727				
Incremental Costs		-1,136				
Cost Savings			1838	1,511		
Net Present Value (NPV)	-5,428	-5011	-3,590	-3,911	1,411	-2,518

Loan Portfolio management by ED&T would appear to be the 'best' option by application of a least cost criterion. However, this option assumes management of the *current* portfolio only – no new loans are provided. There is a cost associated with not providing loan funding to businesses (e.g., employment and other benefits foregone), but due to the absence of impact information from NBCC, this cost cannot be estimated. Nevertheless, this cost is substantial. Therefore, the least cost option is loan portfolio management by Atuqtuarvik Corporation.

Table 17: Summary SWOT Analysis of Options for NBCC

	Status Quo	Expansion	Amalgamation with NDC
Strengths	Operational issues being addressed by Auditor General	Potential for cost savings from incremental net revenues in the long term	2nd least cost option, so potential for some cost savings
Weaknesses	Most expensive option using NPV methodology NBCC becoming increasingly less efficient	Equal potential for real cost increases in the short term	Not a good fit: NDC and NBCC have different focus, different, cultures, and different operating modes
Opportunities	Current Board has commitment to improve operations	Equity Investments; support services to Nunavut businesses	Creating an organization with a mandate similar to a merchant bank
Threats	Need more effective response to capital needs	May be other organizations with the capabilities to deliver new services	Will one organization have sufficient capabilities to deal with the differing demands?

Table 17: Summary SWOT Analysis, continued

	Portfolio Management by ED&T	Consolidation with Community Futures	Management under contract by Atuqtuarvik Corporation
Strengths	Potential for cost savings Current clients would be relatively unaffected by the cessation of operations at NBCC	Potential for cost savings Good fit	Least cost option: Significant cost savings to the Government of Nunavut Atuqtuarvik Corporation has track record of results
Weaknesses	No new loans provided, which implies a significant cost to the Nunavut economy	Current imbalance in current Business Development Centre operations	GN must cede control of loan program
Opportunities	Focus on 'health' of current portfolio increases chance of higher recovery of capital	NBCC and CFs have similar mandate and serve similar clients, but at different stages of development	More effective financing, particularly for Inuit-nonInuit joint ventures
Threats	Need more organizations addressing capital needs, not less	may be some reluctance to move from a multi-board structure to a single board structure	Atuqtuarvik Corporation may decline after loan portfolio review

The preferred option for NBCC is **management under contract by Atuqtuarvik Corporation**. From our analysis:

- NBCC's mandate is still valid.
- There is a continuing need for public capital to augment the capacity of other organizations.
- However, given the existence of Atuqtuarvik Corporation, its excellent track record, and the desire of the GN and NTI to work together, there may no longer be a need for a *public body* to deliver public capital.

Summary

In considering the future contribution of NDC and NBCC to economic development, the government's focus should be on *results*, not *process*. A focus on results facilitates the measurement of impacts, and – consequently – accountability for the expenditure of public funds. For its part, NDC already has established a focus on results, and should be encouraged and supported to extend that focus into other sectors deemed important by the members of the Sivummut Economic Development Strategy Group.

As for the NBCC, there is still clearly a need for the government to augment privately available capital with public funds, but by contracting portfolio management to Atuqtuarvik Corporation, the government will be able to achieve more effective and efficient delivery

Recommendations

1. The Minister of Economic Development and Transportation should direct NDC to revise its corporate plan for the 2007/08 fiscal year, identifying new opportunities – particularly in fisheries, tourism and support to the mining industry – where NDC could be involved; developing goals and objectives to be accomplished over the next 5 years; and to prepare preliminary budgets for achieving those goals and objectives.

2. Performance measurement indicators should be a key consideration in developing these goals and objectives. Performance monitoring measures are lacking from Letters of Expectation. Economic impacts cannot be assessed if the requirement for, and the tools to undertake, performance monitoring are not in place.

3. The NDC Board of Directors should be encouraged to continue its good work, with assurances that it will continue to operate at arm's length from the government. A board that is competent and operates truly at arm's length from government will make better decisions. Literature and best practices show conclusively that active and independent board governance leads to stronger corporate performance.[2]

4. The Minister of Economic Development and Transportation should initiate discussions with the Board of Directors of Atuqtuarvik Corporation on management of the government's loan portfolio, as well as the provision of new loans to Nunavut businesses on the government's behalf.

5. In the event that these negotiations do not proceed, or fail to satisfy the government that its public policy objectives will be achieved, then the Minister of Economic Development and Transportation should initiate discussions with the Nunavut Community Futures Association about potential partnership arrangements with NBCC.

6. The Minister of EDT should obtain $5 million in additional capital for investment in NDC over the next 10 years, and an increase in the cap on the advance to $25 million for new loan financing. How much more to invest, and in which direction (i.e., using some of the increase in the advance for *equity* financing) should be decided based on performance against measurable impacts – i.e., profits earned, jobs and income generated, other capital leveraged, value of exports, etc.

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[2] Office of the Auditor General of Canada. *Report of the Auditor General to the House of Commons for December 2000*. Chapter 18: Governance of Crown Corporations; p. 18-16.

7. The Minister of EDT should acknowledge NDC's major accomplishments working in a very difficult environment with significant transportation and logistical obstacles. In spite of these obstacles they have developed unique products and services that expand Nunavut exports, create jobs and income for local residents, support Inuit cultural 'self-sufficiency', all at relatively low cost to the GN. It is an understatement that the GN is getting a 'good bang' for its buck. We know of no other crown corporation or government agency operating in Canada's north that has accomplished so much in the meat and fish, and arts and crafts sectors. NDC should be acknowledged for their outstanding work.

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1 INTRODUCTION

> *While Crown corporations represent a significant opportunity to achieve public policy and other goals and to generate revenue, they also represent significant exposure to potential financial losses and other risks. It is critical that Crown corporations, as public sector entities, be well governed.*[3]

The Nunavut Development Corporation (NDC) and the Nunavut Business Credit Corporation (NBCC) are agencies of the Government of Nunavut mandated to stimulate economic development and employment in Nunavut. Both Crown corporations were created under legislation enacted by the Government of Northwest Territories more than fifteen years ago[4], but their assets, liabilities and operations in Nunavut became the responsibility of the Government of Nunavut as of April 1, 1999.

While it is true that NDC and NBCC have similar *general* mandates to stimulate economic development and employment in Nunavut, these agencies operate in different ways. NBCC is primarily a financial institution, providing loans and loan guarantees to business enterprises, as well as bonds and bond indemnities in the case of the construction sector. NDC, on the other hand, is both a financial institution and an operating company directing the fortunes of nine subsidiaries in addition to venture capital investments. Further, NDC focuses on the creation of economic opportunities for Nunavummiut who work in traditional economies, through development of the meat and fish, and arts and crafts sectors, while NBCC provides financing across all sectors of the Nunavut economy.

Regardless of their differences, NDC and NBCC are important components of the institutional environment necessary for economic development in Nunavut. Given the ambitious but necessary goals established in the Nunavut Economic Development Strategy, Nunavummiut should be reassured that the effectiveness of NDC and NBCC as agents of economic development continues into the future.

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[3] Office of the Auditor General of Canada. *A Status Report of the Office of the Auditor General to the House of Commons*. February 2005; p. 7-3.

[4] The *Northwest Territories Development Corporation Act* was promulgated in 1990; the *Northwest Territories Business Credit Corporation Act* in 1991.

2 Study Objectives

In developing our economy, our challenge will be to continue improvement of the organizational and institutional environment required for economic development.[5]

2.1 Overview

RT Associates Ltd. was contracted by the Department of Economic Development and Transportation to assess the contribution of NDC and NBCC to economic growth in Nunavut, and provide recommendations to ensure their effectiveness as agents of economic development into the future.

2.2 Objectives

Specific study objectives were:

1. Review the current policies and programs of the NBCC and NDC, and provide an overview of their activities since April 1, 1999;
2. Assess the activities of the crown agencies in terms of their contribution to the fulfillment of the Government of Nunavut current priorities, as expressed in *Pinasuaqtavut 2004-2009*;
3. Assess the current impact of the Crown Agencies policies and programs on economic growth in Nunavut, with particular attention to their contribution to the formation of capital necessary for economic growth in the territory, and the achievement of the strategic priorities described in the Nunavut Economic Development Strategy; and to the multi-sector policy approach of the department;
4. Assess the effectiveness of each of the crown agencies in fulfilling its mandate under current legislation, and evaluate this mandate in the context of the changed economic policy environment in Nunavut;
5. Provide an assessment of the department's "return on investment" through its annual budgetary commitment to these two Crown Agencies.

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[5] Sivummut Economic Development Strategy Group. *The Nunavut Economic Development Strategy: Building a Foundation for the Future.* June 2003; p.30.

6. Assess the potential for the Crown Agencies to work together, and recommend the appropriate mechanisms that could be used for this purpose;
7. Present options for the future roles and responsibilities for the Crown Agencies, including an assessment outlining the costs and benefits of scenarios involving:
   i) no change to current operations;
   ii) growth in current operations;
   iii) cessation of current operations; and
   iv) merging operations.
8. Recommend a strategic direction for the NBCC and the NDC for the next ten years.

In other words, an effective assessment should address the current validity of the respective mandates of NDC and NBCC; the continuing need for each of the corporations; and the degree of efficiency and effectiveness inherent in their performance in meeting the needs of Nunavummiut implicit in their respective mandates. It is our belief that this can best be achieved through a clear understanding and documentation of:

- what the Government of Nunavut wishes to achieve with NDC and NBCC;
- the different approaches to economic development that may be implemented through Crown corporations;
- the performance and governance issues that arise from, and by, the use of Crown corporations;
- how these issues have been addressed in other jurisdictions; and
- the critical success factors as they apply to NDC and NBCC, to ensure their effectiveness within Nunavut's changing economic environment.

2.3 STUDY METHODOLOGY

The study was conducted through the following steps:

1. **Background Review** of relevant documentation, including legislation, by-laws, contribution agreements, recent assessments, financial statements, strategic plans, and annual operational plans;
2. **Interviews** with board members, staff, government personnel and selected clients;
3. **Preliminary Assessment** of capabilities, activities, impacts and outputs;
4. **Identify Issues** related to context and environment, relevance and performance;
5. **Workshops** with the Boards of Directors of each agency, as well as the Department of Economic Development and Transportation;
6. **Impact and Effectiveness Assessments** of each agency;
7. **Review Other Jurisdictions** where Crown corporations are used to further economic development objectives;
8. **Develop and Assess Options** identified in the study objectives;
9. **Expert Panel Review** of the issues, analyses and options in our draft report, to provide additional insights and perspectives; and
10. develop **Recommendations** on the future role and organization of each agency.

3 ECONOMIC CONTEXT

Economic growth is necessary if Nunavummiut are to advance development, and attain what the Conference Board of Canada has described as the basic goal of any economic development strategy: "a high and sustainable quality of life."[6]

3.1 OVERVIEW

In 2001 the Conference Board of Canada released the first 20 year economic outlook for Nunavut. The *Nunavut Economic Outlook* identified business opportunities in transportation, construction, tourism, commercial fishing, business services, and support to the mining industry, but also discussed the particular challenges inherent in developing Nunavut's "mixed" economy (featuring a combination of wage-based and land-based economic activity). These challenges included:

- A small population;
- A reliance on federal transfer payments;
- Limited infrastructure; and
- Low levels of formal education compared to the rest of Canada.[7]

The report noted that one of the keys to economic development is an expansion in the level of investment in economic activity, creating economic growth in Nunavut. The report concluded that economic development should be focused primarily at the community level, with equal importance given to the development of the four basic types of capital: human, natural, physical and organizational capital.[8]

However, it is important to note that economic growth and economic development are not the same. Economic development is the process of improving the quality of life – i.e., a focus on healthy people, healthy communities. Economic growth is more specific, and refers to an increase in the output of products and services. Economic growth can be measured quantitatively by changes in real Gross Domestic Product. Economic development, on the

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[6] Sivummut Economic Development Strategy Group. *The Nunavut Economic Development Strategy: Building a Foundation for the Future*; June 2003; p. v.

[7] Conference Board of Canada. *Nunavut Economic Outlook: An Examination of the Nunavut Economy.* Ottawa: 2001; p. 3.

[8] Ibid; p. 91.

other hand, is more difficult to measure, involving both quantitative and qualitative measures of economic, health and social activities.

Our focus in this assessment is on the contributions of NDC and NBCC to *economic growth* in Nunavut. Economic growth contributes to economic development, but is not, by itself, sufficient to assure economic development. How Nunavut chooses to invest the proceeds from its economic growth will dictate whether Nunavut can achieve economic development - i.e., a high and sustainable quality of life for all Nunavummiut.

3.2 KEY BUSINESS NEEDS

In order for Nunavut businesses to overcome the challenges identified by the Conference Board of Canada, and to be successful as they develop and grow, they need access to, and assistance in, some *key business needs*. Understandably, the specific requirements of each business must be identified on a case-by-case basis, but in a general sense, there are five needs that are key to successful business development (see Figure 1):

1. Financial capital – e.g., equity and loan financing
2. Management support - e.g., bookkeeping, strategic planning services
3. Infrastructure - e.g., buildings and equipment
4. Training – e.g. skill and trades training, business management training
5. Market development support - e.g., market studies, advertising, attending trade shows.

FIGURE 1: KEY BUSINESS NEEDS

Placing 'Financial Capital' as the foundation of the key business needs is intentional. One of the biggest challenges for business start-ups and expansions in Nunavut is acquiring financial capital, an issue that RT Associates Ltd. has been investigating since 1999.[9] Obtaining financial capital is as much a part of the management of a company as producing products and services. It is an ongoing function throughout the life of the business.

The sources of capital that are most suitable for a business change as the business grows and evolves. In an optimal scenario, a business would enjoy access to those sources of capital most appropriate to the stage of business development that it was contemplating. Equity contributed by the owner(s) would be the principal source of capital to finance the 'pre-development' phase – for example, feasibility studies and market surveys. Grants or contribution funding may also underwrite some of the costs incurred during this phase.


Kivalliq Arctic Foods, Rankin Inlet

One of the keys to economic development is an expansion in the level of investment in economic activity, creating economic growth in Nunavut.

As businesses develop beyond the start-up stage, they require access to the types of capital associated with business expansions and acquisitions, including lower risk term loans (available from banks) and higher risk loans and equity investments.

In 1999, government grants and contributions were one of the main sources of financing the costs incurred in business start-ups. Sources of higher risk *loan* financing included the Nunavut Business Credit Corporation (NBCC), the Business Development Bank of Canada (BDC), and Community Futures programs (Baffin Business Development Corporation, Keewatin Business Development Centre, Kitikmeot Business Development Centre). Sources of *equity* capital were more difficult to find. Only Aboriginal Business Canada (ABC) could be relied upon as a source of higher risk equity investments.

However, the situation has changed considerably today:

- Budgets for government grant and contribution programs have been significantly reduced.
- Only one of the Community Futures organizations could be considered successful (Baffin Business Development Corporation), but is oversubscribed.
- BDC's target volume and profit objectives all but eliminate Nunavut applicants from consideration.
- Nunavut Tunngavik Inc. responded to the need for equity capital by creating Atuqtuarvik Corporation in 2000. The expectation was that Atuqtuarvik Corporation would offer equity investments and higher risk debt financing to Inuit-owned businesses, filling the gaps noted above. It was also intended that

[9] RT Associates Ltd. *Inuit Access to Capital in Nunavut.* A report prepared for Nunavut Tunngavik Inc., August 1999.

funds provided by Atuqtuarvik Corporation would complement, rather than compete with, conventional sources of financing. In the seven years since its inception, Atuqtuarvik Corporation has been successful in this endeavour to the extent that it now has very limited capital available to service new applicants.
- The effectiveness of Aboriginal Business Canada (ABC) in Nunavut has been significantly reduced because applications in excess of $50,000 are no longer reviewed in Iqaluit, but must go to Ottawa. As a result – at least for larger applications – ABC continues to be more time-consuming and less client-driven.

On the demand side, a survey of 87 Inuit-owned companies conducted 2 years ago, indicated that 69 or 79% expected to seek financing within the next 5 years.[10] Although, Inuit businesses expecting to seek financing were not asked to identify a specific amount, assuming a median of $500,000, multiplied by the number of survey respondents reporting loan expectations in each of the next five years, total financing requirements would be in excess of $49 million over a five year business. On average, the demand for new financing will be about $10 million per year. One can conclude from these survey results that the demand for loans and equity investments in excess of $100,000 is still strong and expected to remain strong for at least the next three to five years as more Inuit companies take advantage of business opportunities in transportation, construction, tourism, commercial fishing, business services, and support to the mining industry.

Businesses in Nunavut need access to capital if they are to take advantage of business opportunities in transportation, construction, tourism, commercial fishing, business services, and support to the mining industry.

The end result is that there is a much stronger demand for higher risk equity and debt capital today, but fewer providers of higher risk financing. As the authors of the Nunavut Economic Development Strategy have stated:

> *Adequate investment capital must be made more readily available to local businesses.*[11]

[10] Aarluk Consulting. *Inuit Firm Registry Survey Project Final Report*. A report prepared for Atuqtuarvik Corporation and Nunavut Tunngavik Inc., February 2005; pp. 18-20. The overall goal of the survey was to collect information about Inuit-owned firms in Nunavut in order to develop a representative profile of their operations, markets, financing requirements and support needs.

[11] Sivummut Economic Development Strategy Group. *The Nunavut Economic Development Strategy: Building a Foundation for the Future*; June 2003; p.; p. 50.

3.3 NUNAVUT ECONOMIC DEVELOPMENT STRATEGY

The Nunavut Economic Development Strategy was prepared by the Sivummut Economic Development Strategy Group, a broad coalition of government, Inuit organizations and non-governmental and private sector groups who share a common desire to see Nunavut build a solid foundation for economic growth and development.[12] The Strategy sets out Nunavut's economic prospects and challenges, as well as broad strategies and action plans for moving the economy forward.

Throughout the Nunavut Economic Development Strategy, there are numerous references to the need for significant investment in both human and physical capital in order to foster growth in the Nunavut economy, for example:

- "In developing our economy, our challenge will be to continue improvement of the organizational and **institutional environment** required for economic development." [p. 30]
- "Our Strategy: Make this Decade a Period of **Capital Formation**." [p. 31]
- "By 2008: create a community savings and loans network…as a means of **increasing the availability of capital** for business development". [p. 51]

These kinds of investments can come from many sources, both private and public. On the public side, two of the more significant agents of investment for the purposes of stimulating economic development are the Nunavut Development Corporation and the Nunavut Business Credit Corporation. Any assessment of NDC and NBCC must include a review of their respective contributions to capital formation in Nunavut.

3.4 GOVERNMENT OF NUNAVUT PRIORITIES

The Government of Nunavut's current priorities are elaborated in *Pinasuaqtavut 2004-2009*, in which the Government reaffirmed its commitment to four goals:

1. Healthy Communities
2. Simplicity and Unity
3. Self-Reliance
4. Continuing Learning

For NDC and NBCC, the most obvious commitment to *Pinasuaqtavut* is found under the goal of Self-Reliance, with a focus on exports:

> *Develop Nunavut's economy, private sector and job market by aggressively implementing the Nunavut Economic Development Strategy's focus on mining and other key sectoral areas, including fisheries, arts, crafts and tourism.*[13]

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[12] Sivummut Economic Development Strategy Group. *The Nunavut Economic Development Strategy: Building a Foundation for the Future*; June 2003.

[13] Government of Nunavut. *Pinasuaqtavut 2004-2009: Our Commitment to Building Nunavut's Future*; p. 13.

In other words, NDC and NBCC should be considered – and held accountable to be – two of the government's important vehicles for achieving the goal of self-reliance identified in *Pinasuaqtavut* with a focus on developing exports.

3.5 SUMMARY

The prospects for economic growth in Nunavut are considerable. But the challenges are considerable too. The message introduced in the *Nunavut Economic Outlook*, and elaborated in the Nunavut Economic Development Strategy is that, to overcome the challenges, economic development should be focussed primarily at the community level, with equal importance given to the development of each of the four basic types of capital: human, physical, natural and organizational. Further, there should be a focus on self-reliance and developing exports.

Both the Nunavut Development Corporation and the Nunavut Business Credit Corporation are mandated to do just that: assist the formation of capital at the community level and assist Nunavut in becoming self-reliant. In the next three chapters of this report, we examine how successful they have been to date in delivering on that mandate.

4 NDC

The Nunavut Development Corporation is committed to a vibrant, diverse and stable economy throughout Nunavut. It creates employment and income opportunities for residents through business development in arts, crafts, and cuisine with sensitivity to cultural and spiritual values.[14]

4.1 OVERVIEW

The Nunavut Development Corporation (NDC) is a Crown corporation of the Government of Nunavut with a mandate to:

- create employment and income opportunities for Nunavut residents, especially those in smaller communities;
- stimulate local business development and growth;
- promote economic diversity and long term-term stability; and
- promote the economic objectives of the Government of Nunavut.[15]

In meeting its mandate, NDC owns and operates nine subsidiary companies – five arts and crafts companies and four meat and fish companies, in seven Nunavut communities – as well as a wholesaling agency and two retail stores – see Table 1.

In addition, NDC is expected to make equity investments in Nunavut businesses, especially in the smaller non-decentralized communities where there is less opportunity for local businesses to raise equity financing.

[14] NDC website.

[15] Per S.3 of the *Northwest Territories Development Corporation Act* as duplicated for Nunavut under Section 29 of the *Nunavut Act*.

Table 1: NDC Subsidiaries

Company	Ownership	Sector	Community
Kiluk Ltd.	100%	Arts & Crafts	Arviat
Jessie Oonark Ltd.	100%	Arts & Crafts	Baker Lake
Ivalu Ltd.	100%	Arts & Crafts	Rankin Inlet
Taluq Designs Ltd.	51%	Arts & Crafts	Taloyoak
Uqqurmiut Arts and Crafts (1993) Ltd.	51%	Arts & Crafts	Pangnirtung
Kitikmeot Foods Ltd.	98%	Meat & Fish	Cambridge Bay
Kivalliq Arctic Foods Ltd.	100%	Meat & Fish	Rankin Inlet
Pangnirtung Fisheries Ltd.	51%	Meat & Fish	Pangnirtung
Papiruq Fisheries Ltd.	51%	Meat & Fish	Whale Cove
NDC Wholesale	100%	Wholesale	Mississauga
Arctic Nunavut Retail	100%	Retail Store	Toronto

4.2 History

Precursor to NDC was the Northwest Territories Development Corporation (DevCorp) established on August 24,1990 by the Government of the Northwest Territories. At the time, the GNWT held the belief that an agency operating outside of government would be more likely to operate in a business-like and entrepreneurial fashion than a government department, and therefore more likely to create job and income opportunities for northerners.

From 1990 to 1999, the DevCorp established and operated a number of subsidiary businesses including nine later NDC-owned subsidiaries, Mississauga-based wholesaling agency and two Toronto area retail stores. In the years immediately leading up to the NDC, however, the DevCorp faced a number of criticisms including:

- operating with a confusing mandate;
- maintaining a top heavy headquarters bureaucracy;
- lack of accountability and transparency;
- lack of local ownership and control; and
- poor communication with stakeholders.

With the establishment of the Nunavut Territory on April 1, 1999 the NDC assumed ownership of the nine DevCorp subsidiaries operating in Nunavut, Mississauga-based wholesaling agency and two retail stores.

The goal of NDC was to develop self-sustaining, locally controlled enterprises, built upon the unique Nunavut products that such industries would produce.[16]

[16] Nunavut Development Corporation. Annual Report for 2001/2002; p. 3.

4.3 POLICY FRAMEWORK

NDC is a Crown corporation of the Government of Nunavut named in Schedule B of the *Financial Administration Act* (FAA) and, accordingly, operates in accordance with Part IX of the FAA, and the *Northwest Territories Development Corporation Act* as duplicated for Nunavut under Section 29 of the *Nunavut Act*).

Under Section 16.(4) of the *Act*, the Corporation may pay subsidies to cover operating costs to its subsidiaries based on jobs created directly or indirectly, up to an amount prescribed by regulations under the *Act*. Furthermore, Sections 16.(3) and 17.(3) of the *Act* allow the Corporation to invest in subsidiaries and business enterprises up to an amount prescribed by regulation, again based on jobs created directly or indirectly. However, no regulations have been promulgated under the *Act*. In the absence of regulations, the Corporation has developed investment and divestment guidelines which state that the cost of a job for the purposes of establishing funding ceilings shall be $27,650.

The Nunavut Development Corporation is committed to working in partnership with Nunavut communities to develop, maintain and stimulate local economies through the responsible development of the meat and fish, and arts and crafts market sectors.

4.4 ORGANIZATION

NDC operates with an eight-member board, a Rankin Inlet headquarters consisting of five staff, and separate management for each of the nine subsidiaries, wholesale agency and two retail stores. The Board's roles and responsibilities include: setting plans and budgets; approving policies; monitoring performance; and reporting to the Minister on what has been accomplished in response to Ministerial direction.

As required by policy, the Minister of Economic Development and Transportation appoints NDC Board members with every attempt made to have board members with regional representation and business, sector or leadership experience. The Minister issues an annual Letter of Instruction (now 'Letter of Expectation') to the NDC Board outlining broad NDC strategic direction for the next fiscal year. For its part, the NDC Board is expected to address responses to this direction in its annual Business Plan.

NDC and its subsidiaries follow government policies including the *Financial Management Act*, Conflict of Interest Guidelines, NNI Policy, and *Labour Standards Act*. In other areas, NDC has developed its own policies and practices including Personnel Policy and Board Policy and Procedures Manual. NDC maintains a centralized accounting system while each of the subsidiaries maintains its own separate accounting system.

4.5 OPERATIONS (1999-2006)

In preparation of the take-over on April 1 1999, the NDC prepared an NDC Business Plan. The Business Plan outlined a number of measures that would reverse DevCorp deficiencies, thus ensuring the NDC did not operate in the same fashion as its predecessor. Under the Business Plan NDC would:

- operate at 'arms length' from government with accountability maintained through annual audits, submission of an annual business plan and the responsible Minister issuing an annual 'Letter of Instruction' to the NDC Board; all of which would minimize government interference with NDC day-to-day operations while still giving guidance to NDC on what the GN expected in its 'strategic direction'
- focus on investing in the arts and crafts and renewable resource sectors where the need for subsidy was greatest, especially in the smaller communities
- establish a Minister-appointed NDC Board representative of regional and sector interests ensuring strong direction and accountability
- encourage and support local community majority ownership even if the subsidiaries required on-going government contribution
- establish a headquarters in Cape Dorset –later changed to Rankin Inlet – to provide subsidiaries with management and training support and through the Mississauga wholesaling agency and Toronto retail shops promotion and marketing support
- provide contribution funding to the subsidiaries. The amount established for 1999/00 was $2.91 million– later increased to $3.0 million - with future year funding based on jobs created and/or maintained. As already mentioned, in the absence of regulations the contribution formula eventually adopted was to provide a maximum of $27,500 for each direct, direct traditional and indirect job created and/or maintained – the three categories of jobs defined as: direct job, 50 weeks of work or 1,500 hours of work within a subsidiary; direct traditional job, total amount paid to traditional artisans or harvesters outside of the subsidiaries (an amount which might be aggregated); and indirect job, employment created outside the subsidiary resulting from a subsidiary's economic activity.

