PROGRAM EVALUATION

A Review of

Sectoral Programs and

Economic Development Corporations

Indian and Northern Affairs

Indian and Inuit Affairs Program

Program Evaluation Branch

A Review of Sectoral Programs and Economic Development Corporations

COMMISSIONED BY

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

The purpose of this study was to review and assess sectoral programs and economic development corporations to determine their suitability as DIAND program delivery vehicles in future. The study involved visits to eight organizations and to regional offices of DIAND across Canada. It also involved an extensive oral briefing of Indian leaders under NIB auspices in January, plus the circulation of earlier versions of this report in draft form to both DIAND headquarters and to the organizations studied. (A number of revisions to the text have been incorporated as a result of these consultations.) Previous evaluation studies of sectoral programs were reviewed extensively, and the consultants who authored them were interviewed.

Our central conclusion is that sectoral programs and EDCs should be regarded generally as agencies for the planning and promotion of development under Indian direction, and that as such, they represent an attractive alternative to departmental administration of economic development resources. We do not in any way suggest that they are the only suitable method of program delivery or that departmental administration of economic development should be phased out. There is room for both methods of program delivery, and an appropriate balance should be struck in each region between the two approaches. (The issue of resource allocation was largely beyond our terms of reference, but it is discussed briefly at the conclusion of the study.) Departmental administration provides for greater flexibility to respond to new priorities or unusual requests for project funding; sectoral-type programming (the "developmental institution" approach) provides the virtues of sound planning, clear accountability, and strong Indian commitment to making the institution work.

A number of guidelines for the employment of developmental institutions in future are outlined in part five of the report. Readers who do not wish to read the full report are urged to peruse part five in addition to this brief summary in order to secure an overview of our conclusions and recommendations.

I INTRODUCTION

Scope of the Study

At the request of Indian Affairs and Northern Development we have prepared the following report. The overall objective of our study was "to review and assess the sectoral programs and the principal economic development corporations, and to provide recommendations with respect to the suitability of these approaches as delivery vehicles in the future...."

We were asked to review the following:

- Indian Fisheries Assistance Program (IFAP)
- Manitoba Indian Agricultural Program (MIAP)
- Manitoba Wild Fur Program (MWFP)
- Saskatchewan Indian Agricultural Program (SIAP)
- National Indian Arts and Crafts Corporation (NIACC)
- Burns Lake Native Development Corporation (B.C.) (BLNDC)
- James Bay Native Development Corporation[1]
- Indian Oil Sands Economic Development Corporation (IOSEDC)
- Indian Equity Fund (IEF).

[1] Upon investigation, it proved that this corporation has not yet been established. Our report therefore does not discuss this organization.

The underlying concerns giving rise to this study appeared to be the following:

a. a particular interest in DIAND and in Treasury Board in exploring the concept of sectoral programming to determine whether this approach held promise as a future program delivery method, and if so, under what conditions;

b. a desire to assess generally whether sectoral programs and economic development corporations have been performing well.

It should be stressed that this report is not intended to be a detailed, assessment of the problems and opportunities facing each individual organization listed above. Most of these organizations are subject to detailed program evaluations (e.g. MIAP, IFAP, NIACC, and SIAP have all been reviewed in depth quite recently) and it would be purposeless to duplicate those studies here. Moreover, our budget and time frame did not allow us to become involved in detailed issues of program management. Therefore this report does not attempt to make specific recommendations with respect to each program; it is confined to general questions of policy.

Approach

We have reviewed available documentation in Ottawa and the regions, and have prepared assessment criteria which we presented to DIAND November 10, 1977. Following this discussion, we visited each program and corporation individually and interviewed administrators, Board members, Indian Affairs officials, Provincial officials, Indian organization officials and external advisors where possible. In addition to meeting with the organizations specifically listed in our terms of reference, we also spoke to representatives of the British Columbia Indian Arts and Crafts Society which is applying for sectoral funding, and likewise to representatives of the proposed British Columbia agricultural program. Where detailed evaluations of existing programs had been undertaken, we reviewed written material and met with the persons responsible for the conduct of the relevant studies. Also, a presentation and discussion with representatives of the organizations listed above and with other Indian leaders was held under NIB auspices in January. The results of our discussions are presented in this report.

Report Outline

This report comprises six sections. The immediately following section deals with the general concept of sectoral programs and economic development corporations as developmental institutions. Part Three examines the question of the relationship of sectoral type programs to the government, under the heading, The Question of Independence.

Part Four examines the performance of developmental institutions of the sectoral type and raises a number of general problems which seem to have affected their activities in recent years.

Part Five, entitled Conclusions and Recommendations, summarizes the previous discussion. It presents a set of guidelines for future program development for developmental institutions. Part Six is a brief proposed work plan for implementation of this report.

As requested by the Department, we have prepared detailed factual data on each entity which we visited. This factual material is gathered together in volume II of this report entitled A Reference Book on Sectoral Programs and Economic Development Corporations.

II THE CONCEPT OF SECTORAL PROGRAMMING

Evolution - Sectoral Programs

Sectoral programs have been developing over a period of more than ten years. The earliest program to be created was the Indian Fisheries Assistance Program (IFAP) which was started up in October 1968 for a five year time span. The next three years saw the creation of two advisory committees in the agricultural area (Manitoba and Saskatchewan) and the beginnings of an arts and crafts program.

In 1973 DIAND conducted regional surveys that identified some 42 possibilities for sectoral funding. In that year, proposals for two programs (MIAP and SIAP) were presented to the Minister, IFAP was renewed, and drafting was begun on two new sectoral programs for British Columbia.

The following year saw Treasury Board grant approval to $65 million for sectoral funding in areas such as agriculture, forestry, fur, fishing, tourism and arts and crafts, to be expended over a five year period. In principle, this money was available for spending in virtually every area of the country from the Maritimes to the Yukon; the immediate priorities focussed on the Prairie Provinces and British Columbia. Thus, the next two years saw approval accorded to MIAP, SIAP, and MWFP (Wild Fur).

After 1975, government economy measures were instituted which severely reduced funds available for new programs. A draft Treasury Board submission for $275 million in sectoral funding was developed in 1976, but it was never forwarded to the Board, in large part because of the climate of restraint.(A contributing factor was also the absence of any general analysis, along the lines of that contained in the present report, concerning the performance and value of sectoral-type programs.)

Despite funding restraint (which had some impact on programs already established), planning work has continued on a number of new programs - notably BC and Alberta agriculture and BC arts and crafts. Program documents have been submitted to the Department by Indian sponsors for several of these programs, but none have been approved for funding. In the case of some programs, the lengthy process of planning and approval (five years in the case of BC agriculture) has led to frustration. Some Indians feel that in lieu of being told outright to stop planning because funds were no longer available, they were engaged in an extended process of revision and redrafting because the program documents were "not up to standard". Indian sponsors note that the "standard" has never been clearly defined and that what is required seems to change, depending on whether they are talking to Treasury Board, DIAND headquarters or regional offices of the department.

Whether these programs were delayed because of poor documentation or because money was not available will probably never be clearly established. Both causes probably contributed. However, the situation does highlight the need for the existence of some clear guidelines for program preparation and documentation.

Other Developmental Institutions

Other developmental institutions began to appear in the mid-1970s - NIACC, the IOSEDC, the IEF, and Burns Lake. NIACC is funded entirely by DIAND. The Indian Oil Sands Economic Development Corporation (IOSEDC) and the Indian Equity Foundation (IEF) were capitalized to a considerable degree by DIAND. However, unlike NIACC, they were also sponsored by Syncrude.

The Burns Lake Native Development Corporation is probably the most independent from DIAND of these institutions. It receives no operating monies[1] from DIAND, and it did not come into existence as a result of the submission of a program document to the department. It is thus not really a "program delivery vehicle" in the same sense as the other institutions and for this reason, many of the generalizations which follow in this report about DIAND-sponsored developmental institutions will not apply to BLNDC.

The other institutions mentioned above are in many respects similar to sectoral programs in that they were established with substantial DIAND funding assistance and were regarded to some degree as delivery vehicles for departmental programs.

Chart I provides a detailed chronology of the creation of both EDCs and the sectoral programs.

(1) We use the term "operating monies" to refer to ongoing, year-to-year operational support of the entire institution. This is distinct from short-term funding for purposes of specific projects carried out in the larger context of the institution's general activities.

CHART 1

SECTORAL PROGRAMS AND ECONOMIC DEVELOPMENT CORPORATIONS:

CHRONOLOGY

1968	-	IFAP commenced in October for 5 years.
1970	-	Arts and Crafts program approved in principle by Treasury Board.
1971	-	Manitoba Indian Agricultural Committed formed. Saskatchewan Indian Agricultural Committee formed.
1973	-	DIAND conducted regional surveys to identify 42 potential programs.
	-	MIAP proposal presented to Minister.
	-	SIAP proposal presented to Minister.
	-	BC Agricultural program proposal started.
	-	IFAP - second 5 year program commenced.
	-	BC Arts and Crafts program proposal begun.
1974	-	Treasury Board approved $65 million for more sectoral programming. (Submission 725858 - May 13, 1974).
	-	Burns Lake NDC and CDA incorporated (June).
	-	IFAP reduced to 4 years from 5.
1975	-	MIAP implemented.
	-	SIAP implemented.
	-	MWFP implemented (staffing problems, really did not start until 1976.)
	-	BC Arts and Crafts Society formed.
	-	NIACC incorporated.
1976	-	IOSEDC and IEF incorporated in agreement with Syncrude, DIAND and Indian Association of Alberta.
	-	Draft Treasury Board submission prepared to extend authority of TBM 725858 and secure authority for $275 million for 39 sectoral programs.
1977/8	-	IOSEDC and IEF officially started up.
	-	BC Arts and Crafts Society awaiting funding.
	-	Alberta agricultural program awaiting funding.
	-	James Bay agreement signed.
	-	BC Agriculture program awaiting funding.

Objectives

The department has on several occasions developed documents dealing with the purposes and characteristics of sectoral programs. These documents include at least two general Treasury Board submissions, a number of internal descriptive documents and briefings for the ADM and for the Minister.

"Policy" resides not only on paper but also in the heads of persons responsible for program support and direction. When one assembles all the different types of information about what sectoral programs and other related developmental institutions are and what they should be attempting to achieve, individually and collectively, the following picture emerges.

- sectoral programs call for Indian participation in (a) the development (b) the overall direction at the Board level and (c) the day to day management of the program;
- they are directed at economic activity and the achievement of Indian self sufficiency through the funding of specific projects, usually in a given sector;
- they are a vehicle to provide for a planned approach to program delivery in which there is a well thought out and documented program spanning at least five years.
- they include specific and (usually) quantified objectives which are susceptible to measurement.

- there is provision for periodic financial audit and for the conduct of formal program evaluations to assess progress.

- they provide an alternative to ad hoc, project-by-project administration by planning activity in a particular sector and by bringing together staff resources with knowledge of economic activity in the sector in question. (This comment does not apply to an institution such as IOSEDC which does not "specialize" in a particular sector.)

- usually, they include a training and development component directed at upgrading Indian skills. (The Treasury Board submission of 1974 refers to "enriched advisory services".)

- they can provide a vehicle for focussing and coordinating the knowledge and resources of different institutions and government departments interested in assisting with economic development of native peoples.

Upon all these characteristics there seems to be general agreement. There are a few minor areas in which policy is not quite as clearly established. One of these relates to the issue of self sufficiency i.e. the capacity of the organization to earn enough revenue so that in the long run it will not be dependent on government grants. Some of the persons we interviewed seemed to be of the view that sectoral programs and EDCs were supposed to achieve self-sufficiency as a long term objective. Most felt there was no such intent. Certainly, most of the institutions we reviewed seemed to have been conceived primarily as vehicles through which funding flowed, but were not themselves intended to become self sufficient. However, the issue of self sufficiency is not altogether irrelevant; we return to this point later.

Another area where clarity is lacking relates to the field of activity or concern of sectoral programs. In most departmental documentation, the word "sector" is defined only by example (e.g. fishing, agriculture, etc.). In none of the policy papers is it apparent whether the term is used to refer to the Standard Industrial Classification of sectors of economic activity, or to the conventional "primary, secondary, tertiary" definition of sectors, or to some other definition.

In practice, a tendency has developed to limit (arbitrarily) the definition to the primary sector, presumably because much Indian economic activity is concentrated here (i.e. in primary-resource-based activity such as farming and fishing). However the 1974 Treasury Board submission clearly contemplated activity outside this area - in tourism, recreation, and arts and crafts. The tendency has also developed to view sectoral programs as being restricted to a particular province, though this is probably simply an accident of history, and NIACC is of course an exception.