NDC MEAT AND FISH SUBSIDIARIES

Although the 1999 NDC Business Plan provided broad direction for achieving success, from the outset NDC faced a number of obstacles that hindered performance. The DevCorp provided no take-over support, leaving NDC to develop its own financial and administrative systems from scratch, while NDC was unable to fully staff its headquarters positions – President, Business Advisor, Controller and Executive Assistant – until November 1999, or fully eight months after being established.[17]

NDC failed to achieve local majority subsidiary ownership in any of its seven community-based businesses for primarily two reasons. Because none of the subsidiaries earned profits, communities were reluctant to assume majority ownership without a long term GN guarantee to provide required contribution funding. However, the GN was unwilling to make such commitments because of the uncertainties of long-term government fiscal demands. In at least two communities this hindered community efforts to assume majority ownership: Pangnirtung Fisheries and Uqqurmiut Inuit Artists Association.

Still, NDC did succeed – in many ways exceeded – what it was expected to achieve under the 1999 Business Plan:

1) NDC operated at 'arms length' from government while maintaining accountability through annual audits, submission of an annual business plan and the Minister issuing an the board outlining overall direction.

2) NDC improved corporate governance through a board representative of different regions and with s business and/or leadership experience. Further, NDC instituted a number of governance measures including a Directors and Employees Code of Conduct Policy, Management Remuneration Policy, Company Directors Handbook, and website (www.ndcorp.nu.ca) on which it posted information about each subsidy, annual reports, and all of the policies that comprise the Boards Code of Conduct.

3) NDC focused its mandate on the arts and crafts and renewable resource sectors, not only investing in the existing subsidiaries in the seven communities, but expanding activities and investment in other communities – for example:

- In the arts and crafts sector, NDC expanded the purchase of products outside the five communities where NDC arts and crafts subsidiaries were operating, allowing NDC to increase arts and crafts sales from $600,000 in 1999 to

NDC ARTS AND CRAFTS SUBSIDIARIES

Rankin Inlet
Nunavut
Canada

Jesse Oonark Ltd.

Uqqurmiut Arts and Crafts (1993) Ltd.

[17] One result of a less than full Headquarters staff complement was a longer time to implement control and support systems As a result, the Auditor General 'qualified' six of nine 1999/00 financial audits and two of nine 2000/01 financial audits. From 2001 onwards the Auditor General has qualified no other audits.

over $1 million in 2005, which increased opportunities for arts and crafts producers to earn more income.

- In the meat and fish sector, NDC established strategic partnerships with two local organizations. With the Cambridge Bay HTO, through its subsidiary Kitikmeot Foods Ltd. purchased $80,493 of char in 2004/05 and $70,211 in 2005/06 thereby generating earnings for harvesters while supporting the HTO to earn income and develop business skills. Likewise, with the Coral Harbour HTO through its subsidiary Kivalliq Arctic Foods Ltd. purchased $612,528 of caribou in 2004/05 and $767,672 of caribou in 2005/06, generating income for harvesters while supporting the HTO to earn income and develop business skills.[18]

4) NDC established its headquarters in Rankin Inlet, a community central to Nunavut which allowed NDC headquarters staff to travel to and from Nunavut communities more readily than would otherwise be the case .

5) NDC provided continued contribution support to all nine subsidiaries, in some cases increasing investment, while providing promotion and marketing support through its wholesale agency and two retail stores in Ontario.

4.6 Financial Performance (1999-2006)

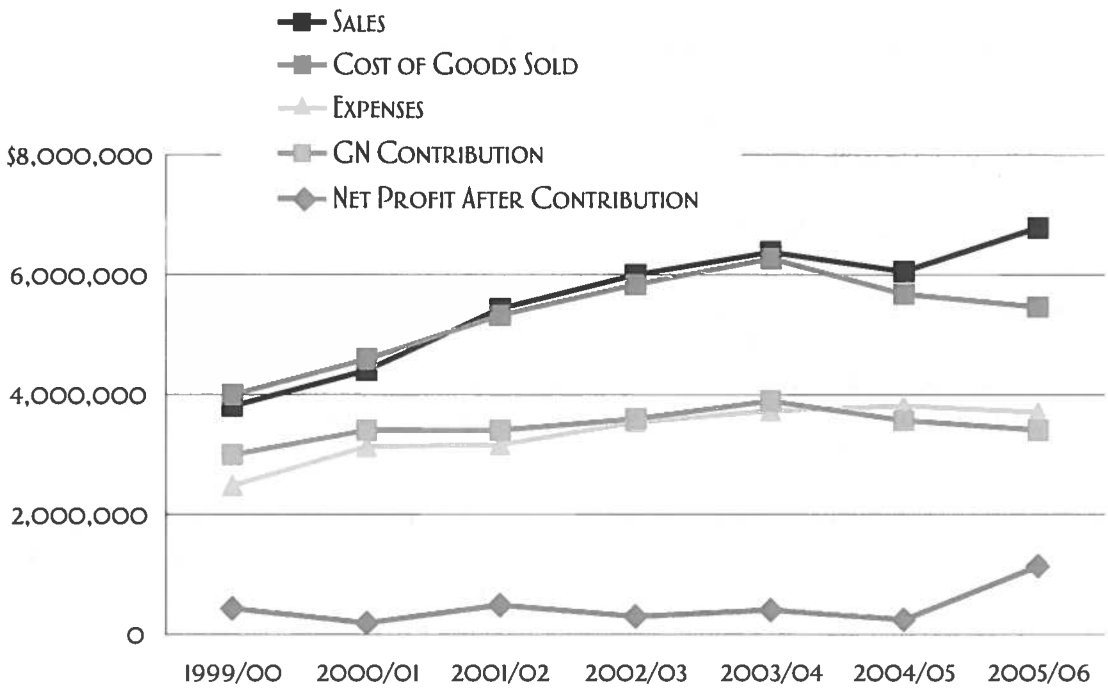
In its initial year of operation, NDC recorded net profit (after GN contribution) of $435,155 on sales revenue of $3.8 million. For the 2005/06 fiscal year, sales had increased to $6.78 million against Cost of Goods Sold of $5.44 million, leaving a net profit (after GN contribution) of $1.12 million..

During the first five years of operation, sales increased from $3.8 million to $6.3 million, although only just covering the Cost of Goods Sold. Consequently, the contribution from the Government of Nunavut was designed to offset administrative expenses, leaving NDC in basically a breakeven situation. Over the last two years, however, NDC has managed to become more efficient, increasing sales revenue while reducing Cost of Goods Sold.

Financial highlights are presented in Figure 2 (see Appendix 1 for NDC Consolidated Financial Statements)

[18] Previous to the NDC the Coral Harbour HTO sold its caribou product to Grandview Farms, a relationship which subsequently fell apart. Selling caribou product to Kivalliq Arctic Foods allowed the Coral Harbour HTO to sell its entire commercial quota and at higher prices.

FIGURE 2: NDC FINANCIAL PERFORMANCE, 1999/2000 – 2005/06



4.7 EXPECTATIONS

> *The Board, in exercising its powers and performing its duties and the powers and duties of the Corporation under this Act and the regulations, shall act in accordance with the written directions and policy guidelines that may from time to time be issued or established by the Minister.*[19]

'Letters of Expectation' are now the means by which the Government of Nunavut provides written direction to its Crown corporations. The Letters set out both corporate and financial objectives, which serve as important benchmarks for assessing the accomplishments of each Crown corporation.

In his Letter of Expectation dated September 29, 2006, the Honourable Olayuk Akesuk, Minister of Economic Development and Transportation instructed the Chair of NDC to pursue the following priorities:

- To continue to work with NBCC to investigate rationalization of investment services to the private sector;
- To develop a divestment plan for each of NDC's nine subsidiary corporations;

[19] Nunavut Development Corporation Act. S 5.(2).

- To perform a critical review of the Retail Sales Division;
- To revitalize the Venture Equity Program;
- To invest in business enterprises which appear to have a reasonable opportunity to become commercially viable, with an emphasis on non-decentralized communities;
- To aggressively pursue new markets for Nunavut products; and
- To comply with both the letter and spirit of applicable GN policies.

In addition, the Minister has challenged NDC to improve in the area of corporate governance, directing the corporation to (among other tasks):

- Improve the accuracy and timeliness of financial reporting, in compliance with the *Financial Administration Act*; and
- Work cooperatively with the Department of Finance and the Crown Agency Council on a mutually acceptable method of presenting and approving NDC corporate budgets;

This Letter of Expectation instructs NDC to pursue specific activities rather than achieve specific results, but nevertheless provides some benchmarks against which to assess NDC's contribution toward the fulfillment of current Government of Nunavut priorities.

4.8 Future Plans

The NDC Board has established a vision that would see it evolve over the next 20 years into:

- a self-sufficient corporation working closely with businesses, governments and community groups;
- using resources wisely so they are self-sustaining;
- building upon the unique skills of people;
- supporting locally controlled subsidiaries; and
- measuring corporate success to the extent NDC contributes to healthier communities, quality of life and job creation and maintenance.

To reach its vision, the NDC has established both five year and longer term plans:

- **Next 5 Years**

  Meat & Fish: NDC will build a 'Nunavut Brand' and improve marketing to increase product recognition and demand; research new domestic and international markets; standardize packaging and labelling to reduce costs; work with partners in maintaining and enhancing harvests while ensuring resource sustainability; develop new products; and improve environmental controls.

Arts & Crafts: NDC will focus on developing traditional Inuit products such as stone carvings, wall hangings, sewn goods and prints, and avoid producing non-traditional factory made souvenir products where NDC has no competitive advantage. NDC will broaden its activities into other Nunavut communities where the corporation is not active; establish more arrangements with local partners to buy arts and crafts on behalf of the corporation; develop a direct purchasing program; support local board development and staff training; seek alternate funding and uses for subsidiary infrastructure; and seek divestiture of four subsidiaries: Jessie Oonark, Kiluk, Uqqurmiut Arts and Crafts and Taluq Design.

"Our goal is the creation of economic opportunities for Nunavummiut who work in traditional economies, and in small communities where income-earning opportunities are limited and reliance on traditional economic sectors is great."

John Hickes, NDC President

Wholesale Agency & Retail Stores: By 2007, NDC will seek to establish two self-sustaining retail stores in the Greater Toronto Area; reduce the GN contribution to its wholesaling agency to $170,000; build new markets for Nunavut arts and crafts in addition to more agents in communities buying product and building alliances with other wholesale and retail agents in marketing and promotion; and participate actively in industry associations that support industry development.

Venture Equity Program: NDC will assess the on-going core funding needs of subsidiary businesses and opportunities in the Nunavut economy where the corporation can obtain the greatest return in job creation and maintenance from a venture equity program, investing in both Inuit and non-Inuit businesses. As a first step, NDC will seek a capital pool from the GN to start and launch a Venture Equity Program; work with lending organizations to leverage additional funding; and align activities with those of the NBCC.

- **Beyond 5 Years**

  Meat & Fish: NDC will use more meat and fish by-products currently discarded; improve infrastructure; incorporate more environmentally and economically sustainable harvests; incorporate energy reduction practices; and increase the number of Inuit managers.

  Arts and Crafts: As energy and job creation costs increase, NDC will pursue exit strategies either through divestiture or wind-up.

5 NDC Assessment

5.1 Overview

The assessment of NDC has five parts:

1. Effectiveness in fulfilling mandate;
2. Efficiency of operations;
3. Impact on economic growth in Nunavut;
4. Contribution to Government of Nunavut priorities; and
5. Return on Investment to the Government of Nunavut.

5.2 Effectiveness in Fulfilling Mandate

NDC has demonstrated competence in carrying out its mandate, resulting in measurable, positive economic impacts. NDC creates income and employment opportunities in the smaller Nunavut communities including five communities where NDC subsidiaries exist (Pangnirtung, Arviat, Whale Cove, Baker Lake and Taloyoak). Although only two (Whale Cove and Taloyoak) are non-decentralized communities, NDC broadened its purchase of arts and crafts to many other communities including non-decentralized communities. NDC supports other Nunavut businesses through purchases of transportation services (e.g. airlines and local cartage companies), purchases of equipment and other supplies (e.g. local stores), and infrastructure and subsidiary products (e.g. tourist operators have local attractions and locally made products to draw tourists).

NDC promotes diversification and exports through a focus on the arts and crafts and meat and fish sectors and offers long term stability through subsidies and management support without which most of the existing subsidiaries would not exist.

5.3 Efficiency of Operations

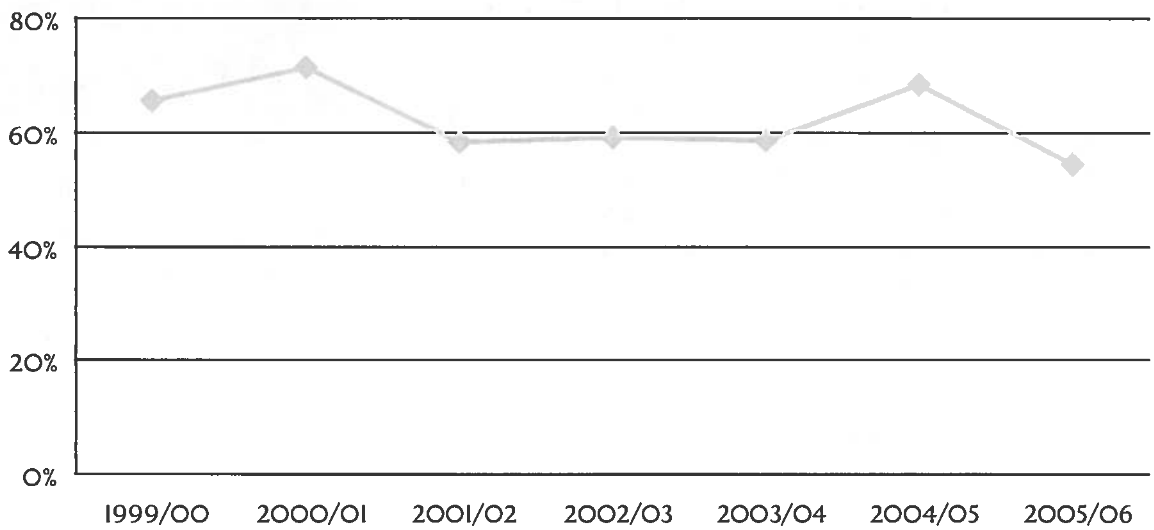
How efficient has NDC been in managing its subsidiary operations? A useful measure of administrative efficiency is the *efficiency ratio*. In general, the efficiency ratio of a business is operating expenses as a percentage of revenue.[20] An efficiency ratio is a comparative measure, which means that it is useful only in comparing efficiency ratios calculated for a

[20] www.wikipedia.org.

number of years, or in comparing one business to another, similar business. A lower efficiency ratio is better.

NDC's efficiency ratio trends downwards, from 65% in 1999/00 to 54% in 2005/06 (see figure 3), indicating that NDC is becoming more efficient.

FIGURE 3: NDC EFFICIENCY RATIO, 1999/00 – 2005/06



5.4 ECONOMIC IMPACTS

The NDC understands that many of the businesses that operate in the meat and fish, and arts and crafts market sectors are not, and may never be, profitable. Hence such businesses are not able to survive without the ongoing financial support of the NDC. But NDC evaluates its fiscal standing in each investment by measuring the ongoing economic return generated through job creation and the cost to create such jobs.[21]

Since its inception, NDC has generated significant wages and benefits for Nunavut residents. In its first year of operation (1999/00), NDC generated $3.8 million in sales, paid out $2.28 million in earnings and benefits to residents, while obtaining $3.0 million in government contributions. By 2005/06, NDC generated $6.78 million in sales, paid out $4.58 million in earnings and benefits to residents, while obtaining only a marginal increase in GN contribution to $3.4 million.

A 2006 study of the economic benefit of the commercial caribou and muskox harvest concluded that wages and other expenses generated an impact 2.0 times at the community level and 2.5 times at the territorial level. When other benefits were included – for example, income in kind from the domestic consumption of meat consumed from the harvest or the

[21] Nunavut Development Corporation. Annual Report for 2001/2002; p. 3.

'imputed value'; Employment Insurance (EI) benefits paid to residents eligible for benefits from working on the harvest; and direct savings to the GN from lower social assistance payments because of EI eligibility – the impact generated from the harvests was 285% at the community level and 455% at the Territorial level.[22] If we apply the lesser percentage of 285% to total NDC earning and benefits, the impact in 2004/05 was $12.25 million and in 2005/06 $13.0 million.


Jessie Oonark Crafts Ltd. Photo: NDC

Since its inception, NDC has generated significant wages and benefits for Nunavut residents.

NDC maintains records of the number of people – a 'head count' – to whom it has paid income. The head count is a measure of the number of people impacted through NDC (i.e., people who have received some type of payment from NDC during the year). In 2004/05 the number totalled 1,180 residents – including those who earned income through a direct job, traditional job, or indirect job (see table 2) – a combined population equal to about 10% of the entire Nunavut labour force in 2004/05.[23]

TABLE 2: NDC EARNINGS & BENEFITS BY JOB CATEGORY (2004/05)

JOB CATEGORY	# OF NUNAVUT RESIDENTS
DIRECT JOBS	256
TRADITIONAL JOBS	874
INDIRECT JOBS	50
TOTAL	1,180

5.5 CONTRIBUTION TO GN PRIORITIES

NDC contributes to GN priorities and strategies in at least three ways:

1. By exporting products the corporation serves to make Nunavut more self-reliant and less dependent on federal government transfer payments. This is desirable if Nunavut is to become increasingly independent.
2. NDC saves the GN money that would otherwise be spent on social assistance. For example, seasonal harvesters can obtain unemployment insurance through the federal government thereby freeing up GN funding for other uses.

[22] 'The Economic Feasibility of Caribou and Muskox Harvests in Nunavut, for the GN Department of Economic Development and Transportation', submitted by Aarluk Consulting, September 30th, 2006.

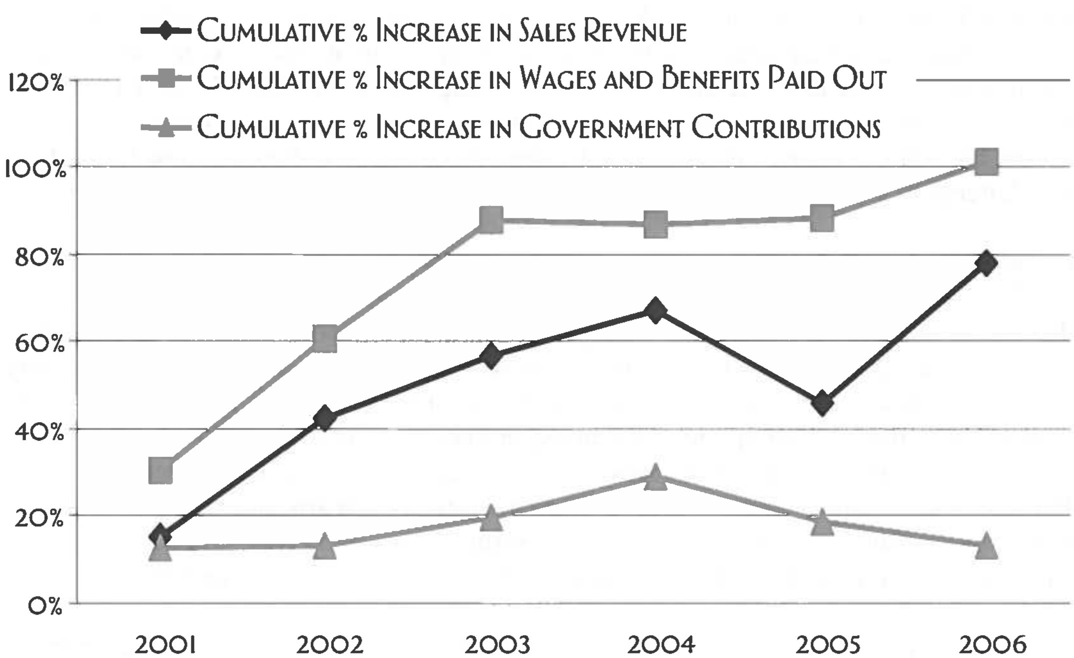
[23] Statistics from the 2006 Census were not available at the time of writing. According to Statistics Canada, Nunavut's labour force in 2001 was 10,730. Further, Statistics Canada reports that Nunavut's population increased 6.7% from 2001 to 2005. Applying that percentage increase to the labour force statistic yields an estimated labour force of 11,449 in 2005. 1,180 is about 10% of 11,449.

3. Although not 'self-sufficient', NDC preserves and enhances Inuit culture in the arts and harvesting sectors, allowing those who choose a more traditional lifestyle to earn a living through such activity. In a deeper way NDC supports Inuit cultural 'self-sufficiency'.

5.6 RETURN ON INVESTMENT

Over 7 years, NDC sales have increased 78%, and payouts 101%, while the contribution from the GN has increased only 13%. These performance indicators suggest that NDC has provided a positive return to the Government of Nunavut, in many ways exceeding what it was expected to accomplish (see Figure 4).

FIGURE 4: NDC FINANCIAL PERFORMANCE, 1999/00 (BASE YEAR) TO 2005/06



5.7 Challenges

NDC continues to face a number of challenges.

Reporting Requirements. Recently the GN established a Crown Agency Council comprised of three cabinet ministers and support staff . Under the new council, NDC will be expected to adopt further reporting requirements causing additional 'paperwork' and administrative burden, which, according to NDC staff, may require NDC to hire additional staff.

Increased Funding. To date, NDC has been unsuccessful in obtaining increased funding that would allow the corporation to expand its activities to take advantage of identified opportunities. For example, GN Financial Management Board (FMB) recently rejected an NDC request for increased funding ($10 million over a five-year period) that would have been used for equity placements.

Uncertain Meat & Fish Resources. Although harvest levels appear sustainable the level of caribou, muskox, char and turbot resources could change dramatically and not be as readily available, especially with the affects of 'global warning'. A case in point is the Pangnirtung winter fishery which relies on hard ice for a successful fishery. At times, because of unseasonable warm winters, this has meant a very short winter fishery and low harvest levels. Patterns of warm weather could affect other wildlife resources and harvest levels.

Uncertain Markets. In marketing char, NDC faces strong competition from aquaculture and is launching a Marketing Study to confirm how char marketing can be improved. In marketing muskox, NDC has limited supply (286 animals) and poor consumer knowledge on the product. (This is not the case with other meat and fish products where turbot has strong national and international markets and caribou strong Nunavut and national markets). Taluq Design collector dolls have experienced waning market demand with the challenge to develop new product lines. In other cases, NDC has been innovative and overcome challenges. When Ivalu sales no longer justified operating as an arts and crafts producer NDC re-invented the business into a retail store selling a range of NDC products while using surplus space to relocate the NDC headquarters, thereby saving rental expense.

Unclear GN Expectations. The gap between expectations and capacity to deliver appears to be widening. A case in point is the 2005/06 Minister's Letter of Instruction to the NDC Chair where the Minister outlined six NDC priorities:

- To continue to work with NBCC to investigate rationalization of investment services to the private sector;
- To develop a divestment plan for each of NDC's nine subsidiary corporations;
- To perform a critical review of the Retail Sales Division;
- To revitalize the Venture Equity Program;
- To invest in business enterprises which appear to have a reasonable opportunity to become commercially viable, with an emphasis on non-decentralized communities;
- To aggressively pursue new markets for Nunavut products.

As mentioned earlier, the Financial Management Board rejected NDC's request for increased funding. The result of this decision was to make two of the identified priorities – revitalizing the venture Equity Program and investing in business enterprises – impossible, unless NDC were to reduce its investment in the existing nine subsidiaries. With respect to the priority of divestiture of majority ownership in the subsidiaries that wished to assume control, interested communities were reluctant to assume such ownership without government commitment to the provision of on-going support. In short, the government expected NDC to accomplish what would be very difficult to accomplish (divestiture), and which might be detrimental to on-going survival of the subsidiaries.

Only with the last two priorities could NDC reasonably be expected to succeed: pursuing new markets and complying with applicable GN policies.

In addition, the Minister letter's outlined 11 financial reporting priorities - all of which NDC was able to accomplish. The emphasis on financial reporting shows a deep GN concern with 'accountability' and not necessarily clarity of purpose in terms of what NDC is expected to accomplish, and providing the means to do so.

5.8 CRITICAL SUCCESS FACTORS

NDC Critical Success Factors include:

- **Clear mandate**. NDC has continued to focus on the arts and crafts and meat industries without being drawn into other sectors.
- **Business culture guides the organization**. The NDC Board is focused on achieving profits *and* jobs and income and operates in a business-like fashion to that end.
- **Accountability lines are clear**. The NDC Board reports to the Minister through its chair, otherwise the NDC is left to operate much on its own without interference in day to day matters.
- **Little or no "political" interference**. Other than the Minister's Annual Letter of Instruction there appears to be minimal political interference.
- **Clear community support**. This is especially true in the communities where NDC operates a subsidiary business.
- **Board members** are widely respected in community for knowledge or business success.
- **Management and staff** have the necessary skills to oversee arts and crafts and meat and fish businesses. However, these skill sets may not be best suited to assessing and monitoring a Venture Capital Program.

Further, NDC governance measures have been successful in separating Board and management roles and responsibilities, important if both are to work effectively with minimal conflict. Still further, NDC has maintained transparency so anyone who wishes can view NDC's annual business plan and audited statements on the corporations website.

5.9 SUMMARY

NDC has demonstrated competence in carrying out its mandate, resulting in measurable, positive economic impacts, and has made a significant contribution towards the achievement of GN priorities and strategies.

Stakeholders are strongly supportive of the NDC – especially in what has been achieved in comparison to operations under its predecessor the DevCorp - including: increased sales, increased resident earnings and benefits, strategic partnerships, buying arts and crafts products from communities outside of where the nine subsidiaries are located, and operating under very difficult circumstances with communities far from markets and high transportation costs. There is a general recognition that without the NDC no one else would fill the void of working with, and investing in, small remote community based businesses that are generally not self-sustaining, require subsidies, but create considerable earnings and benefits for residents, while supporting Inuit culture and quality of life.

Mikku produced by Kivalliq Arctic Foods. Photo: NDC

Stakeholders are strongly supportive of the NDC especially in what has been achieved in comparison to operations under the NWT DevCorp.

Although NDC has not been successful in divesting local majority to local community groups, this may not necessarily be a bad thing. Communities continue to obtain considerable benefit from the subsidiaries including craft/carving income, production wages, harvesting income, royalties and management wages.

NDC has not adequately convinced the GN political leadership that it contributes to GN priorities, generating economic impacts that more than offset contribution funding from the GN. In short, NDC is a 'good deal' for the GN in terms of earnings and benefits generated for Nunavut residents and savings the GN realizes from not having to pay higher social assistance. In addition, there are less tangible but equally important benefits such as supporting Inuit cultural identity and quality of life through a focus on arts and crafts and meat and fish businesses.

6 NBCC

The Nunavut Business Credit Corporation will be a well-known credible business development agency committed to delivering effective financial services that contribute towards Nunavut's employment & economic growth.[24]

6.1 OVERVIEW

The mandate of NBCC is to stimulate economic development and employment in Nunavut by providing loans and loan guarantees to business enterprises unable to obtain loans from a financial institution on reasonable terms and conditions. The NBCC does not offer any grants or forgivable loans and cannot make equity investments.[25]

NBCC seeks to fill the financing needs of entrepreneurs who require between $125,000 and $1 million in loans or guarantees. NBCC lends money within the following parameters:

- Maximum level of support to any one enterprise or to a group of related enterprises is $1 million;
- Maximum term for a loan is five years and amortization cannot exceed twenty five years;
- Loan applications must have been refused by a financial institution prior to being considered by NBCC, if there is a financial institution in the community in which the business operates. [26]

To carry out its mandate, the *FAA* authorizes the Corporation to borrow no more than $50 million from the government through an advance. Increases to the outstanding balance of the advance must be approved by the government's Financial Management Board based on the needs and obligations of the Corporation. As of April 2006, the total outstanding balance was not to exceed $20 million. There are no fixed repayment terms on the advance. Repayment is made whenever the Corporation has sufficient cash on hand not earmarked for lending, financing, or investment purposes.

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[24] Nunavut Business Credit Corporation Vision Statement.
[25] Nunavut Business Credit Corporation. Annual Report for the Year Ended March 31, 2005; p.3.
[26] Ibid; p.4.

6.2 HISTORY

The NWT Business Credit Corporation was created in 1991, as a vehicle for providing loan financing to NWT businesses that had difficulty obtaining financing from commercial banks, but nevertheless had an opportunity to become viable.

The mandate of NBCC is to stimulate economic development and employment in Nunavut by providing loans, loan guarantees to business enterprises unable to obtain loans from a financial institution on reasonable terms and conditions.

NBCC came into existence on April 1, 1999 by virtue of section 29 of the *Nunavut Act* (Canada), and assumed the assets and liabilities of the NWT Business Credit Corporation which were applicable to the new territory of Nunavut. The Nunavut-based portfolio value was approximately $7.4 million, but included an accumulated deficit of $799,000.

The NWT Business Credit Corporation administered NBCC's portfolio in trust until April 1st, 2000, at which point the Government of Nunavut assumed full responsibility for NBCC's portfolio. The accumulated deficit when the Corporation took control of its portfolio was $993,000. At this time NBCC was still not operational. The Government's primary responsibility – undertaken through the then Department of Sustainable Development – was strictly to maintain the records of account. No actual operations such as lending, monitoring, assessments were undertaken.

By the autumn of 2000, a CEO had been hired and the operations of NBCC were moved to Cape Dorset as part of the GN's decentralization policy.

In March 2001, the Minister of Sustainable Development directed the Corporation to take an active role in the operation of the Keewatin and Kitikmeot Business Development Centres, which the Minister determined to have operational deficiencies.[27] However, the multiple roles required of the NBCC – manage and grow the loan portfolio; strengthen NBCC's pan-

[27] The Keewatin Business Development Centre was established in the early 1990s as the Community Futures Development Corporation for the Kivalliq region. After five years of relative success and good performance, the organization made the decision to amalgamate its operations with the Kivalliq Partners in Development, a subsidiary of Sakku Investments Corporation. Problems arose with this approach, particularly around conflict of interest issues, management capacity, confusion in the communities over Kivalliq Partners' various roles, and an overall lack of community involvement. The Community Futures program had also lost its manager during the merger, who took with him a great deal of management and financial expertise.

The Kitikmeot Business Development Centre was established in 1997, with a similar mandate but focused on Kitikmeot regional businesses. Unfortunately, the board members who were appointed had very little business experience, which made it difficult for them to provide adequate organizational direction or to hire appropriate, qualified staff. Staff members did not have enough experience in business management or lending, and the results were very disappointing.

The third Community Futures organization – the Baffin Business Development Centre (now Baffin Business Development Corporation) – was deemed to be operating

Nunavut program delivery capacity; and assure an effective Community Futures program in the Kitikmeot and Kivalliq regions – proved difficult to implement effectively, and in May 2003, the Minister of the Department of Sustainable Development issued a new directive withdrawing the Corporation's responsibilities for the Business Development Centres in Nunavut. NBCC maintains a working relationship with the Baffin Business Development Corporation, and, to a much lesser extent, the Keewatin Business Development Centre. The Kitikmeot Business Development Centre remains inactive.

6.3 POLICY FRAMEWORK

The Nunavut Business Credit Corporation (NBCC) is a Crown corporation of the Government of Nunavut named in Schedule B of the *Financial Administration Act* (FAA) and, accordingly, operates in accordance with Part IX of the *FAA*, and the *Nunavut Business Credit Corporation Act*.

NBCC's governing legislation includes:

- *Nunavut Business Credit Corporation Act* (Nunavut)
- *Financial Administration Act* (FAA) and Financial Administration Manual (FAM)
- *Financial Administration Act* Part IX (Nunavut)
- *The Nunavut Act* (Canada)
- *The Interest Act* (Canada)

One minor change has been made to the *Nunavut Business Credit Corporation Act* since its promulgation – expanding the definition of 'business enterprise' to include Community Futures organizations. This change allowed NBCC to provide loans to the Community Futures organizations (Baffin Business Development Corporation, Kivalliq Business Development Centre, and Kitikmeot Business Development Centre) to augment the capital available to the Community Futures organizations for loans to their respective clients. As Olayuk Akesuk, the Minister of Sustainable Development said at the time:

> *This change in legislation will facilitate the movement of funding away from the Nunavut Business Credit Corporation and toward more regionally-based delivery agencies who are better able to assess the needs of the business clients in their home communities.*[28]

As stipulated in the *Act*, the Minister of Economic Development and Transportation appoints NBCC Board members with every attempt made to have board members with regional representation and business, sector or leadership experience. The Minister issues an annual Letter of Instruction (now 'Letter of Expectation') to the NBCC Board outlining broad NBCC strategic direction for the next fiscal year, while NBCC addresses Letters of Instruction and Letters of Expectation in its annual Business Plan.

[28] Nunavut Hansard, December 3, 2003; p. 4715.

NBCC follows the Government of Nunavut's Conflict of Interest Guidelines, NNI Policy, and *Labour Standards Act*. In operational areas, the NBCC Board has developed its own policies governing:

- Financial Reporting Procedures
- Interest Rates
- Loan Approval Procedures
- Accounting for Impaired Loans
- Board Honouraria

6.4 ORGANIZATION

Corporate policy and direction is set by the Board of Directors. The board receives its appointments from the Minister of Economic Development and Transportation, who solicits nominations from his cabinet colleagues, other MLAs and the general public. The members of the board are chosen to reflect the three regions of Nunavut and a cross-section of backgrounds.

NBCC has 4 permanent PYs and one unfunded PY:

- Chief Executive Officer (CEO)
- Comptroller
- Investment Manager
- Loans Officer
- Administrative Assistant

All staff are members of the public service. Day-to-day management and strategic planning are the responsibility of the CEO. The CEO acts as the main liaison between the Board of Directors and the staff. The Investment Manager is charged with the task of maintaining and developing the portfolio of loans. The Investment Manager is the central contact for clients of NBCC. The Loans Officer reports to the Investment Manager. At the time of writing, the Investment Manager's position was vacant, and the Loans Officer was on unpaid leave until mid-March 2007.

The Comptroller oversees all accounting, administration and internal financing for the Corporation and is the main point of contact for the Office of the Auditor General. The Administrative Assistant also acts as Secretary to the Board. The incumbent is responsible for maintaining the records of account, archives and the minutes of the various board and committee meetings.

6.5 OPERATIONS (2001-2006)

While NBCC is sometimes referred to as a 'lender of last resort', it is still necessary for the Corporation to ensure that all potential projects are carefully examined for viability so that its resources are properly protected. With attention to such details in its analysis of loan applications, it took only four years for NBCC to retire its inherited deficit of $993,000. At March 31, 2004, the accumulated *surplus* was $260,000. However, owing to a loan loss provision of $832,000 taken last year (2005/06), the accumulated deficit has risen to $291,000. At March 31, 2006, 62 Nunavut companies held loans from NBCC. The average size of an outstanding loan was $290,000. In the first year of NBCC's operations, the average size of an outstanding loan was only $123,000.

Interest rates are calculated on the basis of a premium set above the suggested prime business rate by the Bank of Canada. NBCC uses two different rates (which in certain cases may vary with the authorization of the Board):

- Loans are charged 2.5% over prime with a fixed term; and
- Short term loans, where full payment is expected in less than one and a half years, and Letters of Credit are charged a floating rate of 1.5% over prime

NBCC's capital is obtained through advances from the GN. As noted earlier, there are no fixed repayment terms on this advance. However, NBCC must pay the GN for the use of this money. Interest on the advance is calculated monthly based on the average Selected Government of Canada three year benchmark bond yields at month end, compounded annually. During the 2005/06 fiscal year, the rate charged by the GN varied from 3.00% to 4.07%.

6.6 FINANCIAL PERFORMANCE

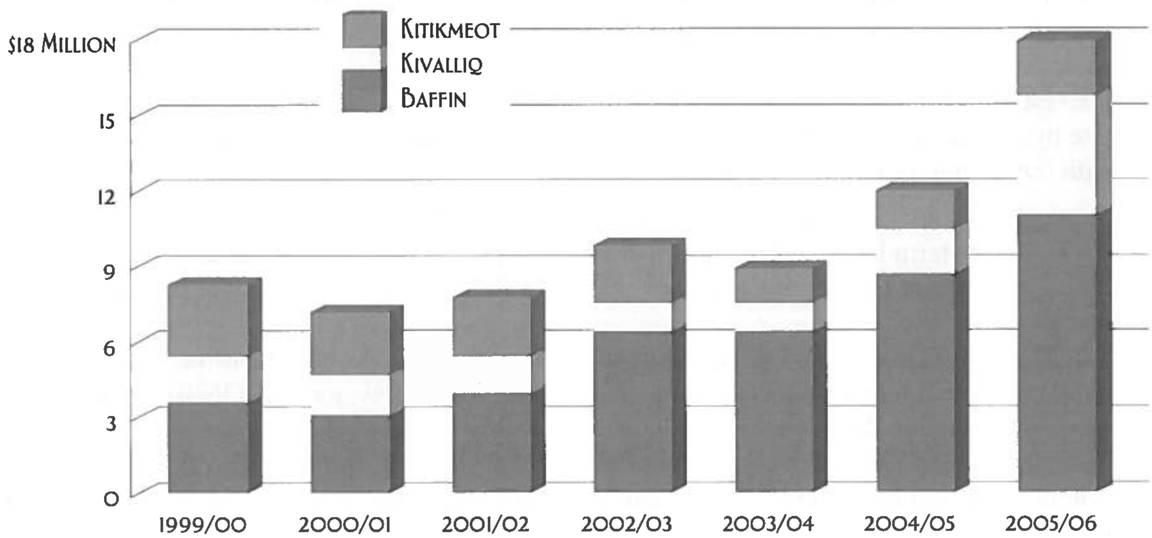
Three aspects of NBCC's financial performance are presented in this section:

1. Changes in loan portfolio;
2. Changes in net revenue and administrative expenses; and
3. Allowance for impaired loans.

6.6.1 CHANGES IN LOAN PORTFOLIO

The total portfolio as of March 31, 2006 was $17,828,000, an increase of 48.6% over March 31, 2005 and an increase of 141% since March 31, 1999 – see Figure 5.

FIGURE 5: GROWTH IN NBCC'S LOAN PORTFOLIO (IN $000S), BY REGION



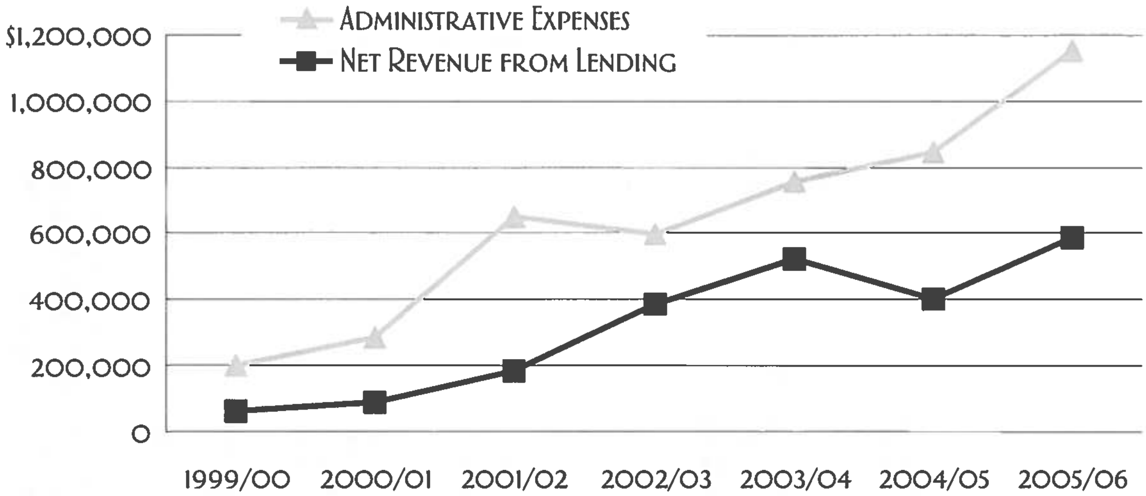
As shown in figure 5, most of the growth in NBCC's loan portfolio has occurred in the last two years. Most of that growth has come from clients in the Baffin region, although there have been sizable gains in the Kivalliq region as well. Loans outstanding in the Kitikmeot region in recent years are down somewhat from earlier years.

6.6.2 CHANGES IN NET REVENUE AND ADMINISTRATIVE EXPENSES

NBCC's net revenue from lending activities has increased steadily since 1999. (Net revenue from lending activities is the difference between interest income earned on the loan portfolio, and the cost of borrowing money from the Government of Nunavut.) For fiscal year 1999/00, net revenue was about $63,000. For fiscal year 2005/06, net revenue was $588,000, an increase of 833%.

However, total administrative expenses (not including loan loss provision) have always exceeded net revenue. For fiscal year 1999/00, total administrative expenses were about $200,000. For fiscal year 2005/06, total administrative expenses were about $1.15 million, an increase of 476% (see Figure 6).

Figure 6: NBCC's Net Revenue and Total Administrative Expenses, 2000/01 – 2005/06



Because administrative expenses exceed net revenue, NBCC has required a contribution from the government each year to cover its losses.

6.6.3 Allowance for Impaired Loans

The foregoing discussion of administrative expenses has not included NBCC's provision for loan losses. A loan loss provision is the amount a lender charges each year to operating expenses to provide an adequate reserve to cover *anticipated* losses in the loan portfolio. A loan loss provision – like depreciation – is a non-cash expense, but it does impact net profit.

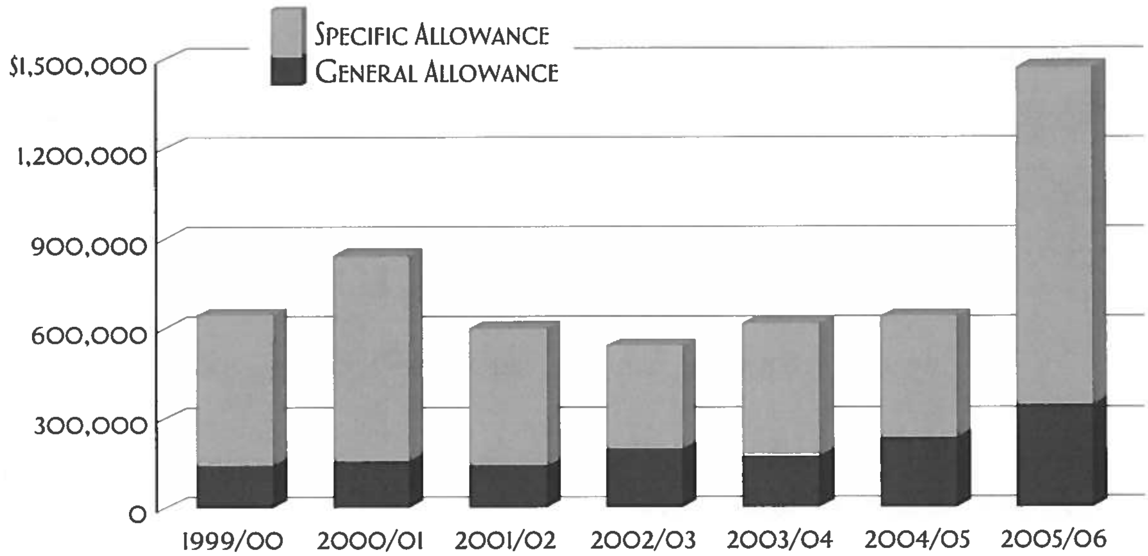
Loan loss provisions accumulate in a 'reserve fund' each year. Accumulated loan loss provisions are referred to as an *allowance for impaired loans*. NBCC's allowance for impaired loans is in two parts: specific and general. The specific allowance represents management's best estimate of probable losses through a detailed evaluation of individual loans at the end of the fiscal year. Loans evaluated as unlikely to be fully repaid under present circumstances are classified as *impaired*, with an allowance taken for the amount estimated to remain unpaid.[29] The general allowance represents management's estimate of probable losses on those loans which cannot yet be specifically identified as impaired loans. The general allowance is 2% of the total loans receivable amount at the end of the fiscal year, net of the specific allowance.

NBCC 'inherited' a $642,000 allowance for impaired loans when the Government of Nunavut assumed control of the loan portfolio in April 2000. For the most part, the allowance has been reduced in subsequent years. However, owing to an $832,000 loan loss

[29] The loans in question remain part of the total loan portfolio until it is determined that there is no hope of repayment, at which time a decision may be made to write them off, and seek recovery on the security taken.

provision charged to income in 2005/06, NBCC's allowance for impaired loans has increased to about $1.47 million as of March 31, 2006. (see figure 7).

FIGURE 7: ALLOWANCE FOR IMPAIRED LOANS, 1999/00 – 2005/06



A review of NBCC's allowance for impaired loans that the corporation may becoming more "bank-like": on a percentage basis, the allowance in 2000/01 was 11.6% of the total loan portfolio, but fell to the 5%-6% range for the next 4 years. The allowance has increased in 2005/06 to 8.18%, due to four large impaired loans in its portfolio.

6.7 EXPECTATIONS

> *The Board, in exercising its powers and performing its duties, shall act in accordance with written directions and policy guidelines that the Minister issues or establishes.*[30]

In his Letter of Expectation dated September 29, 2006, the Honourable Olayuk Akesuk, Minister of Economic Development and Transportation directed the Chair of NBCC "to work cooperatively with other investment agencies". Overall, though, the Minister placed less emphasis on program objectives than was the case with NDC. Instead, the Minister directed NBCC to improve in the areas of financial management and corporate governance.

[30] *Nunavut Business Credit Corporation Act*. S 7.(2).

Among other tasks, the Minister instructed the Chair of NBCC to:

- Improve the accuracy and timeliness of financial reporting, in compliance with the *Financial Administration Act*; and
- Work cooperatively with the Department of Finance and the Crown Agency Council on a mutually acceptable method of presenting and approving NDC corporate budgets;

6.8 FUTURE PLANS

It is NBCC's intention to steadily increase its portfolio and its presence throughout Nunavut, and thereby act as a substantial catalyst within the territorial economy.[31]

Goals established in the past (and still valid today) by the NBCC Board of Directors include:

1. To develop the NBCC into a user-friendly, well known, credible Development Bank/Agency that is effective and efficient;
2. To build upon successful partnerships and/or collaborative arrangements with the Community Futures Groups, Development Corporations, regional Inuit CEDOs, Business Development Canada, Atuqtuarvik Corporation, and the Chartered Banks;
3. To assist in the building of a strong economic environment in Nunavut in which a healthy private sector has an opportunity to flourish;
4. To maintain a healthy, open, productive and cooperative relationship with the Department of Economic Development and Transportation;
5. To be the Central Agency for the Government of Nunavut in the promotion of business development in the territory;
6. To provide the Corporation with tools and staff to grow and develop; and
7. To develop as a transparent, accountable lending institution that satisfies all legislative and reporting requirements.[32]

[31] Nunavut Business Credit Corporation Corporate Business Plan for the period ending March 31, 2007; p. 3.
[32] Nunavut Business Credit Corporation. *Strategic Analysis: Building a Solid Nunavut Economy*. August 31, 2004.

7 NBCC Assessment

7.1 Overview

The assessment of NBCC has five parts:

1. Effectiveness in fulfilling mandate;
2. Efficiency of operations;
3. Impact on economic growth in Nunavut;
4. Contribution to Government of Nunavut priorities; and
5. Return on Investment to the Government of Nunavut.

7.2 Effectiveness in Fulfilling Mandate

NBCC's loan portfolio has grown substantially, particularly in the last two years. As of March 31, 2006, 62 Nunavut businesses had outstanding loans with NBCC totalling $17.8 million. The loan portfolio, however, comprises only loans outstanding, and does not take into consideration principal repayments made over the years. As shown in table 3, NBCC's 62 clients have actually borrowed $27.9 million since April 1, 1999 ($11.1 million has either been repaid or written off).

Table 3: Loans Approved, by Year

Year	Loans Approved	Amount ($000s)
1999/00	13	2,531
2000/01	2	379
2001/02	4	1,229
2002/03	11	3,870
2003/04	6	2,035
2004/05	8	8,148
2005/06	18	9,727
Totals	62	27,919

$27.9 million in loan financing over 7 years is arguably a significant contribution to economic growth, and no doubt additional financing was leveraged as well, but in the absence of impact information, NBCC's effectiveness cannot be determined.

7.3 Efficiency of Operations

The reader will recall from section 6.6.2 that administrative expenses have been increasing at a higher rate than net revenue. More significantly, since 2002/03, the gap between total administrative expenses and net revenue has been increasing. For fiscal year 2002/03, administrative expenses exceeded net revenue by about $214,000. By fiscal year 2005/06, the gap had increased to about $563,000.

In other words, even though net lending revenue has steadily increased over the years, total administrative expenses have increased at a greater rate, particularly over the last three years. This would suggest that NBCC is not efficient. A truer measure is the *efficiency ratio*, introduced in section 5.3.

For banks in particular, the efficiency ratio is defined as non-interest expenses divided by net interest income before provision for loan losses.[33] According to the Samler Consulting Group, the major banks tend to have efficiency ratios in the high 40% to mid 50% range, but small financial institutions can have similar ratios.[34]

For fiscal year 1999/00, NBCC's efficiency ratio was 38.5%, which, on Samler's scale, is excellent. For 2001/02 (the first year under Government of Nunavut control), the efficiency ratio jumped to 52%. This suggests that NBCC was less efficient in its first year under GN control, but still within an acceptable range. Since then, NBCC's efficiency ratio has been much higher than should be expected, climbing to 116% in 2004/05 before improving slightly to 103% in 2005/06 (see figure 8). Overall, NBCC's efficiency ratio is trending upwards, indicating that NBCC is becoming less efficient.

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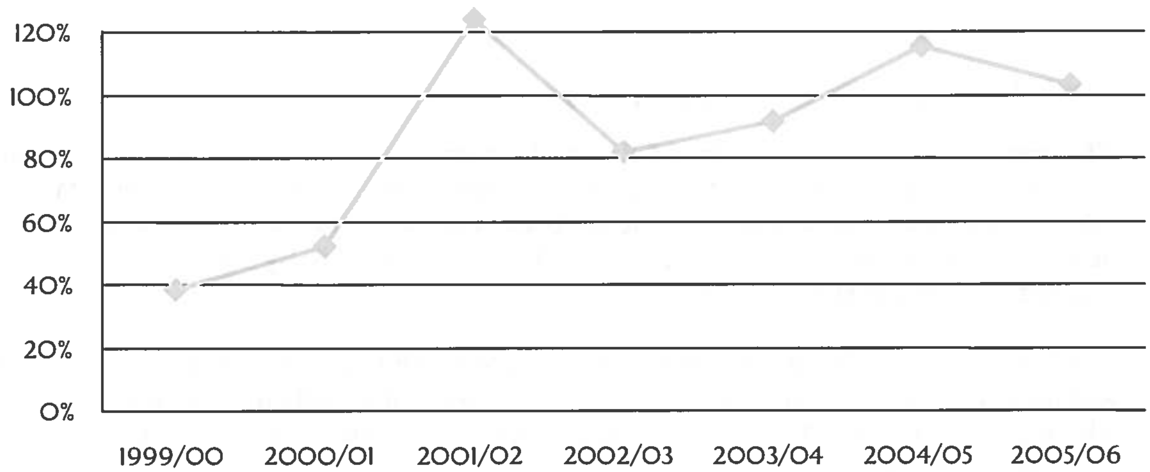
[33] www.investopedia.com.

[34] Samler Consulting Group. *Nunavut Business Credit Corporation: Organizational and Operational Assessment*. A report prepared for the Government of Nunavut, October 15, 2002; p. 100.

Figure 8: NBCC Efficiency Ratio, 1999/00 – 2005/06



7.4 Economic Impacts

NBCC does not track the jobs created or maintained as a result of its loans, nor does it track other measures such as other capital leveraged, or wealth created. There seems little question that 62 Nunavut businesses would probably be worse off without financial support from NBCC, but we are unable to quantify the economic impacts of NBCC activities without performance measurement data.