In the final analysis, the word "sectoral" seems to have become a convenient shorthand way of describing programming that is restricted to activity in (or "close" to) the primary sector and restricted to a particular province. The term also suggests the notion of concerting planning and activity in respect of a particular "sector" or area of concern (such as the fishing industry). However, there seems to be no reason why sectoral programming should be confined to the primary resource sector - we can see no objection to a "sectoral program" for the service sector, for example.

Our analysis suggests that the two key features of the so called "sectoral program" approach are:

1. provision for Indian participation in (a) program conception (the initiative should come from Indians) (b) overall program direction (c) day to day program management.

2. concerted planning and implementation in respect of a clearly identified sphere of activity.

These features characterize most of the other developmental institutions we surveyed and they can thus be viewed as a modified form of "sectoral programming" as well (it might be more accurate - but rather ponderous - to speak of "development planning and promotion agencies").

III THE QUESTION OF INDEPENDENCE

Peter Drucker, in his book The Age of Discontinuity, discussed a concept called "reprivatization". Essentially, Drucker's proposal was that certain activities might usefully be turned over from government to private organizations to manage. It would appear that the sectoral program approach (we are using this term generally to mean "the creation of an agency for developmental planning and promotion") represents a form of partial "privatization" - that is, a turning over of control and management responsibilities to non-governmental - or at least quasi-governmental - entities.

Sectoral programming calls into being an organization that is on the fringe of government. The organization exists thanks to government funding, and therefore cannot be regarded as completely independent. A relationship of accountability to the government must continue to exist as long as the financial tie is there. On the other hand, the sectoral program organization is obviously not part of the public service; certain advantages are thereby attained, (notably administrative flexibility), by virtue of having a separate entity which is not subject to public service regulations in respect of such matters as staffing.

In our review of developmental institutions we examined the degree of independence that each organization had attained. To form this assessment, we looked at the following aspects of each organization:

Corporate Structure - Organizational Relationships

The form of corporation (legal entity or not) and the relationships (responsibility and authority) between program staff and DIAND were examined to determine the measure of independence and autonomy from the department. (As a rule, the incorporated programs were more independent of DIAND than the unincorporated ones.)

Number of Annual Disbursements to Entity by DIAND

The amount and frequency of fund disbursement is an indication of an entity's autonomy. Some programs/corporations receive funding quarterly (eg. NIACC), some may in future be funded monthly (MIAP), some annually (IOSEDC), and some receive no DIAND money except in the context of project grants or loans (BLNDC).

Type of Internal Administration/Management

We looked here at the nature of the internal management of the program. Who manages the program? Where is it located relative to DIAND offices? Who appoints staff? How professional is the general approach to management? What internal operating procedures exist, and are they documented?

Composition and Selection of Board

The selection and make-up of the Board of Directors of various programs is one indication of the degree of government control. We looked also at the selection process for Board membership: appointment could imply greater government control than a process of election or nomination from the Indian community.

Financial Audit and Program Evaluation

With reference to financial and program matters we examined the nature and frequency of formal audits and evaluations, the frequency of informal audits and evaluations and the relative degree (and nature) of DIAND monitoring of the programs and corporations. Some entities seem to receive resources and then be left more or less alone for extended time periods. Others are subject to more frequent reviews and audit.

Degree of Control Over Program Resources

The level of independent control over program funds is important. Such issues as whether or not programs have their own loan and grant funds, whether or not they have their own program administration funds, and whether or not they are in a position to generate revenues such as interest earnings were examined.

We discovered that the various entities reviewed had quite different sorts of relations with DIAND. A program could seem tightly controlled in one respect and loosely controlled in another. However we were able, rather roughly, to group the programs into three categories, as set forth below.

Group 1	Little autonomy: e.g. MWFP, SIAP (after an initial period of hesitation, SIAP is now in the process of incorporating and establishing a more independent relationship to DIAND.)
Group 2	Moderately independent of DIAND: e.g. MIAP, NIACC, IOSEDC, IEF.
Group 3	Completely independent of DIAND control: e.g. BLNDC.

The Group 3 entities are self supporting, either through commercial activity and/or through grants and loans from sources other than DIAND. Group 1 programs, by contrast, are in many respects almost indistinguishable from a fully government-operated program.

Our review suggested that there is much similarity between the IOSEDC and IEF and two of the sectoral programs - SIAP and MIAP. They all represent vehicles for permitting a measure of autonomy in program administration; they are all directed at economic development; they all provide for Indian direction of the program.

Clearly, the terminology "economic development corporation" and "sectoral program" is confusing - different titles are used for organizations that, in terms of their most important attributes and their objectives, are very similar. We have found terminology a source of confusion throughout this project and we suggest that there would be some merit in adopting a consistent usage in future to designate organizations that are being funded as distinct, non-departmental program delivery vehicles by DIAND. The terms "developmental institution" or "development planning and promotion agency" (DPPA) are suggested. (It would also help to prevent confusion if such institutions were not referred to as "programs" in future. This useage tends to obscure their autonomy and suggests a closer similarity to departmentally administered "programs" than is in fact intended in our judgement.)

The Evolution of a Developmental Institution or Agency

In examining all the variations on the "theme" of sectoral programs and EDCs, it became apparent to us that all of these approaches really represented different degrees of development of the relationship of independence with DIAND. If we were to describe in principle how a development agency might be expected to evolve in terms of its relationship with DIAND, the process would run along the following lines:

Stage One: Substantial DIAND Control

- Program concept is developing.
- Indian initiative is emerging.

- Department may create an advisory committee of Indians and other "outside" persons to counsel on program delivery.

- All program funds held still by DIAND.

- DIAND responsible for program administration.

MIAP and SIAP in the early 1970s (1971-3) probably typified this stage of evolution.

Stage Two: Increased Indian Direction and Control

- Program document has been submitted and approved.

- Separate legal entity is created to which DIAND can transfer legal authority to administer funds. (The creation of a separate corporation is in our view an essential step toward establishing an independent relationship with DIAND. Without a separate entity, the relationship with DIAND will always tend to be blurred and funds will have to be administered by DIAND.) [1]

- The corporation is accorded a fairly high degree of control over the program's administrative budget early in the process.

[1] SIAP's long standing reluctance to incorporate seems to have been based on a misunderstanding of the implications of incorporation for its future activities. This problem seems to have now been resolved and we understand incorporation is now underway. IFAP is also unincorporated. It is administered by the Department of Fisheries and the Environment and this approach has led to problems which were discussed in the program evaluation of IFAP. It seems likely that if IFAP is extended, the program document will call for the creation of a separate corporation along the lines of MIAP Inc.

- DIAND initially retains control of program funds (loans and grants) and issues them on recommendation of corporation's Board of Directors, subject to departmental approval.

- As corporation matures, greater financial authority passes into hands of Board of Directors.

- Frequency of audit diminishes and degree of stringency of financial control lessens as program matures and staff become more experienced.

- Most "mature" sectoral program would be one in which audits occurred only once a year - DIAND confidence in the program would be such that all details of program management would be left in the hands of the Board.

SIAP is currently entering stage two; MIAP would appear to be moving through stage two; IOSEDC and IEF represent reasonably "mature" sectoral-type programs.

Complete Independence: Relevant for Some Institutions?

A few persons interviewed seemed to believe that sectoral programs, (or at least some sectoral programs,) should be passing through a process of transition whereby they become financially self sufficient. Most of the existing sectoral-type programs are primarily transfer vehicles for passing DIAND funds to Indians; they do not earn revenues equal or even close to their expenditure, nor is there any expectation that they should.

Moreover, as long as government provides money to a sectoral program, an accountability to government must continue to exist. Government cannot be expected to provide money on a continuing, year to year basis to an organization without insisting on certain standards of management and financial control. So most sectoral type programs and EDCs should expect some measure of government accountability for the life of the institution.

It is, however, conceivable that some components of certain programs -e.g. the lending component of MIAP - could eventually develop into a fully independent entity. Total independence is only a feasible possibility if the agency can develop a self sustaining method of financing; but entities such as MIAP or IFAP do undertake important lending activities. Currently the money they lend is DIAND money. It is not inconceivable that DIAND might at some juncture decide to capitalize an organization such as MIAP, and allow the corporation to operate like a bank. The Indian Equity Fund already operates something along these lines (thought it provides equity rather than loan money). If the corporation handled its resources in a businesslike manner it would survive; if not, it would go bankrupt like any other business.(1)

The long term future envisaged for an organization (or a component of it) will clearly affect its behaviour in the short run. For example, if MIAP wishes to eventually become a sort of Indian agricultural credit union, it should take a close look at all loan applications and generally conduct itself in a businesslike manner. It should secure

(1) The Syncrude Agreement provided the following capitalization to the Indian Equity Foundation: $500,000 in 1976-7 and another $500,000 in 1978-9. It is the intention of the IEF to protect this investment and roll it over so that the corporation will not pass out of existence in five years. The IEF is unique in respect of this type of financing arrangement.

authority to accept collateral for loans and enforce loan terms. Alternately, if MIAP's role were socio-economic rather than strictly economic, its policies would be different. It would concentrate on grants or "softer" loans, and would direct its efforts toward non-income-earning activities like training and education. When DIAND funding stopped, it would cease to exist.

MIAP has been subject to criticism from some natives for adopting a fairly firm line on lending. The organization has also been engaging in other business-type activities and has been the object of some DIAND displeasure for operating outside its mandate. If there is some anticipation that the lending (or other) components of an organization like MIAP should become independent, this should be clearly agreed between the organization in question and the department at an appropriately early stage in the organization's development. Problems on both sides would thereby be avoided, and a clearer course set for the behaviour and activities of the entity as it developed.

The previous discussion is not intended to suggest that sectoral programs should be used uniquely for business-type lending, or that independence is in any way a necessary or desirable outgrowth of every developmental institution of the sectoral type. However, the possibility of an independent self-sustaining outgrowth or "offspring" of a developmental institution is real. It is not inconceivable, indeed, that a single program might contain both "hard" and "soft" economic components, and a program could well be structured so that the socio-economic developmental activities gradually diminished leaving as a core a self-sustaining corporation. The purpose of the previous discussion is basically to stress that the long term objectives of a developmental institution should be clearly defined at its inception; these objectives should guide its whole character and orientation thereafter. Changes in objectives should be negotiated with the department, especially if they entail activities in areas not originally contemplated for the institution.

NIACC: A Special Case

Unlike most other developmental institutions discussed in this study, NIACC knows no geographic boundaries. It is a vehicle with resource allocation powers that span all the provinces, but its activities are confined to a specific sector. NIACC represents an interesting divergence from the usual DIAND approach to program administration, for the department has increasingly been stressing the role of regional offices in resource allocation and program delivery. NIACC in effect bypasses the regional office structure.

One reason why DIAND chose to create NIACC was to inject some coordination and order into the marketing of Indian crafts, and it was felt that this was a national problem requiring a national structure. One member society, British Columbia, believes that NIACC's role should be confined to information dissemination and coordination and that the allocation of arts and crafts resources should occur via the department's regional structure. The difference of opinion between NIACC and the B.C. Society raises an interesting issue: should Indian program monies generally be allocated to "national sectoral programs" comprised of regional members or should they be allocated first to the different regional offices of DIAND and then to sectoral (and other) programs at the regional level?

This is an issue that the Indian people themselves will have to resolve. On questions of funding, will Indians want to relate in future to the federal government through their organizations at the regional level (each sectoral program and other Indian entities dealing with the DIAND regional office)? Or will they want to relate to DIAND collectively at the national level, as does NIACC? It may be that there is no single answer to this and that different approaches will be viewed as appropriate to different markets and commercial objectives.

In any event, the implications of this question go far beyond the scope of this report. For present purposes, it is sufficient to note that the NIACC model represents a basically different approach to program delivery from regionally based organizations such as IOSEDC, SIAP or MIAP. Increasing reliance on national structures like NIACC would not be consistent with current departmental policy of strengthening the role of DIAND regional offices in program delivery and relying, through them, more heavily on the initiative and sense of responsibility of local bands in the regions. The Indian people themselves will have to decide whether they wish to create more national sectoral program structures or not.[1] The previous discussion clearly underlines the importance of ensuring that the initiative for any new sectoral programming comes from the Indian people themselves, and that procedures exist for consultation with respect to the approval of any new sectoral program proposals.

[1] At a meeting held to discuss a draft of this report with Indian leaders under the auspices of the NIB in January, some concern was voiced at the prospect of any new national structures or programs in the sectoral area.

IV SECTORAL PROGRAMS AND ECONOMIC DEVELOPMENT CORPORATIONS: A GENERAL ASSESSMENT

Sectoral Programs

Advantages

We were requested to prepare an appreciation of the general performance of sectoral programs and EDCs and to relate this to conventional approaches to DIAND program delivery.