7.5 Contribution to GN Priorities

NBCC contributes to GN priorities and strategies in three ways:

4. NBCC preserves and creates jobs, thereby contributing to Nunavut's economic growth.
5. NBCC directly contributes to the formation of physical capital, enabling Nunavut businesses to be more self-reliant. This is desirable if Nunavut is to become increasingly independent.
6. NBCC also saves the GN money that would otherwise be spent on social assistance.

7.6 Return on Investment

From 2000/01 (the first year under GN responsibility) through 2005/06, NBCC has received $3.5 million in cash and in-kind contributions from the GN. Over the same time period, NBCC has returned $2.3 million to the GN in the form of interest paid on the advance. The 'net' cost of support for NBCC has therefore been about $1.2 million, or about $200,000 per year.[35] But again, without quantitative economic impact information, we are unable to determine if the GN has received a positive return on this $200,000 annual investment in NBCC.

7.7 CHALLENGES

Operating and governance issues are currently being addressed by the Office of the Auditor General. In addition, through its Crown Agency Council, the government is providing leadership in helping all of Nunavut's Crown corporations to deal with financial reporting and corporate governance issues generally. Thus, only performance challenges impacting NBCC's role as an agent of economic growth are discussed here.

Mandate. NBCC's vision includes the phrase "lender of last resort *and a developmental agency* for Nunavut businesses". What are the implications of being a 'developmental agency', and what is the GN's expectation of NBCC as a developmental agency?

Should the NBCC be a direct lender or should it only fund other lending organizations? Should it be providing other services to its clients (i.e., addressing other key business needs – see figure 1 earlier in the report) thereby become the vehicle for all economic development in Nunavut? These and other mandate-oriented issues were explored in a 2002 operational review of the NBCC by the Samler Consulting Group.[36]

Pursuant to Ministerial direction in 2001 to take an active role in the operation of the Keewatin and Kitikmeot Business Development Centres, the NBCC contracted the Samler Consulting Group to assess the current situation and make recommendations on possible future directions for NBCC. Samler undertook extensive consultation with stakeholders in order to identify perceptions at the time of NBCC activities and opinions on future direction for the Corporation. Samler cautioned that many interviewees were frustrated by a real or perceived lack of communication with the NBCC, and, as such, had come to conclusions about NBCC's current situation which were not necessarily supported by facts[37], but nevertheless, devoted an extensive portion of the report to recounting those conclusions.

Directors and former Directors felt that responsible management, efficient and effective delivery of services, regional in-person service support, and autonomy of regional Community Futures were the most important factors. Cost reduction was considered less important.[38]

[35] The 'true' cost would be much higher, as this simplistic calculation ignores the opportunity cost associated with funds advanced to NBCC.
[36] Samler Consulting Group. *Nunavut Business Credit Corporation: Organizational and Operational Assessment*. A report prepared for the Government of Nunavut, October 15, 2002.
[37] Ibid, pp. 56,57.
[38] Ibid, p. 63.

Most GN officials thought that service delivery should be done at a regional level, preferably through independent Community Futures.[39] These respondents thought hat the NBCC should function as a monitoring agency of the Community Futures, and that transparency and accountability could be achieved through strong contribution agreements, program policies and procedures, and monitoring and auditing programs that would ensure compliance and accountability.[40]

Respondents from other financial organizations suggested that amalgamating the Community Futures and NBCC programs into one structure would eliminate problems with board recruitment and power struggles between separate boards, and may provide savings in overall operating costs as well. Others suggested that the NBCC could complement the funding available through the Atuqtuarvik Corporation as, together, they could better meet the goal of developing Nunavut's economy. [41]

Samler had three conclusions of its own from their research and consultation:

1. Assuming responsibility for the Keewatin and Kitikmeot Business Development Centres added to an already difficult workload, and placed the management and Board of Directors into a constant "fire-fighting" mode.
2. NBCC lacked the financial and human resources needed to respond to the demands and needs of the regions and communities of Nunavut.
3. The apparent "rationing of funding" from the Government of Nunavut left the NBCC in a position of reacting, rather than responding, to the demands of economic development in an orderly fashion.[42]

Samler also concluded that, from strictly a fiscal point of view, having multiple organizations doing lending and economic development "presented obvious inefficiencies".[43]

Samler's recommendations were in two parts: short-term and long-term. Short-term recommendations were aimed at addressing the operational deficiencies of the Keewatin and Kitikmeot Business Development Centres, improve corporate governance, and advance relationships with the Government of Nunavut and other funding agencies.

Long-term recommendations included:

1. Developing a plan to rationalize business lending, venture capital, grant programs and support services into one organization (along the lines of the NWT's Business Development and Investment Corporation)
2. Developing a plan to improve access to financial services (savings and loans) for consumers and commercial enterprises in Nunavut, in consultation and collaboration with other organizations.[44]

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[39] The majority of Economic Development Officers interviewed by the authors of the Samler report also supported the delivery of NBCC's programs and services by Community Futures organizations.
[40] Ibid, pp. 71,72.
[41] Ibid, p. 76.
[42] Ibid, p. 87.
[43] Ibid, p. 88.
[44] Ibid, p. 96.

More recently, during the February 6^{th} – 8^{th} ,2007 Rankin Inlet Workshop NBCC Board members suggested that consideration of any additional programs and services to be offered by NBCC should be client-driven. That is, if there is a demonstrated need from NBCC clients for other services not available from other Nunavut-based organizations, then NBCC should consider expanding the scope of their activities to include addressing such needs.[45]

Risk Management. As noted in section 6.6.3, NBCC's loan loss provision has been in the 5%-6% range before increasing to 8.18% last year. Should NBCC strive for lower loan losses or, as a 'lender of last resort', higher loan losses? In other words, can a balance be found between being a prudent lender and the 'lender of last resort'?

Section 27(3) of the *Nunavut Business Credit Corporation Act* provides "the Board, manager, lending officer or regional board, when considering an application, shall determine whether an applicant would likely be unable to obtain a loan from a financial institution on reasonable terms and conditions or, *where the applicant is able to obtain a loan, whether the terms and conditions of a loan from a financial institution are reasonable.*"

A recurring note in NBCC's annual reports states: "This reference implies that the businesses that NBCC finances are high risk and may not make good business sense. However, careful consideration of the merits of any particular enterprise is made and adequate financing is provided only after determining that there exists a good probability of recovering the investment."

NBCC's obligation pursuant to the *Nunavut Business Credit Corporation Act* is to stimulate economic development and employment. If NBCC were required to operate in a more bank-like manner, its tolerance for risk would be much lower and fewer loans would be approved. Fewer loans would likely decrease NBCC's impact on economic growth, and fewer employment opportunities would be created. This seems intuitively correct, even in the absence of impact information. Further, a review of *Hansard* indicates that, during Question Period in the Legislative Assembly, a number of Members have expressed their concerns to the Minister of Economic Development and Transportation that the GN should expect *higher* loan losses from NBCC, in an effort to further stimulate the Nunavut economy.[46]

It is the nature of NBCC's business that loan loss provisions are a reality if NBCC is to deliver on its mandate, which may necessitate the need for contributions from the GN on an on-going basis. A more rational approach, however, may be to consider a zero cost of capital for NBCC, and tie contributions to loan loss provisions. In other words, tie contributions to financial performance.

Financial Performance. One of the more promising indicators of improving financial performance for NBCC is the growth in net revenue from lending activities (the difference between interest income earned, and the cost of borrowing money from the Government of Nunavut.

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[45] This approach is explored in Chapter 9: Options.

[46] Nunavut *Hansard*, May 21, 2004, pp. 340-341; March 10, 2006, pp. 1679-80.

Although the focus of the 2002 Samler report was primarily on recommendations to improve NBCC's relationship with the Government of Nunavut, Community Futures and other funding organizations, Samler noted that the NBCC, in its present structure, would be unlikely to ever produce sufficient revenues to cover its costs for two reasons:

1. *The spread between the interest rates charged on loans and the interest rates charged by the GN for the cost of funds is considerably below the normal spreads expected in the mainstream financial industry; and*
2. *The delinquency ratio for the types of loans booked by the NBCC is considerably higher than the expected or acceptable delinquency ratios in the mainstream financial industry.*[47]

Samler concluded that the only way for the NBCC to approach and achieve breakeven financial performance would be by expanding into consumer and commercial banking services, either directly or indirectly through a subsidiary corporation from which it could claim management fees and dividends. Otherwise, the NBCC will continue to be totally dependent on the GN for operating costs, topping up loan losses and funding loans.[48]

However, if NBCC was not charged for the money it borrowed from the GN to lend to businesses, NBCC's gross interest revenue would almost cover all operating costs. In other words, NBCC *could* operate in a breakeven situation, and would not need to be 'subsidized' by the Government of Nunavut, if its cost of capital was zero.

In Figure 9 below, *gross* interest revenue, that is, interest revenue received by NBCC *before* paying the GN interest on the advance, exceeds net lending revenue by between $300,000 and $500,000 – the cost of capital charged by the GN. Gross interest revenue exceeds total expenses (excluding loan loss provisions) in four out of the last seven years, and was approximately equal to expenses last fiscal year (2005/06). In other words, if NBCC's cost of capital it receives from the GN was zero, it could operate in a breakeven position (or better), which would eliminate the need for cash and in-kind contributions from the GN.

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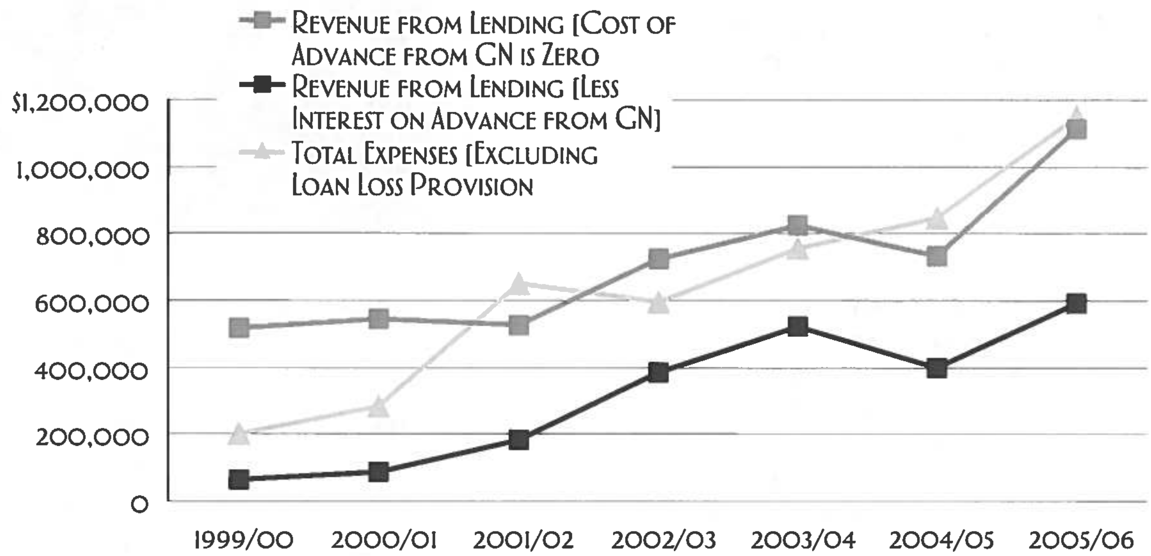
[47] Samler Consulting Group. *Nunavut Business Credit Corporation: Organizational and Operational Assessment*. A report prepared for the Government of Nunavut, October 15, 2002; p. 18.
[48] Ibid, p. 19.

FIGURE 9: IMPACT OF THE COST OF CAPITAL ON NBCC REVENUE



Performance Measurement. As noted earlier, NBCC does not track the jobs created or maintained as a result of its loans, or other measures such as other capital leveraged, or wealth created. Collecting evidence of this nature would support arguments that higher loan losses (and other costs to the GN) may be justified because of the existence of other 'returns on investment'. Further, measuring performance would also enhance NBCC's capacity to demonstrate accountability and transparency to Nunavummiut.

This challenge is not unique to NBCC. The Standing Committee on Government Operations and Services, in reporting on the *2002 Report of the Auditor General of Canada to the Legislative Assembly of Nunavut*, called on the government to include in the business plans of Departments and agencies "performance measurement that reflects not only expenditures and outputs but *results and outcomes*."[49] [italics added]

Staffing. Vacant staff positions seems to be a defining characteristic of the NBCC. NBCC operated without an Investment Manager for nearly two years, and, at the time of writing, the position is again vacant. As a result, Financial reporting had fallen behind to the point where in October of 2003, the fiscal 2001, 2002 and 2003 financial statements and annual reports had not been prepared.

The Auditor General of Canada has been critical of NBCC's financial management, and many of the underlying problems can be traced to staff shortfalls. Indeed, in the 2004 Report to the Legislative Assembly of Nunavut, the Auditor General reiterated that "good financial management and control requires technically competent and experienced staff", attributes

[49] Nunavut *Hansard*, June 3, 2003, p. 3641.

which are in high demand across the country. The Auditor General – while not questioning the Government's decentralization policies – noted that problems in recruiting competent, experienced staff are exacerbated for Nunavut's crown corporations because their offices are based in smaller Nunavut communities.[50]

NBCC does not track the jobs created or maintained as a result of its loans, or other measures such as other capital leveraged, or wealth created. Measuring performance would enhance NBCC's capacity to demonstrate accountability and transparency.

7.7 CRITICAL SUCCESS FACTORS

- **Full complement of staff with the requisite technical skills and knowledge**. The nature of NBCC's operations demands good banking, analytical and accounting skills. As noted earlier, many of NBCC's financial management issues can be traced to staff shortfalls.
- **Competence in corporate governance**. Corporate governance refers to the process and structure for overseeing the direction and management of a corporation, allowing it to carry out its mandate and objectives effectively.
- **Collecting performance measurement data**, which would enhance NBCC's capacity to demonstrate effectiveness, accountability and transparency.
- **More efficient operations.**
- **Sufficient capital to meet demand**. NBCC has about $2 million available for new loans before it reaches the $20 million cap on its advance. After that, only principal repayments of $1-$2 million a year would be available.

7.8 SUMMARY

NBCC contributes to GN priorities and strategies in three ways:

1. NBCC preserves and creates jobs, thereby contributing to Nunavut's economic growth.
2. NBCC directly contributes to the formation of physical capital, enabling Nunavut businesses to be more self-reliant. This is desirable if Nunavut is to become increasingly independent.
3. NBCC also saves the GN money that would otherwise be spent on social assistance.

[50] Office of the Auditor General of Canada. *Looking Back and Moving Forward: Auditor General of Canada's First Report to the Second Legislative Assembly of Nunavut*. Ottawa: May 10, 2004; pp. 22,23.

NBCC's loan portfolio has grown substantially in the last two years. As a result, both gross and net interest revenue have grown as well. In fact, gross revenue has grown to the point that it more than covers administrative expenses, excluding loan loss provisions.

Despite NBCC's improving financial performance, and the above intuitively understood contributions, NBCC's true effectiveness in carrying out its mandate cannot be established due to the lack of performance measurement data.

One of the factors critical to restoring and maintaining efficient and effective operations is a full complement of technically competent staff. As the Auditor General has pointed out, the location of NBCC's office in Cape Dorset makes it difficult for NBCC to attract and retain people with the necessary accounting skills and knowledge. Training more Nunavummiut to be accountants would help, but this is a long-term solution. Moving NBCC's office to one of the regional centres may alleviate these problems in the short term, but would have a negative impact on the community of Cape Dorset. This could be mitigated by 'replacing' NBCC with another government organization, but consideration would have to be given to the types of skills required in the 'replacement' organization. The objectives of the Decentralization Policy are more readily achieved if there are 'entry level' positions to offer local residents, and skills can be developed through on-the-job training complemented by more formal courses as required, at a pace geared to each employee's needs and capabilities.

8 Role of Crown Corporations

Crown corporations are an integral part of Canada's social, political, and economic landscape.[51]

8.1 Overview

All three levels of government use Crown corporations to pursue economic and social objectives. Their use by government to deliver important public programs dates back to Confederation. They operate in many sectors of the Canadian economy, including transportation, energy and resources, agriculture and fisheries, financial services, culture, and government services. Crown corporations vary widely in size and in the level of financial support they receive from the government.

Crown corporations operate differently from departments of the government. In Nunavut, the *Financial Administration Act* (*FAA*) outlines how these corporations are governed. Under the *FAA*, the government's relationship with Crown corporations is not as close as it is with departments. A board of directors oversees the management of each corporation and holds management responsible for the company's performance. Thus Crown corporations have more autonomy to manage than most other government entities. But more autonomy does not necessarily mean less accountability. Through the Crown corporation's chair, the board of directors is accountable to a minister who represents the government and acts as the link between the corporation and government.

A central rationale of crown corporations is that the commercial activities of government, to be performed successfully, must be shielded from constant government intervention and legislative oversight. Hence, crown corporations enjoy greater administrative freedom than government departments. As government enterprises, however, their autonomy cannot be absolute and must be tempered by some public control over policy-making. The Canadian experience suggests that the imperatives of corporate autonomy, government control, and legislative oversight are often conflicting and difficult to reconcile.[52]

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[51] Fogden S. *Crown Corporations in Canada*. http://www.mapleleafweb.com/features/general/crown-corporations/index.html

[52] Tupper A. *Crown Corporations*. The Canadian Encyclopedia [http://www.canadianencyclopedia.ca]

Despite the greater independence, the Legislative Assembly, ministers and the government can influence the activities of Crown corporations in several ways:

- Each Crown corporation has its own enabling act that determines what it is allowed to do. The Legislative Assembly can influence corporations through this legislation.
- The *FAA* requires Crown corporations to submit annual corporate plans and budgets for ministerial approval. Although those sections of the *FAA* are complex, in general they require Crown corporations to operate in accordance with the corporate plan and budgets approved by the Government of Nunavut.
- The *FAA* allows the minister of Finance to issue formal directives to Crown corporations in unusual circumstances (s. 78.). In the case of the Nunavut Business Credit Corporation, s.7. (2) of the *Nunavut Business Credit Corporation Act* gives that authority to the minister responsible for the corporation.

Crown corporations are particularly useful in cases where the private sector cannot or will not provide services in sectors deemed important by the government.

Crown corporations are often used to correct situations where there has been market failure, as well as to ensure an adequate supply of essential goods or services. In cases of market failure, where competitive markets fail to provide the optimal quantity of a good or service, government intervention, through a Crown corporations, can supplement the market.

Crown corporations are particularly useful cases where the private sector cannot or will not provide services in sectors deemed important by the government.

8.2 MODELS

Four different models are presented in this section, drawing from the experiences of other jurisdictions in establishing Crown corporations that support economic development:

1. Arm's Length Agency (Northern Ontario Heritage Fund Corporation)
2. Departmental Corporation[53] (Newfoundland and Labrador Business Investment Corporation)
3. Amalgamation (NWT Business Development and Investment Corporation)
4. Outsourced Management (Investments Saskatchewan Inc.)

[53] The term 'departmental corporation' comes from the federal *Financial Administration Act*. The *FAA* organizes Crown corporations according to three "schedules" or types: departmental, agency, and proprietary. Each performs different functions and enjoys a different relationship with the government. Departmental Crown corporations are named in Schedule II of the *FAA*. They perform limited or no commercial functions and are treated the same as government departments. Source: Fogden S. *Crown Corporations in Canada*. http://www.mapleleafweb.com/features/general/crown-corporations/index.html.

8.2.1 ARM'S LENGTH AGENCY: NORTHERN ONTARIO HERITAGE FUND CORPORATION

The objectives of the Northern Ontario Heritage Fund Corporation (OHF) are to stimulate economic growth, job creation and better quality of life for residents of Northern Ontario. These goals are founded on four principals:

1. strengthening the north and its communities;
2. listening to and servicing northerners better;
3. competing globally; and
4. providing opportunities for all.

Ontario uses a crown corporation to pursue these goals because it believes an organization removed from government bureaucracy is desirable and, further, northerners should make decisions that impact northerners.

OHF has a mandate for supporting both the private and public sectors – more specifically: to work with northern entrepreneurs and business to foster private sector job creation while supporting critical infrastructure and community development projects that build a foundation for future economic growth and enhance quality of life.

Ontario
Northern Ontario
Heritage Fund

The OHF works with northern entrepreneurs and businesses to foster private sector job creation while supporting critical infrastructure and community development projects that build a foundation for future economic growth and enhanced quality of life.

OHF was established in 1988 under a liberal government with a focus on supporting the private sector. In 1995, a new conservative government expanded the OHF mandate to include the public sector and providing funding for community infrastructure. The new liberal government in 2003 has continued to support the expanded OHF mandate.

The OHF operates with a board having a minimum of 12 members, chaired by the Minister of Northern Development and Mines – with the Minister having only one vote to approve or not approve funding requests – and a staff of 10 headquartered in Sault Ste. Marie. The OHF relies on the Ministry's six 'area teams' comprised of 70 staff for support including providing information on OHF programs and assisting clients in submitting proposals.

The OHF delivers 6 programs targeted to those areas where the province expects to have the greatest need, these include:

1. **Enterprise North Job Creation Program** providing funds for such items as capital construction, new business, and leasehold improvements with the maximum funding (repayable loans) not to exceed 50% up to $1 million.
2. **Northern Ontario Youth Internship and Co-Op Program** for secondary school graduates so they can obtain work experience with funding (conditional contribution) up to 50% of an applicant's salary to a maximum of $27,500 annually.

3. **Northern Ontario Young Entrepreneur Program** for residents 18 to 29 years old starting their own businesses that do not unfairly compete with existing businesses, with funding (conditional contribution) up to 85% of eligible costs not to exceed $25,000 per project.
4. **Small Business Energy Conservation Program** with funding (conditional contribution) for energy retrofit planning (50% of eligible costs up to $25,000), energy retrofits (50% of eligible costs up to a maximum of $250,000), and new internal energy generation projects (50% of costs up to $250,000)
5. **Emerging Technology Program** – examples include IT technology infrastructure, centres of excellence, value-added products and biotechnology and life science projects – with funding (combination of conditional contributions, repayable loans and forgivable loans) up to 50% of eligible costs not to exceed $1 million.
6. **Infrastructure and Community Development Program** that create jobs and improve community economic development – examples include industrial parks, winter roads, waterfront development, infrastructure that supports long term job creation and community facilities for economic development – with funding (combination of conditional contributions, repayable loans and forgivable loans) up to 50% of eligible costs not to exceed $1 million.

OHF does not have a pre-determined budget for allocation but allocates funding based on need and the number of successful submissions received and approved. Budgets vary from year to year, but generally, OHF allocates between $60 and $100 million in funding annually.

The OHF Board has representatives from every region of Northern Ontario, with most Board members successful members of their communities. The Board is well represented across Northern Ontario, so its decisions are widely supported. Because the Minister chairs the OHF board there is direct accountability to an elected official by the Crown corporation. Although this might suggest considerable political interference, indications are the Minister's influence is moderated by other OHF board members who can, as a group, easily out vote the Minister. More positively, there is the view that having the Minister as a board chair provides the OHF with direct access to the Provincial cabinet and sources of funding should the need arise.

The OHF makes decisions that are both based on business criteria – Does the applicant have a good business case? Will the business succeed?– and quality of life – Will the project improve the day to day lives of northerners?.

OHF has strong management and chooses its Executive Director through a process of competition. Staff are supported and provided with opportunities to seek and improve their knowledge through courses and training workshops.

The OHF has been in operation for over 19 years, operating through a change in four different governments – Liberal, NDP, Conservative and Liberal again. The durability of OHF to withstand three different parties and four changes in government speaks to the success of the OHF programs and delivery structure.

8.2.2 DEPARTMENTAL CORPORATION: BUSINESS INVESTMENT CORPORATION

The Business Investment Corporation (BIC) is a crown corporation of the Government of Newfoundland and Labrador. The Corporation is the successor to three former Crown corporations: the Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board, and the Farm Development Loan Board.

Legislative authority for the Business Investment Corporation resides in the *Business Investment Corporation Act*. The Corporation, as provided for in the *Act*, is responsible for "making available and managing investments in small to medium sized private businesses, co-operatives, community development corporations and other enterprises for the purpose of creating employment opportunities for the people of the province."[54]

Newfoundland Labrador

Business Investment Corporation

The Business Investment Corporation provides funding to small to medium sized private businesses, co-operatives, community development corporations and other enterprises for the purpose of creating employment opportunities for the people of Newfoundland and Labrador.

We consider BIC to be a 'departmental corporation' because although BIC affairs are managed by an independent Board of Directors,

- the 7 member Board includes the Deputy Ministers of Finance and Innovation, Trade and Rural Development;
- BIC has no staff: the Department of Innovation, Trade and Rural Development provides administrative support to the Corporation; and
- administrative costs incurred by the Department in support of BIC are not allocated as an expense in BIC's financial statements.

BIC manages the investment portfolio of the Department Innovation, Trade and Rural Development, and administers new investments made through SME Enterprise Fund, the Business and Market Development Program, as well as the Fisheries Loan Guarantee Program. Specifically, BIC administers the following programs:

SME Enterprise Fund. The fund underwrites term loans (up to $250,000) and equity investments (up to $100,000) to small and medium-sized businesses in strategic growth sectors with special emphasis on value-added manufacturing, information technology, aquaculture, bio-technology, marine services, agrifoods and tourism, where local competitive impact is not an issue. The fund also targets businesses which have export potential and need assistance to enter or expand in external markets. Funds are provided to complement funding from conventional sources where a need has been demonstrated. The funding is also intended to increase the capital base of businesses allowing them to lever new private-sector investments. This is a revolving fund, established when government added $7.9 million to the

[54] *Business Investment Corporation Act*; s. 5.

$2.1 million previously allocated for the Seed Capital Equity Program, for a total budget of $10 million.

Business and Market Development Program. The program is intended to support new growth opportunities in the economy, such as value-added manufacturing activities and export-oriented opportunities. assistance of up to $25,000 in the form of a non-repayable grant. These funds must be matched on an equal basis by the applicant.

Fisheries Loan Guarantee Program. The program supports the development of the province's independent fish harvesting industry by providing government guaranteed loans, to a maximum of $1.3 million, through commercial banks for the purchase of new or used fishing vessels and new equipment for the improvement, rebuilding or alteration of existing vessels.

Portfolio Management. The Corporation is responsible for the ongoing management and recovery of loans and investments made by the Corporation and its predecessor organizations.

The total value of the loan portfolio at year-end was $7.5 million ($38.2 million less $30.7 million decline in value). Equity investments totalled $766,000 ($20.764 million less $19.998 million decline in value).[55] For the year ended March 31, 2006, the Business Investment Corporation provided $3.06 million in new loans and equity investments, and collected $2.9 million in principal payments and equity repayments. Advances from the government to BIC are non-interest bearing.[56]

8.2.3 AMALGAMATION: THE NWT BUSINESS DEVELOPMENT AND INVESTMENT CORPORATION

The Business Development and Investment Corporation, established on April 1, 2005 by the *Northwest Territories Business Development and Investment Act*, is a Crown Corporation of the Government of the Northwest Territories. It replaces two other crown corporations: the Business Credit Corporation (BCC), which provided loans and other security; and the NWT Development Corporation, which operated subsidiaries and provided venture investments. In accordance with its legislation, the objectives of BDIC are:

- To incorporate, establish and carry on the business of companies or corporations and to develop, establish, operate, manage and carry on the business of projects, directly or indirectly, within the Corporation in order to create employment and income for residents of the Northwest Territories, primarily in small communities;
- To invest in business enterprises to stimulate business growth in the Northwest Territories, and promote economic diversification and stability; and

[55] Province of Newfoundland and Labrador. Financial Statements of Crown Corporations, Boards and Authorities (A-M) for the period ending March 31, 2006; pp. 59-67.

[56] *Funds are advances to Business Investment Corporation (formerly Enterprise Newfoundland and Labrador Corporation) for the purpose of making loans and equity investments to enable it to carry out its mandate. The advances are noninterest bearing and have no fixed terms of repayment or maturity date.* Source: Province of Newfoundland and Labrador. Public Accounts Vol II: Consolidated Revenue Fund Financial Statements for the Period Ending March 31, 2006; p. 30

- To promote the economic objectives of the Government of the Northwest Territories.

To accomplish these goals, the BDIC delivers a range of business support programs including term loans, contract security, venture investments, contributions, business management services to subsidiaries, and after care support.

The intent in merging the two former crown corporations was to simplify program delivery and make program access less cumbersome. It was also thought that one corporation, with one board and shared staff and premises, would be a means of reducing costs and improving accountability. The corporation also assumed some programs that were previously delivered as programs and services through the Department of Industry, Tourism and Investment (ITI) including contributions.

BDIC NWT BUSINESS DEVELOPMENT AND INVESTMENT CORPORATION

The mission of the Business Development and Investment Corporation is to strive for excellence in providing community and regional economic development services, including the provision of financial assistance; meaningful, timely and relevant business information; and support, promotion and mentoring to existing and potential businesses.

Currently, the BDIC operates under an 8 member board with wide representation through the NWT – all 8 members are from different communities – and 16 member staff complement with 5 staff responsible for loans and venture investments, 2 non financial services and 8 finance and administration, contracting and monitoring performance. The BDIC CEO reports directly to the Minister of ITI.

BDIC staff have a broad range of powers including making loan and venture investment decisions with the Board focusing on monitoring performance and reporting to the Minister. Previously, under the BCC the board was expected to review loan applications and make lending decisions. But this is no longer the case with staff delegated the responsibility of making loan decisions. The BDIC has an O&M budget of $3.7 million and a loan portfolio of approximately $35 million with an historical loan loss of 25% – which ITI believes is not out of line with other lending agencies in developing regions of Canada.

BDIC has 12 joint venture investments in a wide range of businesses. In most cases, the venture investments were made to companies unable to incur additional debt. BDIC operates 6 subsidiaries including 2 arts and crafts, 2 community stores, a tent manufacturing company and an arts and crafts marketing agency; with subsidiaries receiving operational and funding support, without which it is unlikely any would be in operation. With the exception of the marketing agency, each of the businesses is located in a smaller community where there are limited job and income opportunities. In the coming year, BDIC may start a new arts and crafts subsidiary in another small community.

The ITI Minister maintains an arm's length relationship with BDIC - even going so far as not issuing an annual Minister's Letter of Instruction - choosing more informal methods of communication. BDIC maintains accountability through annual audits which the Auditor General conducts and an annual report submitted to the Minister.

According to ITI, it is too soon to determine if BDIC is successful in meeting its goal, although already acknowledging a BDIC weakness in the lack of information on what the corporation has achieved in terms of impacts such as jobs, income and spin-offs. Such information is not readily available and appears not to have been developed to the extent that ITI officials would like to see, although the intention is to have BDIC start collecting such information.

In summary, BDIC is a new approach to the GNWT delivering business support: a crown corporation delivering financial assistance, after care and in some cases owning and operating businesses, with a great deal of latitude given to the corporation in how it carries out its responsibilities. The 'jury is still out' on how well the BDIC is succeeding. One deficiency is the lack of available information that would determine the extent that amalgamation has resulted in greater efficiency and effectiveness.

8.2.4 Contracting Out: Investment Saskatchewan Inc./ Victoria Park Capital Inc.

Investment Saskatchewan Inc. was established as a stand-alone entity in September 2003, and is wholly-owned by the Crown Investments Corporation of Saskatchewan. Investment Saskatchewan's mandate is to enhance Saskatchewan's long-term economic growth and diversification through the provision of investment capital and financing, and to prudently manage portfolios of commercially viable investments.

In creating Investment Saskatchewan Inc., the Government acknowledged that given the limited capacity of the private equity industry in the Province, there continued to be a role for public capital to augment the capacity of private sector firms.[57]

Investment Saskatchewan employs a wide variety of debt and equity instruments on its own or with partnership syndicates including: common and preferred shares, 'near' equity, and subordinated debt (often called 'mezzanine debt'). In terms of the size of investment, Investment Saskatchewan provides capital for the full range of investments, from small to large. However, it restricts its investment activity for smaller deals (less than $3 million) to participation in a fund-of-funds where capital is deployed to other investment funds who specialize in smaller or highly specialized investments. In this way, Investment Saskatchewan has built relationships with other fund managers in the private sector both locally and nationally.

In its first full year of operation (ending December 31, 2004), Investment Saskatchewan recorded consolidated net earnings of $19.3 million on $37.6 million revenue from its investments. Consolidated investments of $259.3 million at December 31, 2004 comprised:

[57] Investment Saskatchewan Inc. *Generating Value: The Year in Review 2005*; p. 13.

$216.5 million in equity investments; $31.2 million in other equity and property holdings; and $11.6 million in loans receivable.

Investment Saskatchewan

Investment Saskatchewan's mandate is to enhance Saskatchewan's long-term economic growth and diversification through the provision of investment capital and financing, and to prudently manage portfolios of commercially viable investments.

From the outset, the Government of Saskatchewan directed the Investment Saskatchewan Board to seek private sector management of the investment portfolio, and to explore the options to achieve this end. Ultimately the Board proposed an approach which achieves greater ends than simply the outsourcing of investment management activities. The recommended option involved creating a Saskatchewan-based investment management company (Victoria Park Capital Inc.) to manage its private equity and venture capital investment portfolio.

Effective November 1, 2006 management of the Investment Saskatchewan investment portfolio and new investment capital was outsourced to Victoria Park Capital Inc. However, as the owner of the assets, Investment Saskatchewan established the overriding mandate for Victoria Park Capital, which serves as guidance for new investments. In the words of the Chair of Investment Saskatchewan Inc., the proposal to create an investment management company was based on "the value of clear accountability for results according to industry standards".[58]

The privatization of the management function for Investment Saskatchewan assets has been criticized in recent weeks. David Karwacki, the Leader of the Opposition in the Saskatchewan government alleges irregularities with respect to:

- the hiring of Investment Saskatchewan's CEO,
- how the RFP process for selecting a venture capital firm to manage Investment Saskatchewan assets was handled, and
- the terms of the contract with Victoria Park Capital Inc. to manage the province's investment portfolio.[59]

As a result, Mr. Karwacki, is calling for a review of the process by the Deputy Minister to the Premier, citing "the need to restore transparency and accountability into the system."[60]

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[58] Ibid; p. 2.

[59] Various news releases on the Saskatchewan Liberals website [http://www.saskliberal.ca/?p=newsreleases], including: *Karwacki asks Cline to lift the shroud of secrecy*, December 12, 2006; *Victoria Park Capital compensation deal with government should be public*, January 10, 2007; *Premier's Deputy Minister called on to look into creation of Victoria Park Capital*, January 29, 2007.

[60] Ibid.

8.3 SUMMARY

Crown corporations are useful vehicles for governments to simultaneously pursue both economic and social objectives. From the examples given in this chapter, we can draw some lessons that may be useful in considering options for future roles and responsibilities for NDC and NBCC:

- In the case of the Northern Ontario Heritage Fund Corporation, the Government of Ontario has determined that an organization removed from the government (and government bureaucracy) is desirable, allowing those most affected by OHF decisions (residents of Northern Ontario) to make those decisions.
- In the case of Newfoundland and Labrador's Business Investment Corporation, having two Deputy Ministers from the government on the Board of Directors may not be in the best interests of transparency. According to the Office of the Auditor General of Canada, representatives of the government, such as deputy ministers, can too easily be viewed as having a "super voice" and thereby unduly affect the direction of the board. Boards require access to public sector decision makers but not necessarily as members of the board.[61] However, although BIC does provide some new financing, it would appear – from our cursory examination – that its main function is 'caretaking', i.e., managing a portfolio of severely devalued loans and investments carried over from previous Crown corporations. Hence the perception of transparency in decision-making is probably a secondary consideration.
- The amalgamation of the NWT Development Corporation and the NWT Business Credit Corporation into the Business Development and Investment Corporation appears conceptually to be a more efficient and effective way for the GNWT to achieve some of its economic development objectives. It is too soon to determine if BDIC has been effective, but in terms of efficiency, consider that BDIC has the same O&M budget as NDC and NBCC combined – about $3.7 million per year. Yet BDIC operates with 16 staff (half in administration), double the staff complement of NBCC and NDC headquarters combined.
- In creating Investment Saskatchewan Inc., the Government acknowledged that given the limited capacity of the private equity industry in Saskatchewan, there continued to be a role for public capital to augment the capacity of the private sector firms. However, the subsequent decision to subcontract management of the investment portfolio to Victoria Park Capital Inc suggests a continuing need for public capital did not necessarily mean a continuing need for public sector management of that capital. Indeed, the prime motivation for subcontracting was not so much process as *accountability for results*.

[61] Office of the Auditor General of Canada. *A Status Report of the Office of the Auditor General to the House of Commons*. February 2005; p. 7-12.

9 OPTIONS

9.1 OVERVIEW

Options for the future roles and responsibilities of NDC and NBCC are presented in this chapter. Pursuant to the terms of reference, the four main options for each corporation are:

1. Status quo;
2. Expansion of current operations;
3. Merging (or amalgamation) of NDC and NBCC into a single entity; and
4. Cessation of current operations.

9.2 OPTIONS FOR NDC

The Status Quo option means 'business as usual' with no significant changes in mandate. For NDC, the Status Quo option does not mean 'no growth', but growth through increased sales by its current subsidiaries, rather than from new business opportunities.

9.2.1 STATUS QUO

Doing nothing is always an option. In the case of NDC, we have determined that the GN is receiving a very good return on its investment in the form of significant economic impacts and positive contributions to GN priorities. Two – perhaps three – NDC subsidiaries are approaching a level of economic viability sufficient to be considered likely candidates for divestiture over the next few years. Divestiture would provide NDC with additional capital to re-invest in other subsidiaries, pursue new business opportunities, or deliver on its mandate to make equity investments in Nunavut businesses.

The costs and benefits accruing from this option have been estimated using benefit-cost analysis.[62] Using this methodology, the net present value (NPV) of NDC under the Status Quo Option is $21.93 million. (See table 4 for a summary of the net costs of the Status Quo Option, and Appendix 3 for detailed calculations of all NDC options.)

[62] As far as possible, benefit-cost analysis puts both costs and benefits into standard units (usually dollars) so that they can be compared directly. In this report, the authors have relied on guidelines contained in the 1998 revision to the federal Treasury Board Secretariat's *Benefit-Cost Analysis Guide*.

TABLE 4: NPV OF NDC UNDER THE STATUS QUO OPTION [IN $000S]

NET COST TO THE GN	-15,787
VALUE OF DIRECT JOBS	22,778
VALUE OF OTHER PAYOUTS TO NUNAVUMMIUT	14,942
TOTAL VALUE OF BENEFITS	37,720
NET PRESENT VALUE (NPV)	21,933

Benefit-cost analysis methodology supports previous evidence provided in this report on the net benefit of NDC to the economy of Nunavut. However, under the Status Quo option, NDC is not sufficiently capitalized to achieve two objectives identified in the Minister's Letter of Expectation dated September 29, 2006:

- Revitalize the Venture Equity Program; and
- Invest in [new] business enterprises which appear to have a reasonable opportunity to become commercially viable.

In other words, the GN cannot utilize NDC's skills and expertise in other sectors of the Nunavut economy, in furtherance of the objectives of the Nunavut Economic Development Strategy.

9.2.2 EXPANSION OPTION

The Expansion Option implies not only growth through increased sales but also growth through new business opportunities, new programs and services, new acquisitions and/or new partnerships. For NDC, growth opportunities are available in off-shore fisheries, tourism, and support to the mining industry. To implement this option, the Government of Nunavut would provide an additional $5 million in contributions to NDC over the next 10 years (i.e., increasing the annual contribution from $3.4 million to $3.9 million) to target new investments in off-shore fisheries, tourism, and support to the mining industry.

The net present value of NDC under the Expansion Option is $24.048 million (see table 5).

TABLE 5: NPV OF NDC UNDER THE EXPANSION OPTION [IN $000S]

NET COST TO THE GN	-19,219
VALUE OF DIRECT JOBS	26,124
VALUE OF OTHER PAYOUTS TO NUNAVUMMIUT	17,143
TOTAL VALUE OF BENEFITS	43,267
NET PRESENT VALUE (NPV)	24,048

This option addresses the disadvantage of the Status Quo option, by extending NDC's skills and expertise in other sectors of the Nunavut economy, in furtherance of the objectives of the Nunavut Economic Development Strategy.

9.2.3 AMALGAMATION OF NDC AND NBCC

The amalgamation of NDC and NBCC into a single Crown corporation follows the example of the NWT's Business Development and Investment Corporation. Loan financing, venture equity investments, and subsidiary business operations would be managed by one Crown corporation, under one CEO reporting to one Board of Directors.

The net present value of NDC under the Amalgamation Option is the same as under the Status Quo Option: $21.933 million (see table 6). This is because the potential costs savings (in office and Board of Director costs) that could be realized through amalgamation are assumed in our analysis to accrue to NBCC, as NBCC is less efficient.[63]

TABLE 6: NPV OF NDC UNDER THE AMALGAMATION OPTION [IN $000S]

NET COST TO THE GN	-15,787
VALUE OF DIRECT JOBS	22,778
VALUE OF OTHER PAYOUTS TO NUNAVUMMIUT	14,942
TOTAL VALUE OF BENEFITS	37,720
NET PRESENT VALUE (NPV)	21,933

Despite the potential for cost savings, it may be premature to consider an amalgamation. The NWT Business Development and Investment Corporation does not yet have a sufficient history to address questions of efficiency and effectiveness.

More importantly, NDC and NBCC implement their respective mandates in markedly different ways. One Board of Directors may not have sufficient capabilities to deal with the differing demands of reviewing loan applications, making new investment decisions, and managing subsidiary companies.

Depending on how the amalgamation was structured, the demonstrated competencies of NDC may not be sufficient to address loan and equity financing challenges effectively. Further, dealing with NBCC operational issues may dominate the operational demands of nine subsidiary companies, leading to overall ineffectiveness in delivering on a combined mandate. The result may be an *increase* in staff and overall administration costs – evidence the experience of BDIC with a headquarters staff of 16 versus NDC and NBCC with a combined headquarters staff of 8.

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[63] Cost savings through amalgamation are presented in section 9.3.3 below.

9.2.4 CESSATION OF OPERATIONS

Under this option, NDC would remain "on the books" as a corporate entity, but would wind down its business affairs, deal with their respective creditors in a responsible manner, and disburse any remaining assets in consultation with the Minister of Economic Development and Transportation. Subsidiaries could be sold, amalgamated with other companies or wound up, pursuant to various sections of the *Northwest Territories Development Corporation Act* as duplicated for Nunavut under Section 29 of the *Nunavut Act*.[64] NDC employee contracts would be terminated in the case of headquarters personnel, or assigned to the respective subsidiary in the case of subsidiary employees.

The additional step of dissolution of one or both Corporations could be undertaken. However, pursuant to s.76.(1) of the *Financial Administration Act*, a new Act would have to be enabled by the Legislative Assembly to dissolve NDC and/or NBCC.

If NDC was dissolved, its nine subsidiaries might be able to continue operations with direct subsidies from the government, but it is likely that only three subsidiaries would survive long term without NDC's management support, asset management strategies, and market development activities on their behalf:

1. **Kivalliq Arctic Foods**, because the company was profitable last year (before the application of the subsidy), and has very good future sales prospects;
2. **Pangnirtung Fisheries**, because it posted record sales last year and has developed strong partnerships with Cumberland Sound Fisheries, Baffin Fisheries Coalition and the Department of Environment; and
3. **Uqqurmiut Arts and Crafts (1993) Ltd.**, because it expanded its product lines, and has a very strong minority partner in the Uqqurmiut Inuit Artists Association.

The success of these three businesses continuing operation speaks to what NDC has already accomplished in providing support: It is almost certain that without NDC involvement they would not be where they are today.

The main advantage would appear to be cost savings. The headquarters operations alone of NDC cost about $1 million per year.[65] However, as shown in table 7 below, the net cost to the GN actually increases relative to the Status Quo and Expansion options, due mainly to the costs associated with lost jobs and foregone payouts to Nunavummiut. Further, the net benefits accruing from this option are insufficient to cover the increased net costs.

[64] s. 22 of the *Act* deals with the sale of subsidiaries; s. 23. deals with amalgamation; and s. 24. deals with wind up of subsidiaries.

[65] If NDC had ceased operations on April 1, 2005, the government would have saved $1,041,508, the amount of contribution allocated to headquarters administration costs and capital for the fiscal year ending March 31, 2006, less any amounts required to wind up the headquarters function and deal with subsidiaries.

Table 7: NPV of NDC Under the Cessation of Operations Option [in $000s]

Contributions	-4,805
Direct Jobs Lost	-9,720
Value of Other Payouts Foregone	-5,977
Total Cost to GN	-20,502
Cost Savings	13,058
Value of Direct Jobs Maintained	8,965
Value of Other Payouts to Nunavummiut	18,533
Total Value of Benefits	40,556
Net Present Value (NPV)	20,054

9.2.5 Summary of Options for NDC

Options for NDC are summarized in table 8.

Table 8: Summary of Options for NDC [in $000s]

	Status Quo	Expansion	Amalgamation with NDC	Cessation
Costs				
Net Cost to GN	-15,787	-19,219	-15,787	-4,805
Direct Jobs Lost				-9,720
Other Payments to Nunavummiut Foregone				-5,977
Total Costs	-15,787		-15,787	-20,502
Benefits				
Value of Direct Jobs	22,778	26,124	22,778	13,058
Value of Other Payouts to Nunavummiut	14,942	17,143	14,942	8,965
Cost Savings to GN				18,533
Total Benefits	37,720	43,267	37,720	40,556
Net Present Value (NPV)	21,933	24,048	21,933	20,054

As shown in table 8, the option with the greatest NPV is Expansion. This is consistent with earlier observations and supports our contention that NDC's skills, expertise and history of increasingly efficient administration should be utilized in other sectors of the Nunavut economy, in furtherance of the objectives of the Nunavut Economic Development Strategy.

A summary SWOT (strengths, weaknesses, opportunities, threats) analysis of NDC options is shown in table 9.

Table 9: Summary SWOT Analysis of Options for NDC

	Status Quo	Expansion	Amalgamation with NDC	Cessation
Strengths	NDC is becoming increasing more efficient in managing subsidiaries	NDC has skills and expertise to apply to other opportunities; Greatest NPV	Potential for some cost savings	Potential for short-term cost savings in real terms
Weaknesses	Impact on economy, though positive, is limited	Long lead times to develop subsidiary capacity imply long time to achieve return on investments	Not a good fit: NDC and NBCC have different focus, different, cultures, and different operating modes	Smallest NPV, as costs of foregone employment and other benefits outweigh real cost savings
Opportunities	Maintaining focus on status quo allows for more efficiency and effectiveness improvements	Offshore fisheries, tourism, and support to mining industry	Creating an organization with a mandate similar to a merchant bank	2, or perhaps 3 subsidiaries would probably survive without NDC support
Threats	NDC is not sufficiently capitalized to achieve all objectives set by the Minister of ED&T	Risk and real cost of expanding activities to other sectors	Will one organization have sufficient capabilities to deal with the differing demands	Traditional economy is too important to Nunavummiut to leave without support that NDC provides

9.3 OPTIONS FOR NBCC

With respect to options for NBCC, it should be noted that operating and governance issues are currently being addressed by the Office of the Auditor General, and that the government, through its Crown Agency Council, is providing leadership in helping all of Nunavut's Crown corporations to deal with financial reporting and corporate governance issues generally. In discussing options for NBCC, it is therefore assumed that the first priority is to restore NBCC to a level of administrative efficiency sufficient to proceed under any option.

9.3.1 STATUS QUO

With NBCC, the government is able to deliver loan financing services to a segment of the Nunavut business community not adequately served by the private sector. Ignoring the opportunity cost of funds advanced to NBCC, these services are provided at very little cost to the government: for 6 years from 2000/01 to 2005/06, interest received from NBCC on the advance minus cash and in-kind contributions to NBCC equalled $1.2 million, or an average of about $200,000 per year. However, this simplistic estimate of costs ignores both the opportunity cost of funds advanced to NBCC, as well as the time value of money.

A more comprehensive estimate of the cost of the Status Quo option is $5,438,000 (see table 10). This is the present value of the sum of the estimated costs of this option for the next 10 years, less the present value of the interest revenue estimated to accrue to NBCC over the next 10 years. (More detailed calculations for this and other NBCC options are included in Appendix 4). Please note that only cost information is provided here. Without impact information, it is not possible to estimate net benefits using this methodology.

TABLE 10: NPV OF THE COST OF THE STATUS QUO OPTION FOR NBCC [IN $000S]

PV OF INTEREST REVENUE	10,510
PV OF ADMIN COSTS	-10,896
PV OF OPPORTUNITY COST	-5,042
NET PRESENT VALUE (NPV) OF COSTS	-5,428

Intuitively, the benefits accruing to Nunavut from continuation under the Status Quo option include continued access by Nunavut businesses to loan financing, as well continued contributions to GN priorities and strategies.

The main disadvantage of this option is that NBCC is becoming increasing more inefficient in service delivery, as demonstrated in figure 8 earlier. Further, continuation under the Status Quo option seriously impairs its effectiveness in three ways:

1. It is probable that the organization would continue to be plagued by staffing problems.
2. Without resources to conduct performance measurement, NBCC's effectiveness cannot be established.

3. NBCC's CEO reports formally to the Deputy Minister of Economic Development and Transportation, and secondarily to the NBCC Board. In the opinion of the Auditor General, a CEO must perceive that the board has real power if the accountability relationship between the CEO and the board is to be effective.[66]

9.3.2 EXPANSION OF CURRENT OPERATIONS

For NBCC, there are growth opportunities in two areas:

- Providing equity investments; and
- Providing services directly, or in partnership, which address other key business needs.

For NBCC, the Expansion option presents new revenue opportunities, further reducing its reliance on contribution funding. During the Rankin Inlet Workshop (February 6 and 8, 2007), NBCC Board members suggested that consideration of any additional programs and services to be offered by NBCC should be client-driven. That is, if there is a demonstrated need from NBCC clients for other services not available from other Nunavut-based organizations, then NBCC should consider expanding the scope of their activities to include addressing such needs. A client-driven approach can be effective because NBCC would be seen to be responding to identified needs, providing a baseline for performance measurement. Further, a client-driven approach encourages efficiency, because only programs and services targeted to identified needs are delivered.

The net cost of the Expansion Option is $5.01 million, which is slightly less than the Status Quo Option because incremental revenues from the provision of business planning and bookkeeping services exceed the incremental costs of providing these additional services (see table 11). In other words, the main benefit of this option is that net revenue from new services serves to reduce the net costs of providing loan financing services.

TABLE 11: NET COST OF THE EXPANSION OPTION FOR NBCC [IN $000S]

PV OF INTEREST REVENUE	11,154
PV OF ADMIN COSTS	-11,405
PV OF OPPORTUNITY COST	-5,352
PV OF LOAN FUND COSTS	-5,602
PV OF INCREMENTAL REVENUE	1,727
PV OF INCREMENTAL COSTS	-1,136
NPV OF NEW SERVICES	591
CONSOLIDATED NPV	-5,101

[66] Office of the Auditor General of Canada. December 2000; p. 18-17.

The main disadvantages of the Expansion Option are:

1. Although benefit-cost analysis indicates that the present value of the Expansion Option costs is less than the present value of the Status Quo option costs, there would be an increase in *real* costs to the GN. NDC's track record suggests a positive return on investment on any increased funding, but the same cannot be said for NBCC without impact information.
2. There may be other organizations with the capabilities to deliver the contemplated new programs and services in a more efficient or more effective manner than NBCC.

9.3.3 AMALGAMATION OF NDC AND NBCC

The amalgamation of NDC and NBCC into a single Crown corporation follows the example of the NWT's Business Development and Investment Corporation. Loan financing, venture equity investments, and subsidiary business operations would be managed by one Crown corporation, under one CEO reporting to one Board of Directors.

It is estimated that the present value of the cost savings available under amalgamation over the next 10 years would be $1.838 million compared to the Status Quo option (see table 12).

TABLE 12: NET COST OF THE AMALGAMATION OPTION FOR NBCC [IN $000S]

NPV, STATUS QUO OPTION	-5,428
PV OF COST SAVINGS	1,838
TOTAL NPV OF COSTS	-3,590

As noted in section 9.2.3, it may be premature to consider an amalgamation. Despite the potential cost savings identified above, dealing with NBCC operational issues may dominate the operational demands of nine subsidiary companies, leading to overall ineffectiveness in delivering on a combined mandate. The result may be an *increase* in overall costs, rather than a decrease.

9.3.4 CESSATION OF OPERATIONS

Under this option, NBCC would remain "on the books" as a corporate entity, but would wind down its business affairs, deal with their respective creditors in a responsible manner, and disburse any remaining assets in consultation with the Minister of Economic Development and Transportation. NBCC employees are members of the Public Service, and the provisions of s. 27. (1) of the *Public Service Act* would apply.[67]

[67] s. 27. (1) Where the duties of a position held by an employee are no longer required to be performed, the Minister may lay-off the employee in accordance with the regulations.