Essentially, the sectoral program concept represents an alternative to the project-by-project approach to economic development of the past. It also creates an alternative administrative structure to the government bureaucracy. Non-governmental administration is not always better than government administration; and there are obvious difficulties in trying to make generalizations about a number of quite different institutions, each staffed by different people, with no common administrative focus or head office. Further, we did not have the time or budget to conduct an in-depth review of each institution; and although we were asked to compare the "sectoral approach" to the alternative of DIAND project delivery, we were not asked to undertake a really comprehensive review of the strengths and weaknesses of the project delivery system in each regional office of the department. Thus, comparisons had to be drawn on the basis of general impressions rather than rigorous, detailed review of the alternatives.

However, given these reservations, our review did suggest that sectoral programming constitutes a significant improvement over the project-by-project approach in the areas listed below. For convenience, we have described each area briefly below and we have then provided descriptive or illustrative comment in respect of that particular area, drawing on the various institutions surveyed.

(1) Sectoral-type programming provides for Indian initiation and coordination of programming across a broad area of activity, and leads to a strong sense of local commitment to the program.

Comment

MIAP: Initiated in early 1970s by the Manitoba Indian Brotherhood's agricultural committee to develop a vehicle to deliver agricultural loans and grants, education and resources to Indian farmers, old and new. MIAP is managed by predominantly Indian staff. Loans and grants are co-ordinated with the Department.

SIAP: Initiated in early 1970s by the Federation of Saskatchewan Indians in conjunction with DINA. Goals and objectives are basically the same as in MIAP's case, and the co-ordination of program components such as 4H, adult education, farm management, agricultural extension is handled by SIAP using the resources of University of Saskatoon, and the Saskatchewan Department of Agriculture. Loans and grants are co-ordinated in conjunction with DIAND regional office.

<u>IFAP:</u> The earliest of the sectoral programs, IFAP came into existence as an advisory Board for DIAND with strong support from the British Columbia native fishermen. IFAP provides a range of services to coastal fishermen; its greatest contribution has been to protect the interests of native fishermen in a period of continuing unrest and uncertainty arising from government efforts to rationalize the coastal fishery.

<u>BURNS LAKE:</u> The Burns Lake Native Development Corporation and the associated Burns Lake Community Development Association were formed on the initiative of five groups of Indians in Burns Lake, as a direct result of a major pulp and paper development in Burns Lake, in co-operation with the Government of British Columbia. The two organizations BLNDC and BLCDA offer a diversity of programs to Indian residents of Burns Lake. These programs include loans and grants, on the job training, business management, banking, family planning, marriage counselling, alcohol and drug abuse counselling, day care centres, hygiene, nutrition courses, personal safety and job placement. The underlying rationale for such a diverse range of programs appears very sound; BLNDC feels it doesn't make sense to put an individual into business, then <u>not</u> provide the social support services the individual and his family require.

The programs mentioned are all provided directly by BLNDC and BLCDA, with training co-ordinated with various community colleges, Federal Business Development Bank and the B.C. Development Corporation. Project by project funds are sometimes obtained from DREE and DIAND as the situation warrants.

Summary:

It is difficult to generalize about the perceptions of local Indian groups, but by and large we formed the view that, in each of the programs referred to above in particular, there was a strong sense of local commitment and enthusiasm for the program. We developed the sense of an organized and coherent approach to developmental planning that was not nearly so apparent in districts of the country where a sectoral focus did not exist.

(2) It provides for integration of training and advisory services with funding. The entrepreneur applying for assistance under a sectoral program can secure access to experience and technical advice that may make the difference between success and failure.

Comment:

This one of the main attributes of the developmental institutions we have reviewed. It is clearly evidenced in MIAP and SIAP where agricultural extension workers regularly visit Indian farmers to assist with such things as resource technology, farm management programs and farm modernization plans. Indian farmers participate actively in seminars, courses and demonstrations designed specifically for them and put on by experts in agriculture, most often Department of Agriculture or other successful farmers in various areas. This training and advice is an integral part of most loan and grant terms and conditions.

IFAP: In the case of IFAP, it was noted in a recent evaluation that more should be done in the area of training. Current planning for a new phase of IFAP appears to be addressing this issue. The problem seems to have been a shortage of resources and administrative time to organize such training rather than a generic defect of the program itself.

MWFP: The training and advisory services have been provided to trappers as an ongoing component of the program; areas addressed include trapline management, pelt preparation and fur grading. These have resulted in the trappers significantly increasing cash yields in that they now know the market values and best methods to prepare and market their furs.

Proper trapline management also results in more efficient harvesting thus optimizing the trappers' yield and consequent financial returns. Proper management has the added advantage of ensuring biological balance among species harvested making trapping a truly renewable resource industry.

BLNDC: Loans are made on the condition that the applicant train for eight to ten months in one of the Band owned operations, to assure BLNDC of his skills and dedication. Once thus assured, BLNDC places the applicant in business on his own, but on the condition that he participate in whatever economic or social upgrading courses and seminars that are recommended.

Summary:

Most of the various sectoral programs strongly recognize the need for training and technical advisory services, and so have built these components into their lending procedure to try to ensure a minimum of failures. This technical advice is provided in most instances by professional people such as fisheries experts, agronomists and agrologists from relevant federal or provincial departments or universities. Businessmen, financial experts and social workers are also sometimes drawn into advisory roles, e.g. in the case of BLNDC.

On the whole, there seems to have been the strongest emphasis on training in the field among those institutions dedicated to a particular sector of activity such as fur, fishing, or agriculture. Where an institution is more general in its orientation (e.g. in the case of DIAND program administration or the IEF), it is more difficult to build up a cadre of expertise and advisory services contacts to suit the wide range of financing applications that come in. This suggests there is some advantage to focussing the work of developmental institutions on a particular sector if training is to be most successfully co-ordinated with other modes of assistance.

(3) The assurance of funding over a time frame of at least five years has encouraged more and better long term planning than one generally finds in government-administered programs.

Comment:

The financing of most sectoral programs is initially projected for a five year period. The advantage of having a reasonable assurance of at least five years' continuity is evident in every institution surveyed. Continuing education programs can be commenced and committed to without too much fear of cancellation after one year. Long term farm upgrading programs can be spread over several years to provide steady growth for Indian farms rather than massive (often unmanageable) growth in one year. Social programs and educational support programs can be geared to the loan repayment period of three to five years providing continuity and better chance of success.

MIAP & SIAP: Specific examples occur in MIAP and SIAP where a farmer who may require 650 acres to create a viable farm unit can have 200 acres a year developed while taking farm management and other courses related to proper operation of a farm. As his skill increases each year, he adds more acreage, so that over the three to five years the farm grows into a viable unit as the farmer's skills and capabilities grow.

MWFP: In the case of MWFP, the geographic dispersion and relative isolation of many of the trapping communities makes education and management courses difficult to plan in one year. The ability to plan for two or three or more years ensures better coverage and greater benefit from various courses.

IFAP: The availability of the IFAP program over half a decade or more of continuing uncertainty over fisheries policies has, as noted above, been largely responsible for maintaining the strength and relative position of the Indian fleet.

BLNDC: Loans and contributions are made with three to five year payback term (or longer in some cases). Having funding and programming assured enables BLNDC to plan social and educational programs tied to loans to try and support the new Indian entrepreneur over a period of years.

Summary:

The five-year-plus time frame accorded to developmental institutions discussed here constitutes from one point of view, a significant advantage over the two-to-three year time frame that seems to prevail in most government departments. Better planning occurs; and in addition, implementation is facilitated to a considerable degree because placing the resources for a sectoral program within the five year time commitment seems to help "protect" these resources from shifts in government policies and priorities. (The protection is not total - not all DIAND commitments to sectoral programs are always met each year - but it is better than no "protection" at all.)

There is, of course, a consequence from the department's point of view that may at times appear as a disadvantage. This is the lack of flexibility to reallocate money in the light of new priorities and needs.

Related to this is the consideration that any institution, once created, tends to develop a life of its own. It is very difficult to "end" a sectoral program even if it has achieved its original objectives; funds committed to a sector for an agreed five or ten year period may prove very hard to divert to another sector or back into a "general" pool when the program is supposedly finished.

(4) <u>The monitoring of program effects seems to be greatly facilitated when a separate institution is created with a clear mandate and goals. This is a very significant administrative advantage of the sectoral approach.</u>

<u>Comment</u>:

The best examples of clear cut mandate, goals with a recognizable separate institution are MIAP, BLNDC and IOSEDC. These organizations have clearly identified organization structures with responsibilities and accountabilities reasonably well defined. Goals of the programs are set forth clearly and quantitatively in many instances. This allows ready evaluation of progress towards goals and makes the entity relatively easy to audit.

Each component of these programs (e.g. extension workers, adult education, farm management) is separate in purpose and budget, creating almost a "modular" effect. Each component can be examined separately, revised or omitted as the situation warrants.

It is not entirely clear why the administration of programs through government structures does not encourage the clear program control and accountability that prevails in the sectoral programs, but the fact is that accountability is a continuing problem in government structures.

Undoubtedly the removal of program operations from the red tape of government and the countervailing pressure of different institutions such as Treasury Board and other central agencies helps to create an uncluttered administrative framework. (The Lambert Commission should shed further light on the problem of accountability in government.)

(5) <u>There is some indication that the sectoral program approach, stressing Indian involvement and participation, helps to create an atmosphere where repayment obligations are taken more seriously than they are when the government is perceived as the lender.</u>

<u>Comment:</u>

Some Canadians, unfortunately, seem to regard government as an inexhaustible source of financing. Obligations to government are sometimes not taken as seriously as obligations to private lenders; governments are perceived to be less likely to pursue persons for failing to meet financial commitments than are business institutions which depend on repayment for survival. (The rate of defalcation student loan payments is an example of such behaviour.)

According to interviews we conducted with both native and non-natives, this attitude toward government prevails to some extent among some Indians just as it does among other members of Canadian society. DIAND does not have a history of following up strongly on instances of failure to repay loans, and some natives thus see little difference between loans and grants from DIAND.

According to some persons interviewed, these problems do not exist to the same degree in regard to sectoral programs. Particularly because sectoral type institutions involve native direction and, in some cases, management, there tends to be a stronger sense of responsibility toward such organizations and a greater desire to see them succeed. The "we-they" relationship that sometimes exists in respect of DIAND programming, according to these interviews, is much less pronounced. As a result, there may be a better repayment record than with governmental loans.

In this context, it is interesting to note that MIAP has earned a reputation for being a firm lender, insisting on full and timely payments on loans. MIAP is currently seeking the right that IEDF has, to go on the reserve and confiscate equipment in event of default. BLNDC has also adopted a "hard line" stance in event of defaults. They maintain a 51% equity position in all their loans, so that until the loan is repaid in full, they have control. The 51% is turned over to the Indian entrepreneur for $1.00 after the loan has been paid. In the event of missed payments or default, BLNDC takes over the equipment. There are no second chances.

(6) <u>Sectoral programs in some cases furnish a vehicle to provide for co-ordination of programming with other federal departments and provincial departments.</u>

<u>Comment:</u>

<u>MIAP, SIAP, MWFP:</u> MIAP and SIAP work in co-operation with provincial departments of agriculture; MWFP works within the heart of the provincial Department of Renewable Resources. These programs thus have the advantages of the concentrated expertise of the provincial departments, the resources of their own staff, the support of DIAND and co-ordination with other federal programs such as DREE (Special ARDA), Manpower, Agriculture, and provincial programs such as Northern Manpower Corporations. Manitoba and Saskatchewan Development Corporations (MDC and SEDCO), and provincial lending agencies such as Communities Economic Development Fund (CEDF) in Manitoba.

<u>MWFP:</u> There was some indication that MWFP is experiencing some problems in securing cooperation and coordination from other federal programs. Possibly this is an issue for the Manitoba RDG to examine, to see if he can bring his influence to bear on other government departments (notably the Employment and Immigration Commission).

BLNDC, IOSEDC: These organizations make use of federal, provincial and private funding sources and co-ordinate programming from such areas as Manpower, DIAND, DREE, FBDB, provincial development corporations, chartered banks and provincial social agencies. The existence of the vehicle has been crucial to the capacity of these organizations to provide a full range of service.

Summary:

The existence of an easily identifiable entity with defined goals and objectives, and with financial resources to maintain permanent staff has allowed many of these organizations to actively pursue a variety of federal and provincial departments' and agencies' programs to operate in conjunction with their own program's basic thrusts.

(7) The corporations created under sectoral programs provide valuable adminstrative experience for program staff. They also enlarge the experience of Board members in policy formulation.