The additional step of dissolution of one or both Corporations could be undertaken. However, pursuant to s. 76. (1) of the *Financial Administration Act*, a new Act would have to be enabled by the Legislative Assembly to dissolve NDC and/or NBCC.

The main advantage would appear to be cost savings. The annual contribution to NBCC to subsidize administrative costs is currently $450,000, although it has been higher. In-kind contributions to cover office facilities and expenses adds another $190,000.

However, cessation of operations is probably an inconclusive option for NBCC, as further decisions with respect to the management of the existing loan portfolio would be required. Also, NBCC addresses the financing needs of all Nunavut businesses that require between $125,000 and $1 million in loan financing. How would these needs be met?

9.3.5 Further Options for NBCC under Cessation of Operations

Given that cessation of the operations of NBCC is an inconclusive option, we propose three 'substitute' options under the scenario of winding down NBCC. These options are consistent with the desire to achieve public policy objectives in stimulating economic growth in Nunavut, but not necessarily by public sector means. The options are:

Loan portfolio management assumed by the Department of Economic Development and Transportation. Under this option, the Department would only be responsible for managing the current loan portfolio, including routine follow-up with clients, collecting principal and interest payments, and reporting.

Table 13: Net Cost of Loan Portfolio Management by ED&T [in $000s]

PV of Interest Revenue	5,738
PV of Admin Costs	-1,544
PV of Opportunity Cost	-2,753
Total NPV of Costs	1,411

As shown in table 13 above, loan portfolio management by ED&T appears to offer a net *benefit* to the Government of Nunavut. However, there is a cost associated with not providing loan funding to businesses (e.g., employment and other benefits foregone), but due to the absence of impact information from NBCC, this cost cannot be estimated, and therefore is not included in table 13. Nevertheless, this cost is substantial.

The benefits of this option are:

- Current clients would be relatively unaffected by the cessation of operations at NBCC.
- The government has some assurance that it could recover most of the $18 million in outstanding loans.

- Given that the NBCC's Investment Manager position is vacant (as of the time of writing), it may be easier to recruit for this position located in Iqaluit than in Cape Dorset.

The main disadvantage of this option is that no new loans would be provided. This option would do nothing to address the demand for capital by non-Inuit businesses in Nunavut.[68]

Consolidation of NBCC operations with that of the Nunavut Community Futures Association. Almost all of the growth in NBCC's loan portfolio over the last 3 years has been in the Baffin region (see Figure 5 earlier in the document). The lack of loan activity in the Kitikmeot and Kivalliq regions has probably been due not only to the distant location of NBCC, but also the sporadic (or non-existent) operations of the Kitikmeot and Kivalliq Business Development Centres. The recent creation of the Nunavut Community Futures Association (NCFA) may bring new life into the Kitikmeot and Kivalliq Business Development Centres, offering the prospect of better access to capital for businesses in those two regions. This new development provides an opportunity to consolidate NBCC's operations with those of the Community Futures organizations, providing loans to both Inuit and non-Inuit businesses from $25,000 up to $1 million.

It is estimated that the present value of the cost savings available under amalgamation over the next 10 years would be $1.511 million compared to the Status Quo option (see table 14).

TABLE 14: NET COST (RE NBCC) OF CONSOLIDATION WITH COMMUNITY FUTURES [IN $000S]

NPV, STATUS QUO OPTION	-5,428
PV OF COST SAVINGS	1,511
TOTAL NPV OF COSTS	-3,911

The benefits of this option are:

- Regional delivery of NBCC loan programs.
- The opportunity of continuity with clients throughout their business careers, from business start-up through successive stages of development and expansion.
- Current clients would be relatively unaffected by the cessation of operations at NBCC.
- The Government of Nunavut currently budgets $640,000 per year for cash and in-kind contributions to NBCC, and $800,000 per year for contributions to the three Nunavut Business Development Centres. There may be opportunities for cost

[68] Extending loan portfolio management duties by the Department to include the provision of new loans is not a cessation option, but rather a status quo option conducted inside the Department (along the lines of the Newfoundland and Labrador Business Investment Corporation).

savings by integrating the operations of NBCC with the Business Development Centres.
- The Nunavut Community Futures Association will be located in Iqaluit. It may be easier to recruit/retain financial management positions located in Iqaluit than in Cape Dorset.

This is not a new idea. In his Letter of Instruction dated March 16, 2001, the Minister of Sustainable Development directed NBCC to take an active role in the operations of Nunavut's business development centres.[69] The difference is that, with the creation of NCFA, the roles could be reversed, with the NCFA taking the lead role.

Consolidating the (former) operations of NBCC and the Business Development Centres is a concept only at this point, with details yet to be determined. Essentially the concept involves three regional offices (the Business Development Centres), a small headquarters operation combined with the Nunavut Community Futures Association, and one board, comprising representatives from the three regional operations with pan-Nunavut appointees.

This concept is consistent with thinking at the Western Arctic Business Development Services (WABDS). According to WABDS, the key to success in Community Futures in the North is establishing as much regional and local control as possible. In their experience, regional or community authorities have a much better understanding of community issues and needs, which can become clouded when viewed from a distance. The WABDS sees an important role for organizations such as the Nunavut Business Credit Corporation, but asserts that service delivery is best done at the community level.[70]

When the Nunavut Business Credit Corporation Act was amended in 2003 to allow loans to the Business Development Centres, Minister Akesuk agreed with this appraisal, saying "...regionally-based delivery agencies are better able to assess the needs of the business clients in their home communities".[71]

The main disadvantages of this option are:
- There is an imbalance in current Business Development Centre operations, with one strong Centre (Baffin Business Development Corporation) and two weaker ones (noted above). This imbalance would have to be addressed prior to integration, at the very least to keep BBDC in the mix.
- There may be some reluctance to move from a multi-board structure to a single board structure. Although the *Nunavut Business Credit Corporation Act* provides for regional loan boards (Ss. 17-26), maintaining 3 or more boards significantly reduces efficiencies and potential cost savings.

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[69] While the direction was valid, the Office of the Auditor General had concerns about the informal manner in which NBCC took control of the operations of the business development centres (for example, taking control of Kitikmeot and Kivalliq Business Development Centre bank accounts, and writing cheques on those accounts without taking any legal steps to obtain the authority to do so). This direction was subsequently withdrawn by the Minister in a Letter of Instruction dated May 20, 2003.

[70] David Patrick, Western Arctic Business Development Services, personal communication.

[71] Nunavut Hansard, December 3, 2003; p. 4715.

Management of NBCC operations under contract with Atuqtuarvik Corporation. Under this option, loan portfolio management, as well as new loan reviews and approvals (from the advance formerly assigned to NBCC), is undertaken on behalf of the government by Atuqtuarvik Corporation (similar to the Investment Saskatchewan/ Victoria Park Capital concept noted earlier).

Atuqtuarvik Corporation was established by Nunavut Tunngavik Inc. (NTI) to manage and deliver the Atuqtuarvik Investment and Loan Fund, which was created to ensure Inuit receive benefits from the Nunavut Trust through direct investment in business opportunities. The focus of the first five years of Atuqtuarvik Corporation's operations was on positioning itself to effectively provide loan and equity investments to Inuit-owned businesses, and it has achieved significant success in this regard. With a capitalization of $70 million, an experienced and competent staff, and a focus on supporting Inuit businesses to become economically viable, Atuqtuarvik Corporation has consistently earned a profit from its operations.

However, the annual return (through loan principal and equity repayments) on its current capital pool is insufficient to service new loans and equity investments. Consequently, the focus of the next five years is on achieving a level of total capitalization sufficient for Atuqtuarvik Corporation to continue to deliver on its mandate, consistent with the objectives of the Nunavut Economic Development Strategy.

Under this option, the skills and experience of Atuqtuarvik Corporation would be utilized to manage the GN's loan portfolio. This also is a concept only at this point, with details yet to be determined. Essentially the concept involves Atuqtuarvik Corporation maintaining two capital pools, with funds from the government separate from funds provided by its shareholder. Loan principal repayments would return to the respective pool from which they originated. An agreement to be negotiated would set out lending criteria, reporting requirements, applicable policies, fee for services, the disposition of interest collected on government funds, etc.

That Atuqtuarvik Corporation could manage the government's loan portfolio more efficiently is evident from table 15. It is estimated that the net cost savings of this option would be about $2.91 million over ten years, compared to the Status Quo option.

Table 15: Net Cost of Loan Portfolio Management by Atuqtuarvik Corporation [in $000s]

PV of Interest Revenue	4,944
PV of Management Fees	-2,242
PV of Opportunity Cost	-5,221
Total NPV of Costs	-2,518

The benefits of this option are:

- Significant cost savings to the Government of Nunavut. Atuqtuarvik Corporation has an excellent track record in loan portfolio management, not only from a 'bottom line' perspective, but in terms of leveraging new capital for Inuit businesses.
- Atuqtuarvik Corporation has competent account management staff in place.
- More effective loan services provided to Nunavummiut. Currently, about 30% of the financing applications submitted to Atuqtuarvik Corporation involve joint ventures between Inuit and non-Inuit partners, and this number has been increasing in the last few years.[72] Management of the government's loan services would allow Atuqtuarvik Corporation to consider the best financing package for all parties to the proposal under a "one window" approach to business financing.
- Current clients would be unaffected by the cessation of operations at NBCC, and may receive improved service.

It is important to note that the government must cede control over loan review, approval and management processes for this option to be effective.

9.3.6 SUMMARY OF OPTIONS FOR NBCC

A summary of options for NBCC are presented in table 16.

TABLE 16: LEAST COST COMPARISON OF OPTIONS FOR NBCC

	STATUS QUO	EXPANSION	AMALGAMATION WITH NDC	CONSOLIDATION WITH CFS	ED&T MGMT	AC MGMT
INTEREST REVENUE	10,510	11,154	10,510	10,510	5,738	4,944
ADMIN COSTS	-10,896	-11,405	-10,896	-10,896	-1,544	-2,242
OPPORTUNITY COST	-5,042	-5,352	-5,042	-5,042	-2,753	-5,221
INCREMENTAL REVENUE		1,727				
INCREMENTAL COSTS		-1,136				
COST SAVINGS			1838	1,511		
NET PRESENT VALUE (NPV)	-5,428	-5011	-3,590	-3,911	1,411	-2,518

Loan Portfolio management by ED&T would appear to be the 'best' option by application of a least cost criterion. However, this option assumes management of the *current* portfolio only – no new loans are provided. There is a cost associated with not providing loan funding to businesses (e.g., employment and other benefits foregone), but due to the absence of impact information from NBCC, this cost cannot be estimated. Nevertheless, this cost is substantial. Therefore, the least cost option is loan portfolio management by Atuqtuarvik Corporation.

[72] Ken Toner, President, Atuqtuarvik Corporation. Personal communication.

Table 17: Summary SWOT Analysis of Options for NBCC

	Status Quo	Expansion	Amalgamation with NDC
Strengths	Operational issues being addressed by Auditor General	Potential for cost savings from incremental net revenues in the long term	2nd least cost option, so potential for some cost savings
Weaknesses	Most expensive option using NPV methodology NBCC becoming increasingly less efficient	Equal potential for real cost increases in the short term	Not a good fit: NDC and NBCC have different focus, different, cultures, and different operating modes
Opportunities	Current Board has commitment to improve operations	Equity Investments; support services to Nunavut businesses	Creating an organization with a mandate similar to a merchant bank
Threats	Need more effective response to capital needs	May be other organizations with the capabilities to deliver new services	Will one organization have sufficient capabilities to deal with the differing demands?

	Portfolio Management by ED&T	Consolidation with Community Futures	Management under contract by Atuqtuarvik Corporation
Strengths	Potential for cost savings Current clients would be relatively unaffected by the cessation of operations at NBCC	Potential for cost savings Good fit	Least cost option: Significant cost savings to the Government of Nunavut Atuqtuarvik Corporation has track record of results
Weaknesses	No new loans provided, which implies a significant cost to the Nunavut economy	Current imbalance in current Business Development Centre operations	GN must cede control of loan program
Opportunities	Focus on 'health' of current portfolio increases chance of higher recovery of capital	NBCC and CFs have similar mandate and serve similar clients, but at different stages of development	More effective financing, particularly for Inuit-nonInuit joint ventures
Threats	Need more organizations addressing capital needs, not less	May be some reluctance to move from a multi-board structure to a single board structure	Atuqtuarvik Corporation may decline after loan portfolio review

9.6 EVALUATION CRITERIA

Six criteria are established for evaluating the above options:

1. **Economic costs and benefits**. From a purely fiscal point of view, which option offers the greatest net present value of costs and benefits?
2. **Mandate Validity**. Are the respective mandates of NDC and NBCC still valid? That is, are there justifiable reasons for the GN to continue to "stimulate economic development and employment in Nunavut"?
3. **Continuing Need**. This is considered in two parts: Is there a continuing need for the programs and services that are delivered by NDC and NBCC, respectively? Secondly, is there a continuing need for NDC and/or NBCC as the agents for delivery of these services?
4. **New Opportunities**. With respect to the Expansion option, are there new business opportunities which, for legitimate public policy objectives, NDC or NBCC should be the delivery agent?
5. **Efficiency**. In economics literature, productive efficiency occurs when "production of one good is achieved at the lowest cost possible".[73] As an instrument of public policy, a Crown corporation should be efficient in program delivery.
6. **Effectiveness**. Effectiveness is the extent to which an activity fulfils its intended purpose or function.[74] A Crown corporation should achieve public policy objectives in a transparent and demonstrated manner.

9.7 CHOOSING THE RIGHT OPTION(S)

9.7.1 AMALGAMATING NDC AND NBCC IS NOT A GOOD OPTION

Amalgamation of NDC and NBCC is not a good option. There may be cost savings to be achieved through amalgamation, but other options offer more cost savings. There may be a continuing need for the programs and services that are delivered by NDC and NBCC. There may also be new opportunities which could be undertaken by an amalgamated entity. But this option scores poorly on the other three criteria: mandate validity, efficiency, and effectiveness.

Our main concern is that the amalgamated corporation ends up like the NWT BDIC: a large staff managing a small budget divided between two distinctive mandates: making loans and equity investments on the one hand, and managing subsidiary companies on the other. This type of dual mandate is typical of a merchant bank[75], although a merchant bank operates on a

[73] www.wikipedia.org.

[74] Harvey, L., 2004, Analytic Quality Glossary, Quality Research International, http://www.qualityresearchinternational.com/glossary/

[75] Merchant banks provide both debt and equity financing to clients, often using their own funds to buy equity in a client business. Although some merchant banks are affiliated with the chartered banks (e.g., Roynat Capital, a member of the Scotiabank Group), they are not deposit-taking institutions. They provide advisory services as well as financing, and are ordinarily active in structuring complex financing, mergers and acquisitions, and financial restructurings.

much larger scale. In creating BDIC, the NWT government may very well be on the way to developing its own merchant bank, but does the Government of Nunavut want to be in the merchant banking business? We think not, for two reasons:

1. The most successful merchant banks are extremely focused on 'bottom line' performance. To be effective, a GN-owned merchant bank would have to sacrifice public policy objectives in favour of strictly economic ones. An amalgamated NDC/NBCC's would be inversely proportional to its requirement to achieve public policy objectives.
2. The concept of a merchant bank is appealing: it provides not only loan and equity financing, but also addresses all of the other key business needs which we have proposed as important to stimulate economic growth in Nunavut. However, there are two other organizations in Nunavut with the mandate and desire to develop along the lines of a merchant bank: the Nunavut Community Futures Association (NCFA), and Atuqtuarvik Corporation. The track records of Atuqtuarvik Corporation and the Baffin Business Development Corporation suggest that supporting the development efforts of NCFA and/or Atuqtuarvik Corporation would be more efficient than undertaking merchant banking as a government enterprise.

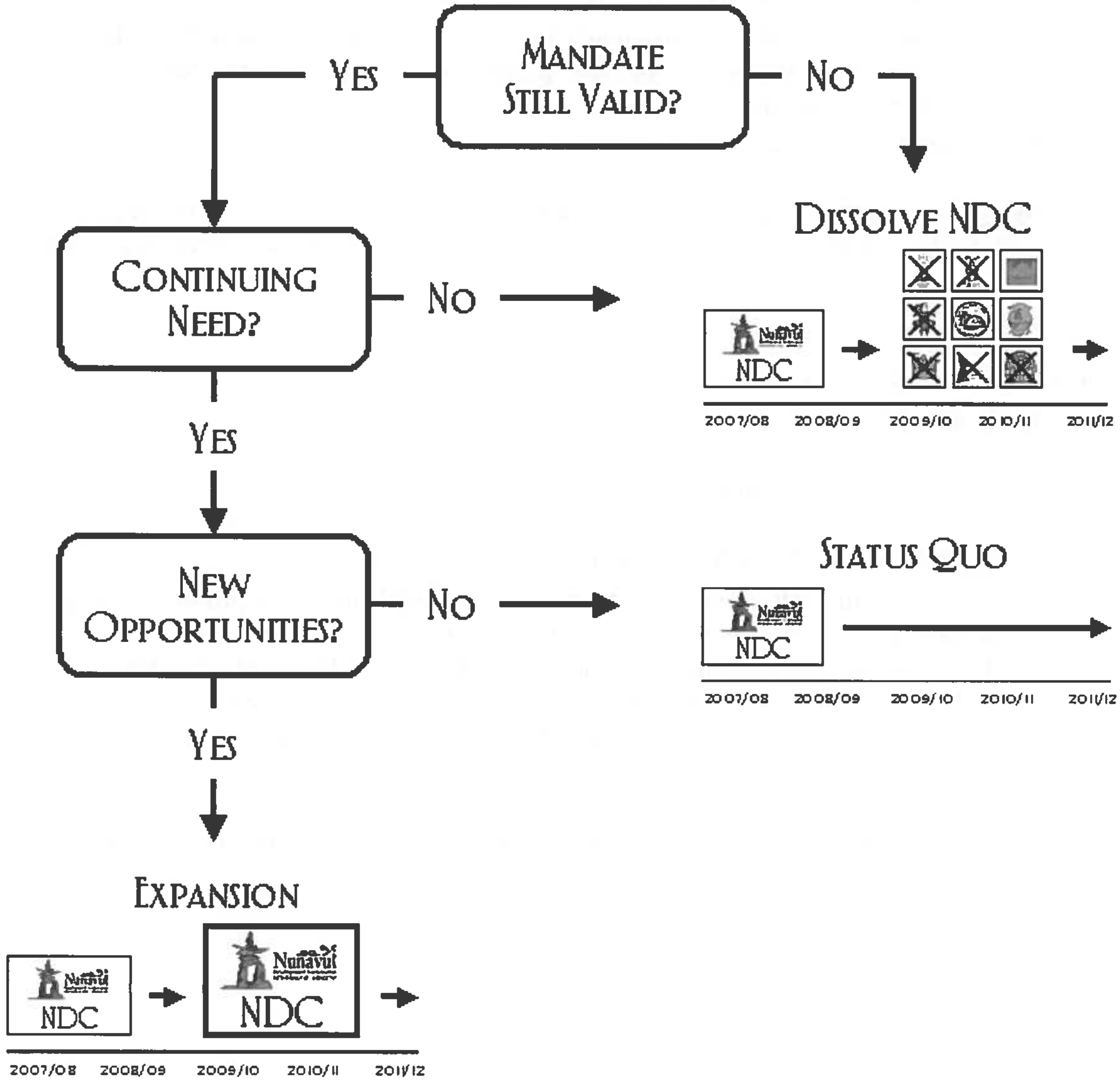
9.7.2 OPTIONS FOR NDC

This leaves us with 3 options for NDC:

1. Status Quo
2. Expansion
3. Cessation of Operations

A decision flowchart for choosing from among these three options is presented in Figure 10.

FIGURE 10: DECISION FLOWCHART FOR NDC OPTIONS



From our analysis:

- NDC's mandate is still valid.
- There is a continuing need for NDC's programs and services.
- There are opportunities (particularly in fisheries and tourism) which would benefit from the application of NDC programs and services to the benefit of the Nunavut economy.
- Efficiency and effectiveness are not issues for NDC.

Applying these attributes to the decision rules in Figure 10 above leads us to the preferred option for NDC: **expansion**. This is consistent with the results of the benefit-cost analysis.

9.7.3 OPTIONS FOR NBCC

Options for NBCC also include:

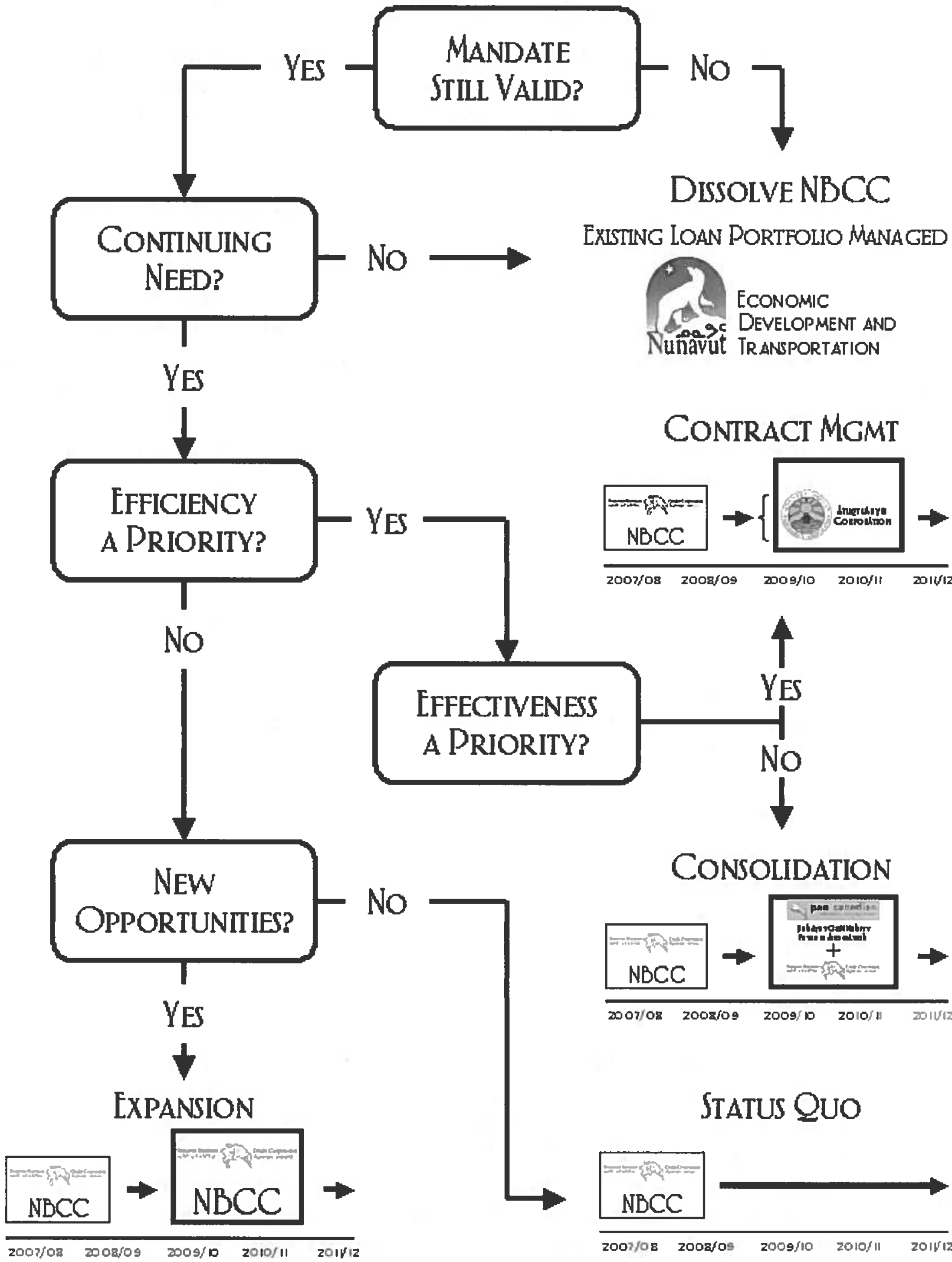
1. Status Quo
2. Expansion
3. Cessation of Operations

The decision flowchart for NBCC is more complicated for two reasons:

1. Efficiency and effectiveness – attributes which NDC has exemplified to a high degree in its operations to date – are issues for NBCC.
2. The 'Cessation of Operations' option is inconclusive when applied to NBCC, and requires further options for consideration, i.e., consolidation with the Business Development Centres, or portfolio management under contract to Atuqtuarvik Corporation.

A decision flowchart for choosing from among these options is presented in Figure 11.

Figure 11: Decision Flowchart for NBCC Options



From our analysis:

- NBCC's mandate is still valid.
- There is a continuing need for public capital to augment the capacity of other organizations to provide financing to Nunavut businesses.
- However, with the track record of Atuqtuarvik Corporation and the potential for efficient and effective delivery inherent in the Nunavut Community Futures Association, there may no longer be a need for a *public body* to deliver public capital.

If efficiency in operations (i.e., minimizing administrative issues and maximizing the potential for cost savings) is a priority, then the results of the least cost analysis and the decision rules in Figure 9 above reduces the practicable options to two: management by Atuqtuarvik Corporation, or, secondarily, consolidation with the Business Development Centres. If effectiveness in operation (i.e., focusing on results and achieving results consistent with the objectives in the Nunavut Economic Development Strategy) is a priority as well, then the preferred option for NBCC is: **management by Atuqtuarvik Corporation**. This is consistent with the results of our least cost analysis, and is supported by Atuqtuarvik Corporation's track record in this area, versus the unknown quantity that is the Nunavut Community Futures Association.

9.8 SUMMARY

The four options for the future roles and responsibilities of NDC and NBCC are:

1. Status quo
2. Expansion of current operations
3. Merging (or amalgamation) of NDC and NBCC into a single entity
4. Cessation of current operations

Six criteria were established for evaluating each option:

1. Costs and Benefits
2. Mandate Validity
3. Continuing Need
4. New Opportunities
5. Efficiency
6. Effectiveness

The Amalgamation option was eliminated from consideration because it fails on three of the five established criteria and suggests long-term development of a merchant bank, a direction more suited to pursuit by a private sector organization. Applying the six evaluation criteria to the remaining three options results in the following recommended options:

- For NDC, expansion of activities, with more funding provided to pursue new opportunities in other sectors of the Nunavut economy, consistent with the objectives of the Nunavut Economic Development Strategy.
- For NBCC, cessation of activities in favour of portfolio management under contract to Atuqtuarvik Corporation.