Comments:

MIAP, SIAP, BLNDC, IOSEDC: A large proportion of the management staff of these organizations comprises Indian people. The less experienced members learn from those who have been there longer and those in other organizations with whom they come in contact, e.g. senior officials of DIAND, officials in provincial departments, consultants and officers in such organizations as FBDB, provincial development corporations and chartered banks. This is supplemented in some cases with management training courses and seminars, provided through university and community college extension departments, FBDB seminars and specifically tailored professional development programs provided by the private sector.

Boards of Directors of all organizations surveyed include Indian and non-Indian members. In the case of IOSEDC and IEF the non-Indian members include senior level executives from such organizations as the Alberta Gas Trunk Line and Petrocan, whose experience and presence is acknowledged to be very useful. BLNDC have Board of Directors' Training sessions each month assisted by FBDB or the chartered banks' managers to assist the Board with its responsibility in formulating long term policies.

The benefits are far reaching in that Boards change membership over varying periods of time, so that new people are being trained as old members go back into their communities with a better understanding of the goals and policies of the organization. Past Board members are in a position to contribute to other community and business organizations as a result of their experience.

(8) <u>The concentration of expertise and development of experience in a specific sector means that, as a program matures, the program staff becomes more sophisticated in project approval and better able to guide applicants. A major weakness of the project-by-project approach is that it tends to require a loan officer to be a "jack-of-all-trades".</u>

<u>Comment:</u>

<u>MIAP, SIAP, MWFP</u>: These programs are the best examples of a concentration of expertise available to assess farm and fur opportunities. Provincial agriculture departments have many expert professionals who can provide the latest in seed, weed control, fertilizer, crop mix, equipment, livestock, irrigation, etc. information, and its application to the modern farmer. DIAND cannot maintain this level of sophistication, in relation to the diversity of funding proposals brought before it.

MWFP, being located in a provincial department with a specific sectoral orientation, possesses specialized skills that a specific government department such as Renewable Resources can afford to maintain while DIAND cannot. It thus can provide better project appraisal of fur-related projects than can DIAND.

It may be that there are other advantages to the sectoral approach as compared with DIAND's project-by-project approach. However, as noted, our mandate did not include an exhaustive review of the departmental system, so we are unable to comment further.

Other Developmental Institutions

As far as IOSEDC and IEF were concerned, we also formed a reasonably positive impression, but due to the fact that these organizations are relatively new. our conclusions are inevitably more tentative. These two EDCs are in our view a form of variation on the "sectoral approach" discussed earlier.

As Burns Lake Native Development Corporation was not created by DIAND, we did not consider it to be a program delivery vehicle. However we were very favourably impressed with the energy and dedication of its staff and with the careful planning that seemed to have gone into its development. We were also particularly impressed by the fact that it had managed to develop into an apparently sound organization without having to call on DIAND for funding for ongoing operational purposes.

As far as NIACC is concerned, it is as we indicated a special case. NIACC's experience is too brief for us to form any judgement as to how well this approach will "work" in the longer term.

Drawbacks to the Use of Developmental Institutions

The use of developmental institutions is not entirely without drawbacks. Problems or criticisms which were drawn to our attention or which we observed are as follows:

(1) there does not seem to be any clearly defined rationale for funding one institution as opposed to another. The allocation of money to one agency may mean that fewer dollars are available for programs or projects in other sectors. There is a need for a priority setting process or mechanism (this is a subject to which we return later).[1]

(2) developmental institutions "lock" money into place and are therefore said to diminish departmental flexibility to meet new priorities. (See the subsequent section of this report for a discussion of "development institutions vs. the 'project by project' approach to funding".)

(3) they establish institutional pressures for continued funding; the more successful the program, the more powerful the institution, and the more likely it is to be able to secure new funding at the expense of other, perhaps more needy native groups that are not so well established and organized.

(4) there is some indication that some sectoral programs (IFAP, for example) have tended primarily to benefit the wealthier and more experienced persons in a given sector. However, it is not clear that a project-by-project approach would have different distributional consequences. In fact, the consequences of the project-by-project approach would probably be the same and unlike the situation with a sectoral program, this program effect might well be more difficult to detect. (See note re program monitoring above.)

[1] This is not, strictly speaking, a weakness in the program itself but rather a problem of overall program management.

(5) an observation drawn from the NIB Socio-Economic Strategy is that "some people see (sectoral) Boards as tending to de-emphasize local Band control of economic programs and as prohibiting the growth of Indian self government". As sectoral programs are largely Indian governed, it is hard to see how they prohibit self-government. What they may do is form a competing power structure to some Band-level structures. Whether this is true or not, and whether it is undesirable if true, we were unable to assess.

(6) Some sectoral Boards are answerable to the Indian community through a democratic process (e.g. SIAP); most are not. Where sectoral programs affect the use and development of reserve lands in particular, it is desirable that some accountability to the Indian people be provided for in Board appointments.

Conclusion.

In summary, with respect to the four sectoral programs that have been in existence for several years, (IFAP, MIAP, SIAP or MWFP) we were very favourably impressed by three considerations:

(a) the strongly positive tone of previous detailed evaluations; which we reviewed in the context of our work and from which some of the information presented above is derived;

(b) the evident commitment and enthusiasm of Indians for these programs;

(c) the many areas in which it appeared that the sectoral programs represented an improvement over a project-by-project approach.

Thus our overall assessment of the programs themselves was highly positive.

Developmental Institutions vs. the "Project-by-Project" Approach to Funding

We have referred on several occasions to the department's "project-by-project" approach to funding. What we are referring to is the procedure under the IEDF through which departmental officers administer loans from a general or multi-purpose fund. This approach differs from the developmental institution approach in at least two important regards:

(a) The posture of DIAND is basically passive. Thus it is difficult to know what sorts of projects may be coming in for funding, or to undertake any long term planning;

(b) a related point: the DIAND loan officer must be a "jack of all trades" to some degree - he or she cannot personally advise substantively on projects ranging from farming to running a general store to trapping. A sectoral-type program tends to provide more specialized advisory services and training to project applicants.

The strength of the "project-by-project" approach has been said to be that it enables DIAND "to respond to changes in priorities" (see above). Such a statement deserves to be treated with caution. Indian economic development problems are by nature deep rooted and long lasting. They are not - or should not be - subject to trends or fashions. There is some cause to be concerned that, if priorities were to change from year to year, funds might tend to be frittered away here and there without having a real impact. In our view, to be able to respond to frequent changes in priorities is not a very persuasive argument in favour of the "project-by-project" approach.