10 CONCLUSIONS

> *An economic development strategy for Nunavut must recognize that in developmental terms the Nunavut economy is far behind other jurisdictions in Canada. Nunavut still has to put almost all the economic fundamentals in place before it can have a thriving, diverse, business- and community-driven economy..*[76]

The Sivummut Economic Development Strategy Group has established economic development goals which are ambitious, but nevertheless necessary if all Nunavummiut are to have "a high and sustainable quality of life".

For its part, the Government of Nunavut, as a partner in the Sivummut Economic Development Strategy Group, owns two agencies mandated to stimulate economic development and employment in Nunavut: the Nunavut Development Corporation (NDC) and the Nunavut Business Credit Corporation. Each of these crown corporations does not operate in isolation. Issues and impacts have to be understood in the correct context, whether they are related to understanding the functioning of each agency; each organization's capacity to effect change; or the role of each agency in relation to other economic development activities undertaken by the government.

Nevertheless, in considering the future contribution of NDC and NBCC to economic development, the government's focus should be on *results*, not *process*, reiterating what the Auditor General reported in the *2002 Report of the Auditor General of Canada to the Legislative Assembly of Nunavut*. A focus on results facilitates the measurement of impacts, and – consequently – accountability for the expenditure of public funds.

10.1 STRATEGIC DIRECTION FOR NDC FOR THE NEXT 10 YEARS

For its part, NDC already has established a focus on results, and should be encouraged and supported to extend that focus into other sectors deemed important by the members of the Sivummut Economic Development Strategy Group. Over the longer term, NDC's history of increasing administrative efficiency, and skills and expertise should be applied to other sectors of the Nunavut economy, in furtherance of the objectives of the Nunavut Economic

[76] Sivummut Economic Development Strategy Group. *The Nunavut Economic Development Strategy: Building a Foundation for the Future*. June 2003; p.vi.

Development Strategy. Research suggests that there are opportunities in off-shore fisheries, tourism, and support to the mining industry.

Two – perhaps three – NDC subsidiaries are approaching a level of economic viability sufficient to be considered likely candidates for divestiture over the next few years. Divestiture of these subsidiaries would provide NDC with additional capital to pursue new business opportunities in these sectors.

This strategic direction was recommended by W. Shupe & Company in their 2004 operational review of NDC:

> "*We believe that NDC's current operational mandate is unduly constraining and needs to be expanded to embrace an active, more multi-sector investment approach. Such would be far more conducive to better diversifying and stabilizing Nunavut's economy, and more consistent with the tenor of the recent Nunavut Economic Development Strategy.*"[77]

The Shupe report provides less clarity with respect to long-term NDC goals and objectives, with elements of both a community economic development approach and a profit-oriented 'bottom line' approach to the traditional economy brought forward in their general recommendations. Experience shows that it is difficult to balance job and income creation goals with economic viability goals, particularly in smaller communities, and although Shupe argues for a mix of both, we believe that – because of the strategic importance of the traditional economy – longer term benefits to the Nunavut economy will arise from a focus on the former.

10.2 STRATEGIC DIRECTION FOR NBCC FOR THE NEXT 10 YEARS

Our analysis suggests that there is a continuing need public capital to augment the capacity of other organizations to provide loan and equity capital to Nunavut businesses. However, there may no longer be a strategic need for NBCC.

Samler concluded that, from strictly a fiscal point of view, having multiple organizations doing lending and economic development presents obvious inefficiencies. An obvious question then emerges: Would it not be prudent to closely match the mandates of the organizations to determine rationalization opportunities and, thus, realize real savings in contributions towards operating costs? Our analysis suggests that management of the government's loan fund by Atuqtuarvik Corporation would be the most rational approach.

By contracting portfolio management to Atuqtuarvik Corporation, the government will be able to achieve more effective and efficient delivery, consistent with its commitment to working "with partners to simplify and enhance access to business support programs in Nunavut."[78]

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[77] W. Shupe & Company. *Operational Review of the Nunavut Development Corporation*. A report prepared for the Government of Nunavut, February 2004; p. 8.

[78] Government of Nunavut. Pinasuaqtavut 2004-2009: Our Commitment to Building Nunavut's Future; p. 13.

11 RECOMMENDATIONS

In 2020, Nunavut is a place where…access to programs and services are seamless, straightforward, understandable and efficient.[79]

1. The Minister of Economic Development and Transportation should direct NDC to revise its corporate plan for the 2007/08 fiscal year, identifying new opportunities – particularly in fisheries, tourism and support to the mining industry – where NDC could be involved; developing goals and objectives to be accomplished over the next 5 years; and to prepare preliminary budgets for achieving those goals and objectives.

2. Performance measurement indicators should be a key consideration in developing these goals and objectives. Performance monitoring measures are lacking from Letters of Expectation. Economic impacts cannot be assessed if the requirement for, and the tools to undertake, performance monitoring are not in place.

3. The NDC Board of Directors should be encouraged to continue its good work, with assurances that it will continue to operate at arm's length from the government. A board that is competent and operates truly at arm's length from government will make better decisions. Literature and best practices show conclusively that active and independent board governance leads to stronger corporate performance.[80]

4. The Minister of Economic Development and Transportation should initiate discussions with the Board of Directors of Atuqtuarvik Corporation on management of the government's loan portfolio, as well as the provision of new loans to Nunavut businesses on the government's behalf.

5. In the event that these negotiations do not proceed, or fail to satisfy the government that its public policy objectives will be achieved, then the Minister of Economic Development and Transportation should initiate discussions with the Nunavut Community Futures Association about potential partnership arrangements with NBCC.

[79] Ibid; p. 11.
[80] Office of the Auditor General of Canada. *Report of the Auditor General to the House of Commons for December 2000*. Chapter 18: Governance of Crown Corporations; p. 18-16.

6. The Minister of EDT should obtain $5 million in additional capital for investment in NDC over the next 10 years, and an increase in the cap on the advance to $25 million for new loan financing. How much more to invest, and in which direction (i.e., using some of the increase in the advance for *equity* financing) should be decided based on performance against measurable impacts – i.e., profits earned, jobs and income generated, other capital leveraged, value of exports, etc.

7. The Minister of EDT should acknowledge NDC's major accomplishments working in a very difficult environment with significant transportation and logistical obstacles. In spite of these obstacles they have developed unique products and services that expand Nunavut exports, create jobs and income for local residents, support Inuit cultural 'self-sufficiency', all at relatively low cost to the GN. It is an understatement that the GN is getting a 'good bang' for its buck. We know of no other crown corporation or government agency operating in Canada's north that has accomplished so much in the meat and fish, and arts and crafts sectors. NDC should be acknowledged for their outstanding work.

APPENDICES

1. NDC Consolidated Income Statements, 1999/2000 – 2005/06
2. NBCC Income Statements, 1999/2000 – 2005/06
3. Benefit-Cost Analysis of NDC Options
4. Least-Cost Analysis of NBCC Options

APPENDIX I NDC CONSOLIDATED INCOME STATEMENTS

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
SALES	$3,818,758	$4,410,217	$5,438,466	$5,991,653	$6,387,984	$6,066,101	$6,789,095
COST OF GOODS	$3,999,864	$4,586,345	$5,331,420	$5,850,391	$6,269,645	$5,666,244	$5,448,659
GROSS PROFIT	-$181,106	-$176,128	$107,046	$141,262	$118,339	$399,857	$1,340,436
GROSS PROFIT %	-5%	-4%	2%	2%	2%	7%	20%
OTHER INCOME	$106,247	$123,875	$133,343	$89,418	$127,809	$72,066	$71,323
EXPENSES	$2,498,370	$3,143,012	$3,165,012	$3,538,897	$3,733,261	$3,807,233	$3,693,455
NET LOSS	-$2,573,229	-$3,195,265	-$2,924,623	-$3,308,217	-$3,487,113	-$3,335,310	-$2,281,696
GN CONTRIBUTION	$3,008,380	$3,393,673	$3,406,737	$3,599,621	$3,882,841	$3,572,894	$3,407,860
NET AFTER CONTRIBUTION	$435,151	$198,408	$482,114	$291,404	$395,728	$237,584	$1,126,164

Note: Consolidated Income is Net of inter-subsidiaries sales.

Appendix 2 NBCC Income Statements

	2005/06	2004/05	2003/04	2002/03	2001/02	2000/01	1999/00
Interest Income on Loans Receivable	1,114	733	822	725	524	544	519
Less: Interest Expense on Advance from Gov. of Nunavut	-526	-335	-302	-343	-342	-457	-456
Gross Income from Lending	588	398	520	382	182	87	63
Less: Provision for Losses on Impaired Loans	-832	-41	-75	63	-21	231	-197
Net Income from Lending	-244	357	445	445	161	318	-134
Miscellaneous Income	34	19	31	14	20	18	
Total Income	-210	376	476	459	181	336	-134
Total Expenses	1,151	847	754	596	651	283	200
Net Loss	-1,361	-471	-278	-137	-470	53	-334
GN Contribution	641	640	773	600	430	282	200
Net Income (Loss) After Contribution	**-720**	**169**	**495**	**463**	**-40**	**335**	**-134**
Equity (Deficit) at the Beginning of the Year	429	260	-235	-698	-658	-993	-859
Equity at the End of the Year	-291	429	260	-235	-698	-658	-993

APPENDIX 3: BENEFIT-COST ANALYSIS OF NDC OPTIONS

ASSUMPTIONS:

1. Perspective for recognizing costs and benefits: Government of Nunavut.
2. Cost and revenue streams expressed in $000s of constant dollars.
3. For comparative purposes, all costs and benefits expressed as present value of 10 year cost stream net of revenues, and 10 year benefits stream, respectively.
4. Social Discount Rate: 7.5%[81].
5. There is no opportunity cost associated with contributions to NDC. These contribution funds would otherwise be used for other programs with the same expectation of 0% monetary return.
6. Net cost to the GN under the Status Quo, Amalgamation and Cessation Options is equal to the net loss incurred by NDC for fiscal year 2005/06: $2.3 million. [NDC's consolidated net loss has been trending downward, so this assumption is conservative.] Net loss is a better estimate of the cost incurred by the GN, rather than total contributions. Any surpluses after subsidies and capital contributions (net of accumulated depreciation) remain on the balance sheet of NDC as an on-going investment, rather than a cost.
7. The Expansion Option includes incremental contributions of $500,000 each year for 10 years. Net cost to the GN under this option increases proportionally.
8. Total direct jobs under the Status Quo and Amalgamation Options equal to 120, at valuation of $27,650 in constant dollars per job.
9. Total direct jobs under the Expansion Option increases from 120 in direct proportion to the increase in government contribution for each respective year.
10. Other payouts to Nunavummiut under the Status Quo, Amalgamation and Expansion Options equal to 3-year average payout per $1,000 of government contribution, multiplied by the contribution appropriate to the respective Option and year.
11. Multiplier effects are ignored.

[81] The social discount rate is the minimum rate of return on an investment to compensate for the return foregone when resources are diverted from other uses. In 1976, the Government of Canada's Treasury Board Secretariat established a social discount rate at 10% per year, with a range from 5% to 10%. We have chosen the midpoint of the Treasury Board range – 7.5% – while acknowledging that the debate over an appropriate social discount rates is long-standing and extensive.

Status Quo Option

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Net Cost to the GN	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300
Value of Direct Jobs	3,318	3,318	3,318	3,318	3,318	3,318	3,318	3,318	3,318	3,318
Value of Other Payouts to Nunavummiut	1,786	1,990	2,150	2,259	2,315	2,315	2,315	2,315	2,315	2,315
Total Value of Benefits	5,105	5,309	5,468	5,577	5,633	5,633	5,633	5,633	5,633	5,633

Present Value Calculations

Net Cost to the GN	-15,787
Value of Direct Jobs	22,778
Value of Other Payouts to Nunavummiut	14,942
Total Value of Benefits	37,720
Net Present Value (NPV)	21,933

Expansion Option

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Net Cost to the GN	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800
Value of Direct Jobs	3,806	3,806	3,806	3,806	3,806	3,806	3,806	3,806	3,806	3,806
Value of Other Payouts to Nunavummiut	2,049	2,284	2,466	2,592	2,656	2,656	2,656	2,656	2,656	2,656
Total Value of Benefits	5,855	6,090	6,272	6,398	6,462	6,462	6,462	6,462	6,462	6,462

PRESENT VALUE CALCULATIONS

NET COST TO THE GN	-19,219
VALUE OF DIRECT JOBS	26,124
VALUE OF OTHER PAYOUTS TO NUNAVUMMIUT	17,143
TOTAL VALUE OF BENEFITS	43,267
NET PRESENT VALUE (NPV)	24,048

AMALGAMATION OPTION

From the perspective of NDC, the Amalgamation Option is the same as the Status Quo option. Costs savings that could be realized through amalgamation are assumed to accrue to NBCC, and are presented in the next appendix.

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
NET COST TO THE GN	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300
VALUE OF DIRECT JOBS	3,318	3,318	3,318	3,318	3,318	3,318	3,318	3,318	3,318	3,318
VALUE OF OTHER PAYOUTS TO NUNAVUMMIUT	1,786	1,990	2,150	2,259	2,315	2,315	2,315	2,315	2,315	2,315
TOTAL VALUE OF BENEFITS	5,105	5,309	5,468	5,577	5,633	5,633	5,633	5,633	5,633	5,633

PRESENT VALUE CALCULATIONS

NET COST TO THE GN	-15,787
VALUE OF DIRECT JOBS	22,778
VALUE OF OTHER PAYOUTS TO NUNAVUMMIUT	14,942
TOTAL VALUE OF BENEFITS	37,720
NET PRESENT VALUE (NPV)	21,933

CESSATION OPTION

If NDC was to cease operations, it is assumed that only 3 subsidiaries: Kivalliq Arctic Foods, Pangnirtung Fisheries, and Uqqurmiut Arts and Crafts would survive long-term, but with on-going subsidies equal to current levels. Since any surpluses would now occur to private companies, total annual subsidy contributions is a better estimate of the cost to GN. As for capital contributions, it is assumed that these companies would have to go to the financial services sector for capital financing.

It is also assumed that direct jobs in these three companies would remain at current levels, and other payouts to Nunavummiut from these three subsidiaries are equal to 60% of total current payouts.

With respect to subsidiaries that cease operations, as well as NDC itself, the cost to the GN is equal to jobs and other payouts lost, whereas the benefit is equal to the net losses avoided.

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Contributions	700	700	700	700	700	700	700	700	700	700
Direct Jobs Lost	1,416	1,416	1,416	1,416	1,416	1,416	1,416	1,416	1,416	1,416
Value of Other Payouts Foregone	715	796	860	904	926	926	926	926	926	926
Total Cost to GN	2,831	2,912	2,976	3,020	3,042	3,042	3,042	3,042	3,042	3,042
Cost Savings	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Value of Direct Jobs Maintained	1,902	1,902	1,902	1,902	1,902	1,902	1,902	1,902	1,902	1,902
Value of Other Payouts to Nunavummiut	1,072	1,194	1,290	1,355	1,389	1,389	1,389	1,389	1,389	1,389
Total Value of Benefits	5,674	5,797	5,892	5,958	5,991	5,991	5,991	5,991	5,991	5,991

Present Value Calculations

Contributions	-4,805
Direct Jobs Lost	-9,720
Value of Other Payouts Foregone	-5,977
Total Cost to GN	-20,502
Cost Savings	13,058
Value of Direct Jobs Maintained	8,965
Value of Other Payouts to Nunavummiut	18,533
Total Value of Benefits	40,556
Net Present Value (NPV)	20,054

Summary of Options

	Status Quo	Expansion	Amalgamation with NDC	Cessation
Costs				
Net Cost to GN	-15,787	-19,219	-15,787	-4,805
Direct Jobs Lost				-9,720
Other Payments to Nunavummiut Foregone				-5,977
Total Costs	-15,787		-15,787	-20,502
Benefits				
Value of Direct Jobs	22,778	26,124	22,778	13,058
Value of Other Payouts to Nunavummiut	14,942	17,143	14,942	8,965
Cost Savings to GN				18,533
Total Benefits	37,720	43,267	37,720	40,556
Net Present Value (NPV)	21,933	24,048	21,933	20,054

Appendix 4: Least Cost Analysis of NBCC Options

Assumptions:

12. Only costs are estimated. The lack of impact information prevents the estimation of benefits.
13. Perspective for recognizing costs: Government of Nunavut.
14. Cost and revenue streams expressed in $000s of constant dollars.
15. For comparative purposes, all costs expressed as present value of 10 year cost stream, net of revenues expressed as present value of 10 year revenue stream.
16. Social Discount Rate: 7.5%. This rate does not include an allowance for the opportunity cost of capital (for the loan fund only), which is a distinct cost in the analysis.
17. Opportunity cost of capital: 3.69%, which is the average cost of the advance to NBCC over the last five years. There is no opportunity cost associated with contributions or charges: contribution funds would otherwise be used for other programs with the same expectation of 0% monetary return. Only funds advanced for the purpose of providing loans to Nunavut businesses has an opportunity cost, as these funds could be invested elsewhere by the government with the expectation of a monetary return.
18. Increase in advance: $7 million over 4 years.
19. Annual Interest on Loans Outstanding: 7.69%, which is average of last 5 years
20. Allowance for Impaired Loans, Status Quo, Amalgamation, ED&T Management and Consolidation with Community Futures Options: 4% per year, calculated on opening balance in Loan Portfolio
21. Allowance for Impaired Loans, Expansion Option: 4% in first 2 years, reducing to 2% per year thereafter.
22. Allowance for Impaired Loans, Atuqtuarvik Corporation Management Option: 4% on loans in portfolio under contract management; 2% on loans made by Atuqtuarvik Corporation
23. Impaired Loans are written off, i.e., allowance is not expensed, instead, value of loan portfolio is reduced by amount of impaired loans
24. Cost associated with writing off loans is ignored as it is essentially the same for all options.
25. Costs associated with contributions to Community Futures organizations is ignored.
26. Administration Costs, Status Quo, Expansion, Amalgamation and Consolidation with Community Futures Options: 8% of opening balance in Loan Portfolio, which is average of last 5 years
27. Administration Costs, ED&T Management Option: $225,000 per year.
28. Loan Portfolio Management Fees, Atuqtuarvik Corporation Management Option: 3%.

Status Quo Option

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Loan Portfolio, begin	18,000	19,280	20,509	21,688	21,821	20,948	20,110	19,306	18,534	17,792
Loans Written Off	-720	-771	-820	-868	-873	-838	-804	-772	-741	-890
Increases in Advance	2,000	2,000	2,000	1,000	0	0	0	0	0	0
Loan Portfolio, end	19,280	20,509	21,688	21,821	20,948	20,110	19,306	18,534	17,792	16,903
Interest Revenue	1,483	1,578	1,669	1,679	1,612	1,547	1,485	1,426	1,369	1,300
Administrative Costs	1,440	1,542	1,641	1,735	1,746	1,676	1,609	1,544	1,483	1,423
Opportunity Cost	712	757	801	805	773	742	713	684	657	624

Present Value Calculations

PV of Interest Revenue	10,510
PV of Admin Costs	-10,896
PV of Opportunity Cost	-5,042
Net Present Value (NPV)	-5,428

Expansion Option

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Loan Portfolio, begin	18,000	19,280	20,509	22,099	22,657	22,204	21,759	21,324	20,898	20,480
Loans Written Off	-720	-771	-410	-442	-453	-444	-435	-426	-418	-410
Increases in Advance	2,000	2,000	2,000	1,000	0	0	0	0	0	0
Loan Portfolio, end	19,280	20,509	22,099	22,657	22,204	21,759	21,324	20,898	20,480	20,070
Interest Revenue	1,483	1,578	1,700	1,743	1,708	1,674	1,641	1,608	1,576	1,544
Administrative Costs	1,440	1,542	1,641	1,768	1,813	1,776	1,741	1,706	1,672	1,638
Opportunity Cost	712	757	816	836	820	803	787	771	756	741

Present Value Calculation: Loan Fund

PV of Interest Revenue	11,154
PV of Admin Costs	-11,405
PV of Opportunity Cost	-5,352
Total	-5,602

Revenue and Cost Projections: Additional Services

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Revenue from Bookkeeping Services	35	70	114	240	240	240	240	240	240	240
Revenue from Financial Planning	38	75	80	80	80	80	80	80	80	80
Total Revenue	75	147	196	322	322	322	322	322	322	322
Incremental Wages and Benefits	0	90	135	180	198	198	198	198	198	198
Telephone and Fax	1	2	4	8	8	8	8	8	8	8
Office Supplies	1	1	2	80	4	4	4	4	4	4
Total Expenses	2	94	141	268	210	210	210	210	210	210
Contribution Margin	73	53	55	54	112	112	112	112	112	112

Present Value Calculation: Additional Services

PV of Incremental Revenue	1,727
PV of Incremental Costs	-1,136
NPV	591

Consolidated Present Value Calculation

PV of Interest Revenue	11,154
PV of Admin Costs	-11,405
PV of Opportunity Cost	-5,352
PV of Incremental Revenue	1,727
PV of Incremental Costs	-1,136
Consolidated NPV	-5,101

Amalgamation with NDC

Note: Costs and Revenues associated with the loan portfolio under this option assumed to be same as under the Status Quo Option. It is further assumed that costs savings from amalgamation are offset against NBCC costs, rather than against NDC costs.

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Office Expenses	41	41	41	41	41	41	41	41	41	41
Office Leasehold Costs	128	128	128	128	128	128	128	128	128	128
Board of Directors Costs	99	99	99	99	99	99	99	99	99	99
Total Cost Savings	268	268	268	268	268	268	268	268	268	268

Present Value Calculations

NPV, Status Quo Option	-5,428
PV of Cost Savings	1,838
Total NPV	-3,590

Loan Portfolio Management by ED&T

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Loan Portfolio, begin	18,000	16,380	14,825	13,332	11,899	10,523	9,202	7,934	6,716	5,548
Loans Written Off	-720	-655	-593	-533	-476	-421	-368	-317	-269	-222
Loan Repayments	-900	-900	-900	-900	-900	-900	-900	-900	-900	-900
Loan Portfolio, end	16,380	14,825	13,332	11,899	10,523	9,202	7,934	6,716	5,548	4,426
Interest Revenue	1,260	1,140	1,026	915	810	708	610	517	427	340
Opportunity Cost	605	547	492	439	388	340	293	248	205	163
Salary & Benefits	200	200	200	200	200	200	200	200	200	200
Other Office Expenses	25	25	25	25	25	25	25	25	25	25
Total Admin Costs	225	225	225	225	225	225	225	225	225	225

Present Value Calculations

PV of Interest Revenue	5,738
PV of Admin Costs	-1,544
PV of Opportunity Cost	-2,753
Total	1,411

Consolidation with Community Futures Organizations

Note: Costs and Revenues associated with the loan portfolio under this option assumed to be same as under the Status Quo Option. It is further assumed that costs savings from amalgamation are offset against NBCC costs, rather than against overall Community Futures costs.

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Office Expenses	41	41	41	41	41	41	41	41	41	41
Salaries and Benefits	80	80	80	80	80	80	80	80	80	80
Board of Directors Costs	99	99	99	99	99	99	99	99	99	99
Total Cost Savings	220	220	220	220	220	220	220	220	220	220

Present Value Calculations

NPV, Status Quo Option	-5,428
PV of Cost Savings	1,511
Total NPV	-3,911

Management by Atuqtuarvik Corporation

Additional Assumptions Applicable to this Option Only:

1. The loan portfolio is divided into two parts for purposes of calculating costs and fees: 'old' portfolio and 'new' portfolio.
2. The 'old' portfolio starts out at $18 million, and is reduced each year by impaired loans written off, and principle repayments, according to the following: 4% of the opening balance is be written off each year, and 10% of the opening balance is repaid each year.
3. All interest paid on loans in 'old' portfolio accrues to the Government of Nunavut.
4. Atuqtuarvik Corporation charges the GN a management fee of 3%, calculated on opening balance in the 'old' loan portfolio.
5. The 'new' portfolio comprises all principle repayments plus $7 million in new funding provided by the GN over the next 4 years. (Restricting new funding to $7 million keeps the total advance (excluding write-offs) to under $25 million.)
6. Atuqtuarvik Corporation is not charged for funds accumulating (from loan repayments plus increases in the advance) in the 'new' portfolio. Interest earned on funds in 'new' portfolio accrues to Atuqtuarvik Corporation to cover costs.
7. The long-term result is that the 'old' portfolio eventually becomes zero, with all loans either repaid or written off, and the 'new' portfolio, under AC management, increases to $25 million (less new write-offs) over the same period.
8. These assumptions were created by the authors for cost estimation purposes only, and do not necessarily reflect the views of Atuqtuarvik Corporation Board members or staff.

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Managed Portfolio, begin	18,000	15,480	13,313	11,449	9,846	8,468	7,282	6,263	5,386	4,632
Loans Written Off	-720	-619	-533	-458	-394	-339	-291	-251	-215	-185
Loan Repayments	-1,800	-1,548	-1,331	-1,145	-985	-847	-728	-626	-539	-463
Managed Portfolio, end	15,480	13,313	11,449	9,846	8,468	7,282	6,263	5,386	4,632	3,983

Cost Projections, continued

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Interest Revenue	1,191	1,024	881	757	651	560	482	414	356	306
Portfolio Management Fee	540	464	399	343	295	254	218	188	162	139
Funds Available for Lending										
Loan Portfolio, begin	0	3,800	7,272	10,458	12,394	13,130	13,714	14,168	14,511	14,760
Loan Loss Provision	0	-76	-145	-209	-248	-263	-274	-283	-290	-295
Loan Repayments	1,800	1,548	1,331	1,145	985	847	728	626	539	463
Increases in Advance	2,000	2,000	2,000	1,000	0	0	0	0	0	0
Loan Portfolio, end	3,800	7,272	10,458	12,394	13,130	13,714	14,168	14,511	14,760	14,928
'Total' Portfolio for Purposes of calculating Op Cost	19,280	20,585	21,907	22,240	21,598	20,997	20,431	19,897	19,392	18,911
Opportunity Cost	712	760	809	821	797	775	754	734	716	698

Present Value Calculations

PV of Interest Revenue	4,944
PV of Management Fees	-2,242
PV of Opportunity Cost	-5,221
Total NPV	-2,518

Summary of Options

	Status Quo	Expansion	Amalgamation with NDC	Consolidation with CFs	ED&T Mgmt	AC Mgmt
Interest Revenue	10,510	11,154	10,510	10,510	5,738	4,944
Admin Costs	-10,896	-11,405	-10,896	-10,896	-1,544	-2,242
Opportunity Cost	-5,042	-5,352	-5,042	-5,042	-2,753	-5,221
Incremental Revenue		1,727				
Incremental Costs		-1,136				
Cost Savings			1838	1,511		
Net Present Value (NPV)	-5,428	-5011	-3,590	-3,911	1,411	-2,518

Note: Loan Portfolio management by ED&T would appear to be the 'best' option by application of a least cost criterion. However, this option assumes management of the *current* portfolio only – no new loans are provided. There is a cost associated with not providing loan funding to businesses (e.g., employment and other benefits foregone), but due to the absence of impact information from NBCC, this cost cannot be estimated. Nevertheless, this cost is substantial.

Nunavut

Nunavut Development Corporation

Nunavut Business Credit Corporation

Crown Agencies Assessment

Addendum: Consultation Program

RT Associates Ltd.
April 2007

1 INTRODUCTION

Our consultation program consisted of:

- Telephone interviews with 14 NDC Board members, staff and stakeholders;
- A telephone interview with the former CEO of NBCC, and one (1) NBCC client;
- Workshops with NDC and NBCC Boards of Directors in Rankin Inlet;
- A follow-up workshop with ED&T and Finance personnel in Iqaluit to brief them on workshop results;
- Telephone interviews with NBCC Board members not able to attend the Rankin Inlet workshop; and
- Expert panel review of our draft final report.

A summary of the results of this consultation is presented in the following sections.

2 NDC BOARD WORKSHOP

A workshop was held with the entire Board of Directors of NDC on January 25, 2007, in Rankin Inlet. Following a presentation by the consultants – which was based on the contents of the Interim Report[1] – Board members were asked to consider 4 questions:

1. *What would happen in the absence of NDC?*

Most board members believed that 2 subsidiaries (Pangnirtung Fisheries and Kivalliq Foods) were close to "going it on their own", but this was not a unanimous view. All agreed that, with NDC support, subsidiaries provided jobs and income consistent with GN priorities and the objectives in the Nunavut Economic Development Strategy.

2. *Should NDC stay the same?*

Although all board members agreed that most subsidiaries presented challenges sufficient to engage NDC management and staff for the foreseeable future, most believed that NDC could expand, if given sufficient additional resources from the GN.

3. *Should NDC expand?*

Yes. Board members believed that there were opportunities in off-shore fisheries, tourism, and support for the mining industry – three areas where NDC's skills and expertise could be put to effective use.

4. *Should NDC merge with NBCC?*

No. Board members were unanimous that NDC and NBCC were not a good fit.

[1] RT Associates Ltd. *Crown Agencies Assessment Interim Report.* A report prepared for the Department of Economic Development and Transportation, January 24, 2007.

3 OTHER NDC INTERVIEWS

Name	Position	Location
1. John Hickes	NDC President	Rankin Inlet
2. Gordon Rennie	NDC Board Member	Iqaluit
3. Peter Taptuna	NDC Board Member	Kugluktuk
4. Brian Zawadski	NDC Business Advisor	Rankin Inlet
5. Brian Schindel	Manager Kivaliq Foods	Rankin Inlet
6. Tom Chapman	Manager Wholesale	Mississauga
7. Roslyn Ralston	Manager Retail Stores	Toronto
8. Bill Smith	Manager Kitikmeot Foods	Cambridge Bay
9. Michael Nowinski	Manager Pangnirtung Fisheries	Pangnirtung
10. Peter Wilson	Manager Uqqurmiut Arts & Crafts	Pangnirtung
11. Mona Igutsaq	Manager Taluq Design	Taloyoak
12. Alex Campbell	Deputy Minister ED&T	Iqaluit
13. Robert Connelly	Manager ED&T Kivaliq Region	Rankin Inlet
14. Ken Toner	President Atuqtuarvik Corporation	Rankin Inlet

I. MANDATE

The Nunavut Development Corporation (NDC) is a Government of Nunavut- (GN) owned crown corporation with the mandate to 1) create employment and income opportunities for Nunavut residents, especially those in smaller communities; 2) stimulate local business development and growth; and 3) promote economic diversify and long term- term stability.

Category	RESPONSE
Agree with Mandate	12
Mandate needs to be shortened	
Mandate needs to be broadened	1
Mandate needs a complete makeover	1

Stakeholders were strongly in support of the NDC's existing mandate especially in creating jobs and income opportunities in smaller communities, and in the arts and crafts and meat and fish sectors, where the business sector was unlikely to make such investment; and helping to make smaller communities and Nunavut more self-reliant through exports and generally supporting the aims of the Bathurst mandate. However, one stakeholder said the mandate should be broadened so there was more NDC investment in other communities and sectors while another said if the focus was on venture investments then the mandate needed a complete makeover.

Do you think that NDC has delivered on its mandate over the last 6 years?

Category	RESPONSE
Strongly Agree	10
Agree with some reservations	4
Disagree	

Stakeholders were strongly in agreement that the NDC was delivering on its mandate with only four stakeholders indicating they had some reservations including not buying enough carvings in smaller communities and not starting new subsidiaries in other communities.

2 VISION

The NDC Board has established a vision that would see the corporation evolve over the next 20 years into: a self-sufficient corporation working closely with businesses, governments and community groups; using resources wisely so they are self-sustaining; building upon the unique skills of people; supporting locally controlled subsidiaries; and measuring its success by the extent that it contributes to healthier communities, quality of life and job creation and maintenance

Category	RESPONSE
Agree with vision	14
Don't agree	

All interviewees agree with the NDC Board vision, albeit with some interviewees saying 20 years is a long time period to look ahead and perhaps ten years would be a more realistic time horizon.

3. GOALS & OBJECTIVES

Please rate NDC 's performance with achieving its goals and objectives as set out in its first business plan (1999/00).

Category	Good	Average	Poor
Operating at 'arms length' from government with accountability maintained through annual audits, submission of an annual business plan and the Minister issuing an annual 'Letter of Instruction' to the NDC Board; all of which was to minimize government interference with NDC day-to-day operations while still giving guidance to NDC on what the GN expected in its 'strategic direction'.	11	2	1
Focusing on investing in the arts and crafts and renewable resource sectors where the need for subsidy was greatest, especially in the smaller communities	9	4	1

Appointing an NDC Board representative of regional and sector interests providing strong direction and maintaining accountability	9	4	1
Encouraging and supporting local community majority ownership even if the subsidiaries required on-going government contribution	9	4	1
Establishing its headquarters in Rankin Inlet and providing subsidiaries with management and training support and through the Missaussaga wholesaling agency and Toronto retail shops promotion and marketing support	10	3	1
Providing contribution funding to the subsidiaries with a formula based on jobs created/maintained	12	2	

A majority of interviewees rated NDC performance as good in all categories including: operating at 'arms length', focusing on investing in the arts and crafts and renewable resource sectors, appointing an NDC Board representative of regional and sector interests, encouraging and supporting local community majority ownership, establishing a headquarters in Rankin Inlet, and providing contribution funding to subsidiaries on a formula basis. Those who rated the NDC as average focused on the need for NDC do to more investing in other communities where subsidiaries did not exist, Board members providing stronger direction, and encouraging more local majority ownership where there was opportunity for subsidiaries to manage and operate subsidiaries, albeit acknowledging the GN had not done enough to indicate whether it would provide on-going-subsidies and clarifying the steps required for majority divestiture (e.g. Is a business plan required or not?).

4. GOVERNANCE & GN RELATIONSHIP

NDC has adopted a number of governance measures including Directors and Employees Code of Conduct Policy, Management Remuneration Policy, and Company Directors Handbook while maintaining corporate transparency through its website posting annual NDC Business Plans and annual audits. NDC has also maintained a relationship with the GN Department of Economic Development and Transportation (ED&T).

Category	Good	Average	Poor
Governance – Do measures promote transparent and efficient operations, timely and accurate disclosure, and clearly articulate the division of responsibilities between the Board and management?	13	1	
GN Relationship- Has the relationship between NDC and ED&T facilitated the achievement of NDC goals and objectives and GN priorities? If not explain below how they could be improved?	9	3	2

Almost all interviewees said NDC had established a number of governance measures that ensured transparency, efficiency, timely and accurate disclosure and division of responsibilities between Board and management – these included: NDC operating at 'arms length' from government while maintaining accountability through annual audits, submission of an annual business plan and the Minister issuing an annual Letter of Instruction to the *board outlining overall direction; and NDC improving corporate governance through a board representative of different regions and with business and/or leadership experience. Further, NDC instituted a number of governance measures including a Directors and Employees Code of Conduct Policy, Management Remuneration Policy, Company Directors Handbook, and website (www.ndcorp.nu.ca) on which it posted information about each subsidy, annual reports, and all of the policies that comprise the Boards Code of Conduct.*

A strong majority of interviewees said NDC had good relationships with the GN citing support for the caribou hunts and accessing government program funds as one example, while the small minority who indicated relations were average or poor cited the lack of political support for increased funding, ED&T management not supporting NDC attending and making presentations at the Public Accounts Committee, and the NDC President not having his contract renewed even though the incumbent had done a 'superb' job.

5 ACTIVITIES AND RESULTS

From 1999/00 when the corporation was first established to seven years later in 2005/06, the NDC increased sales from $3.81 million to $6.78 million or 78%; increased its gross margin from –5 to +20% or on an average basis +6.6% over the last five years; while at the same time required only a modest increase in GN contribution, from $3 million in 1999/00 to a high of $3.8 million in 2003/04 to a lower amount $3.4 million in 2005/06. Further, in its last year of operation when audited statements are available the NDC recorded an after GN contribution net profit of $1.12 million, an amount the corporation is using for sector and subsidiary investment.

Please rate your knowledge and NDC activities by division.

Category	Good	Average	Poor
How would you assess your knowledge of NDC activities?	9	3	2
How would you rate the performance of the five Arts and Crafts subsidiaries?	9	4	
How would you rate the performance of the four Meat and Fish Subsidiaries?	13	1	
How would you rate the performance of the Sales Division?	10	3	1
How would you rate the performance of Headquarters?	14		

Most interviewees said they had knowledge of NDC activities and were comfortable with rating the corporation's performance.

A majority of interviewees rated the five arts and crafts subsidiaries as good citing increased sales, employment and income generated, and cultural value. They also said the corporation *had often been successful in turning around an arts and crafts subsidiary when sales declined and/or new products were required (e.g. jewelry) and/or reinventing a project into a retail store (e.g. Ivalu) with surplus space used to house headquarters operations; and further using the subsidiaries to purchase more arts and crafts product in home communities and other communities for resale. Those who rated the arts and crafts subsidiaries as average said more could be done to increase sales or in one case (Taluq Design) was questionable given the high cost of management relative to the amount of benefit generated.*

Almost all interviewees rated the meat and fish subsidiaries as good citing increased sales, employment and income generated, cultural value and the strategic partnerships with the Cambridge Bay HTO and the Coral Harbour HTO which resulted in increased income for harvesters and revenues for the HTOs business arms.

A majority of interviewees rated the sales division as good citing increased purchases of arts and crafts products, especially carvings, and the income generated arts and crafts producers. They also said the effort of the sales division in purchasing and marketing more products from other communities where the NDC did not have a subsidiary was extending the reach of benefits throughout Nunavut. Those who rated the sales division as average or poor said the sales division could be doing more to purchase arts and crafts products throughout Nunavut and establishing strategic partnerships to that end.

All interviewees rated headquarters performance as good citing the important role of the President and the business advisors and other staff in providing strong leadership, on-going management support, maintaining effective communication with subsidiaries, and generally doing an excellent job in often very difficult working conditions – e.g. operating in remote locations far from markets.

6 NDC STRENGTHS & WEAKNESSES

Please identify NDC's strengths and weaknesses

Category	Strength	Weakness
Establishing partnerships with other organizations and businesses including local (HTOs), territorial and national?	11	3
Promoting itself as results oriented crown corporation?	9	5
Obtaining political support?	7	7
Reacting to changing market conditions?	11	3
Identifying new opportunities and acting upon them?	12	2
Taking tough unpopular decisions that in the long run better serve the NDC and GN.	12	2

A majority of interviewees rated NDC strengths as: establishing partnerships with other organizations (e.g. HTOs and government agencies); promoting itself as a results oriented crown corporation (e.g. annual reports and media pieces); reacting to changing market conditions (e.g. taking aggressive action to counter the BSE scare and the potential impact on marketing of caribou products); identifying and acting on new opportunities (e.g. Coral Harbour caribou harvest, planning for the 2011 Olympics in Whistler and capitalizing on the Inukshuk emblem, increasing purchase and marketing of carvings and on-line marketing to Europe and New York); and taking tough unpopular decisions (e.g. closure of Ivalu as a production company and re-invention into a retail outlet).

Interviewees were split on whether NDC had been successful in obtaining political support with half saying the elected leaders did not fully appreciate or know the extent of NDC impact and benefit to Nunavut, as evidenced by the lack of increased funding provided, and half saying there was political support.

7 OTHER COMMENTS

Other comments included: the GN should provide NDC additional resources to expand activities in other communities and sectors; NDC had accomplished a great deal under very difficult circumstances with a small staff; NDC should be encouraged and supported to make an annual presentation to the Public Accounts Committee as a means of enlisting more political support; and many of the subsidiaries serve as a tourist attarction which is often not acknowledged.

4 NBCC BOARD WORKSHOP

A workshop was held with the following Directors of NBCC on January 29 and February 1, 2007, in Rankin Inlet:

Ruth Niptanatiak-Wilcox
Lorne Kusugak
Tommy Owlijoot

Also in attendance were:
Steven Hannah, Acting CEO
Allan McDowell, Comptroller

Following a presentation by the consultants – which was based on the contents of the Interim Report[2] – Board members spent time discussing staffing and office space issues. They agreed that moving the office out of Cape Dorset was a good idea, but not just because it may improve their chances of attracting qualified staff. They also felt that, as a Nunavut financial institution, their office should be closer to sources of economic activity, and closer to other providers of financial assistance. This would be an agenda item at an upcoming Board meeting.

Board members were asked to consider 4 questions:

1. Should NBCC stay the same?

No. NBCC does not operate efficiently in its present configuration, and must move forward.

2. Should NBCC expand?

Expansion should only be considered an option once NBCC is operating more effectively and efficiently. Raising the cap on the advance so that NBCC had more funds to lend was not considered a strategic issue (i.e., not an expansion strategy). It should be considered an operational issue, because Board members believed that NBCC would have all of its available capital loaned out, and would need further advances to address financing demands. With respect to considering additional programs and services as an expansion strategy, Board members felt this should be client-driven. That is, if there is a demonstrated need from NBCC clients for other services not available from other Nunavut-based organizations, then NBCC should consider expanding the scope of their activities to include addressing such needs.

[2] Ibid.

3. *Should NBCC merge with NDC?*

No. Now is not the time to be looking at options which affect the corporate identity of NBCC. The same answer holds for consolidation with Community Futures organizations, or some type of relationship with Atuqtuarvik Corporation. The focus should be on addressing operational issues.

4. *What would happen if NBCC was dissolved?*

This should be considered an option only if NBCC is not succeeding, and the Board believes that NBCC 'is turning the corner' toward more administrative effectiveness.

Board members not able to attend the workshop were subsequently contacted and interviewed by telephone. These included:

Robert Hansen
Marc Ippiak
Ike Hauley
Alex Buchan

These board members all believed that a board that can operate at arm's length from government will make better decisions. Further, they all felt that a merger with NDC would not be a good fit for NBCC. They also agreed that efficiency, effectiveness and accountability were desirable attributes, but were split on how best to achieve these.

Two could see the advantages of management by Atuqtuarvik Corporation from an efficiency point of view, but believed that Ken Toner is the driving force behind Atuqtuarvik. Will Ken Toner accept all of the loans in the portfolio, or "cherry pick" the best ones? What happens when Ken retires? In general, there were a number of risks involved in going with Atuqtuarvik Corporation.

Another board member favoured a partnership with Nunavut Community Futures Association as the best means to improving efficiency and effectiveness.

The fourth board member acknowledged NBCC's operational issues, but would prefer innovation, not reaction in addressing these issues.

Board members agreed that the office should be moved to improve staffing, but what happens to Cape Dorset? One board member suggested that if NBCC leaves Cape Dorset, then another GN organization should be moved there.

5 OTHER NBCC INTERVIEWS

Prior to being relieved of his duties, Mel Orecklin, former CEO of NBCC, was interviewed at length during collection of background information. Mr. Orecklin provided historical financial statements, a copy of the 2006/07 corporate plan, and the 2006/07 Contribution Agreement. Mr. Orecklin spoke at length with the consultants about the background and current financial performance of NBCC. Mr. Orecklin generally agreed with the recommendations contained in the Samler report[3], and believed that the first order of business was for NBCC to "get its house in order". Following that, Mr. Orecklin believed that partnerships and/or collaborative arrangements with other stakeholders (Community Futures Groups, Development Corporations, regional Inuit CEDOs, Business Development Canada, Atuqtuarvik Corporation, and the Chartered Banks) would be the best way to implement Samler's recommendations.

Five of NBCC's current clients were asked to participate in telephone interviews. Two agreed to be interviewed, and were contacted by the consultants, but only one – Natsiq Kango, J&G Auto, Iqaluit, followed through.

1. *Can you briefly describe the proposal that you brought to NBCC.*

Since 1996, operations and finances were in decline. Had to find a financial institution to help with overdue accounts mainly taxes and a few vendors with high outstanding credit.

2. *Had you tried to obtain financing elsewhere?*

NO. We did not think we would be able to approach banks. We already held two mortgages and three loans with our bank. In 1996 we could make monthly payments but the bank branch moved to Pembroke and we had to pay off all our loan payments. We sold our land to Nunavut Construction Company in order to pay the bank. The only other choice would be to declare bankruptcy.

3. *Approximately how long did it take for you to receive approval from NBCC?*

About five months.

4. *Overall, were you satisfied with the service you received from NBCC?*

YES, very satisfied.

[3] Samler Consulting Group. *Nunavut Business Credit Corporation: Organizational and Operational Assessment.* A report prepared for the Government of Nunavut, October 15, 2002.

5. Please explain, noting any particular good or bad points about the service.

Good to have alternative to financial institution other than banks. Did not know about NBCC services. Thought NBCC was a government department like the Power Corp. "Someone" told her to check with NBCC for financial assistance.

6. Could NBCC have done anything else for you, or handled your application differently?

The only question I have is: Why is the office in Cape Dorset?

7. Has there been any follow-up contact from NBCC staff?

YES. Have had followup just to let us know who new contacts are after staff turnover.

8. What improvements would you suggest (e.g., in how your application was handled, offering other types of financing, follow-up service, etc.)

Can't think of any improvements.

9. *NBCC is one of the ways in which the Government of Nunavut delivers on its mandate to promote the economic growth of Nunavut. Do you think that they have been successful with NBCC?*

No answer.

10. Any other comments?

Important to have a financial institution that can help businesses in smaller communities especially when they are hit with high costs of inflation and taxes.

6 EXPERT PANEL COMMENTS

A key component of our assessment was the convening of an expert panel discussion to review our draft report and provide additional insights and perspectives. Panel members included:

Dr. Donald Savoie. Dr. Donald Savoie is respected economist, political scientist, and acknowledged expert on regional economic development. He has served as an advisor to a number of federal, provincial and territorial government departments, the private sector, the World Bank and the United Nations. Dr. Savoie participated in the preparation of the Nunavut Development Corporation 1998/99 Corporate Plan. His role included reviewing the experiences of four economic development corporations in other jurisdictions, and identifying critical success factors that should be considered in establishing the Nunavut Development Corporation.

Mr. Fred Hunt. As the long-time the President and CEO of Nunasi Corporation, and a Director of NorTerra Inc., Mr. Hunt has extensive experience in the creation of training, employment and other economic opportunities for the Inuit of Nunavut.

Mr. Jim Engdahl. Mr. Engdahl is currently President and CEO of Great Western Minerals Group Ltd., but has an extensive background in the financial services sector. Jim was Managing Partner of Cascadia Ventures Inc., a corporate finance and consulting group involved in mergers, acquisitions, divestitures and capital raising. Jim's involvement in the industry also included President and General Manager of Devco Financial, and President, CEO and Director of Pacific & Western Trust Company.

The members of our expert panel were provided with the terms of reference for the project and a copy of our draft final report. They were each asked three questions:

1. What is your general impression of the report?
2. Given your knowledge and experience do you agree with the recommendations in the report and does the analysis in the report support the recommendations?
3. Are there issues that you believe need to be further explored or studied?

DONALD SAVOIE

1. *What is your general impression of the report?*

This is a very solid report. It is coherent, well written and deals with all the key issues. It looks at the economic development challenges but also at the more important machinery of government issues. In addition, the conclusions and recommendations were to the point and consistent with the findings of the report.

2. *Given your knowledge and experience do you agree with the recommendations in the report and does the analysis in the report support the recommendations?*

The short and long answer to both questions is yes. The analysis ties very well with the recommendations. The report makes it clear, as it should, that promoting economic development in the North is full of challenges and expectations. The recommendations flow from this analysis and are consistent with a government's capacity to promote economic development while making every effort to spend taxpayers' money in a careful and prudent manner.

The GN is often 'pulling against gravity' in stimulating economic development and models applicable in the south were often not applicable in the north, thus, the justification for using NDC to support arts and crafts and meat and fish businesses generating important benefits for communities. Further, merging NDC and NBCC into one organization might not be such a good thing given the different mandates of each organization and existing problems with NBCC. Mergers are no longer as much in favour in the business community as they once were, as mergers don't always solve problems, especially when business cultures are very different, for example, Chrysler and Daimler Benz .

3. *Are there issues that you believe need to be further explored or studied?*

There is a limit to the number of issues that a report can cover. I firmly believe that the report as drafted strikes the proper balance. If it were to pursue other issues, it would lose some of its impact and central message. If anything, it could stress the point that promoting economic development in the North is difficult in the best of times and that mergers have fallen in disfavour in the private sector. Mergers in the public sector, as past experiences in the federal government revealed, do not always work as planned.

FRED HUNT

1. *What is your general impression of the report?*

Generally speaking, I am of the opinion that this report leaves no stone unturned. The methodology used in the due diligence was clear and concise and left the reader with an absolutely clear understanding of the mandate and responsibilities of both NDC and NBCC. As well, the conclusions reached are well thought out and backed up with factual information.

2. *Given your knowledge and experience do you agree with the recommendations in the report and does the analysis in the report support the recommendations?*

I fully support the recommendations arrived at in both NDC and NBCC. My experience gained over my career of the last 37 years gives me a clear understanding of the importance of the functions of both of these organizations. NDC's continued operation is critical to the ongoing production of the Arts and Crafts, and fish and meat sectors of the Nunavut economy. Many jobs would be lost, adding to the sense of hopelessness already being suffered by our beneficiaries. I also wholeheartedly support the recommendations of the report in regard to the way in which NBCC should be restructured. Private sector disciplines should stiffen the approval processes. Any more comments would just be repeating what is already so well stated in the body of this report.

3. *Are there issues that you believe need to be further explored or studied?*

I cannot think of anything that needs to be explored further. The recommendations in this report are based on solid research and due diligence.

JIM ENGDAHL

1. What is your general impression of the report?

Your overall report is very detailed with a lot of information on both corporations. The report focuses on the role of the two Crown Corporations and how best to provide services to the people of Nunavut without duplication and inefficiencies. In some cases it may have been appropriate to suggest specific actions, although being that specific may have not been part of the RFP.

2. Given your knowledge and experience do you agree with the recommendations in the report and does the analysis in the report support the recommendations?

Again I believe that you have done an excellent analytical job on the history and will provide a strong basis for specific direction and improvement in their overall performance.
Some key points that I will suggest, again being a little more specific is as follows:

1. Keeping the boards independent from Political influence for other than economic reasons is key and you have mentioned that. The number of directors seems to be very high at 12 to be overly effective and may be should be reduced.
2. Appointment of directors, whether directly to the boards of NDC, NBCC or their investee companies, they should look at successful expat's that may have an interest in returning(on a directorship basis) as they will have had broader exposure to different markets and technology that may be of assistance to some of the specific investments or management styles.
3. With NBCC being a lender of last resort some of the steps they can take to improve on the their ROI is to focus on two area's:

   (A) The first being, why is their loan losses so high? Even if that is a target number and industry norm a review from their perspective should be to analyze to determine why those companies went down or couldn't pay and what they could learn from that. It may be that their is a pattern to that, such as a specific industry. If so have that industry reviewed by some industry or managemnt experts. and

   (B) on the converse of that what are the successful investments and why? In a lot of cases you will probably find a strong management team behind their success. If that is so look at lending them more for expansion or acquisition. That may mean an acquisition outside the territory, but if that increases profitabilty in a restricted market because of geographic location so what. Returns to come back to the shareholders (GN) for other expansion and benefits.
4. Keeping with the theme "expand on your strengths", the GN should now be exploiting one of their underdeveloped reources and that is their Natural Resources. The mining sector is on a bull market that is unprecedented and will continue to be

for the next 5-10 years and perhaps beyond. It is known that this Territory has abundance of minerals that are unexplored and of high value. I know in the past that mining has been very poorly managed, however in todays world the mining sector has to be extremely considerate of all issues which in this case is as follows:
- Local culture
-environment and in particular the local nature of Nunavut and all it's wildlife.
-sustainable job creation. The mining sector is going through an extreme shortage of skilled people and this creates an opportunity where there is activity for locals in terms of training and education.
-Value added processing and subcontract opportunities a priority for locals

The mining companies that would be doing exploration and developing mines should be the larger ones with financial strength and it is these companies that you will be able to leverage to access and expand your capital base for NDC and NBCC.This will also be a way to leverage any federal funds coming in, particularly on a matching program.

3. *Are there issues that you believe need to be further explored or studied?*

Some of my comments above may be applicable here and so I won't repeat them. I believe that the focus on a strategic direction for the next ten years should be on the mining sector as it is one of the most sustainable on a longterm basis.

The mention that boards and management should operate at an arm's length for conflicts and be held accountable for their actions, which should include rewards for specific performances as well.

I would add one more recommendation and that is that if there is an investment to be made by either NDC or NBCC for political, social, cultural or environmental reasons than perhaps this type of investment maybe should be done directly by another government arm that is more relative. This will help lessen the negative results of any fund and keep it where it more appropriatly can be assessed.

All in all an extremely well written report that should give some strong guidance to the GN. I hope my comments will help and thanks for letting me be a part of this report. I am very honoured that you asked.