However, we would not suggest that all economic development funding should therefore be placed in developmental institutions. There is, or certainly there ought to be, a role for DIAND to play directly in assisting with developmental projects, if for no other reason than to enable it to have a fund available from which to finance unusual but promising requests that fall outside the mandate of existing developmental institutions. Each Regional Office of DIAND will have to decide how far it wishes to open the door to the support of developmental institutions and how far it wishes to reduce its own general financing capability. Different approaches will probably be required in different regions.

V CONCLUSIONS AND RECOMMENDATIONS

In developing this report we found our observations could be summarized into three principal groups: (a) conclusions directed at the concept of developmental institutions of the sectoral type; (b) specific guidelines for the creation and operation of such institutions in future, and finally (c) proposals respecting the problem of allocation of funds to developmental institutions. These are set forth below.

1. CONCLUSIONS RE THE CONCEPT OF DEVELOPMENTAL INSTITUTIONS

A. The concept of developmental institutions of the sectoral type deserves continued strong support from DIAND and Treasury Board. In our judgement, they show substantial promise as program delivery vehicles and in many respects they represent an attractive alternative to departmental administration of economic development resources.

There are three attributes of the developmental institution approach that provide the main rationale for this conclusion. The first is the opportunity this approach provides for Indians to gain experience in both directing and managing an institution. The pattern of evolution from close DIAND control to a fairly independent, arm's length relationship which we sketched earlier in this report provides the opportunity for learning in a practical context.

The second attribute is the provision embodied in the approach for careful planning for a fairly long time frame. A great measure of the success of sectoral programs follows, in our view, from the fact that the purpose and structure of the institution have usually been thought through with care. Indian initiation of and participation in planning tend to ensure that native people are committed to the program and that it addresses real problems as perceived by Indians themselves.

Third, the sectoral approach seems to provide for excellent accountability without excessive control. The presence of clear, usually quantified objectives (arrived at through planning) and of a distinct responsibility centre for program management means that developmental institutions provide an opportunity for "management by objectives" of a kind that is very difficult to achieve within government. In theory, it should be possible to attain the same sort of approach to program implementation within the civil service; but, although many efforts have been made in this direction in the last fifteen years in the federal government (Glassco, PPBS, OPMS, MBO, etc.) there has been little progress. The developmental institution approach creates management relationships and accountabilities that appear difficult, if not impossible, to achieve within the public service.(1) As the recent Progress Report of the Royal Commission on Financial Management and Accountability observes,

> "Overlapping and lack of clarity in the roles assigned to the respective central agencies confront departments with confused and confusing lines of accountability. Growth in size and complexity of government programs further blurs and distorts these lines of accountability...There is a serious gap in the accountability chain...."(2)

(1) The MWFP approach differs from most of the other developmental institutions surveyed in this study one important regard: it leaves program administration in government hands. The MWFP will never provide for the same measure of program autonomy as a program such as MIAP. If one long run objective of sectoral programs is to foster Indian experience in program management, the MWFP approach must be seen as somewhat less attractive than the MIAP-type of approach. However, in all other respects the MWFP seems to operate very well. There may be other cases in future where this approach could be used to advantage to integrate a federal and a provincial program delivery system.

(2) p.5

B. This type of programming is appropriate to secondary and tertiary areas of economic activity as it is to the primary area. The department should be prepared to consider sound proposals for programs in these areas provided funding to support them can be found.

We recognize that the current climate in government is not at all favourable to new expenditures; this comment is not likely to have much practical impact until this climate improves, unless DIAND is able to find money elsewhere in its currently approved budget to reallocate to sectoral purposes.

C. A major strength of developmental institutions may also at times appear as a disadvantage, for by requiring long term commitments of money, they diminish flexibility to respond to changes in priorities and needs. Moreover, the more resources are allocated to specific sectors, the less are available to respond to proposals outside these "approved" sectors. Each region will have to determine a suitable balance between long term and short term commitments and between "sectorally committed" and "general purpose" funding arrangements.

It is clear that no universal formula with respect to this division of funding can be laid down as a guideline for all regions - each will have to develop its own approach in consultation with local Indian leaders.

It is unlikely, however, that any region would wish to commit all its economic development resources to the developmental institution approach. What is appropriate in each region will depend on many factors, including, notably, the size of the total economic budget, the past performance of projects administered by that region directly, availability of advice in a given sector from non-departmental as well as departmental sources, and the anticipated future overall levels of funding for the region.

2. GUIDELINES AND RECOMMENDATIONS FOR THE CREATION AND OPERATION OF DEVELOPMENTAL INSTITUTIONS

In preparing this report, we formed a number of views about how institutions of the sectoral type should be created and run. Many of our findings simply confirm the wisdom of existing departmental practices. In some cases, however, we suggest modifications to these practices or new practices.

For convenience, we have attempted to describe an approach to all major aspects of program inception, structure and management through a set of guidelines presented below. Where a guideline requires that action be taken to permit its adoption, we have included a specific recommendation for consideration by DIAND. (Recommendations are underlined to distinguish them from guidelines). Where appropriate, brief commentary on some guidelines is also included.

Guideline 1

Proposals:

A proposal to create a developmental institution should be documented in a plan detailing all aspects of the proposed institution - objectives, financial requirements, organization structure, audit and evaluation arrangements, relationship to DIAND, board structure and selection procedures, accountability to Indian people, role and relationship of board to administrative staff.

Recommendation:

(a) DIAND should document the process for approval of a program proposal and should make this information available on request to Indian groups.

(b) DIAND should also prepare a list of criteria that will have to be met in order for a program proposal to be eligible for consideration. This list of criteria, once approved, should be provided to all applicants for funding of developmental agencies.

Guideline 2

Growth of Independence

The program proposal should detail how the relationship with DIAND would evolve over time in terms of increasing independence. (EG, the document should suggest at what point in time the corporation might expect to secure control of administrative funds, loan funds and grant funds.[1]

Guideline 3(a)

Board of Directors: Composition

The institution should provide for a board of directors of a manageable size (preferably less than 12 members unless there are special requirements for a larger board). The role of the board should be to set broad policy for the institution. Members should be chosen for their capacity to represent interest groups at which the institution's operations will be directed and to provide knowledge, experience or personal contacts that will be useful to the institution.

(1) If present Treasury Board regulations appear to rule out this delegation of responsibility, these regulations should be amended or developmental institutions should be brought under a different administrative framework.

Guideline 3(b)

DIAND Representation on Board

Comment: In preparing this report, we encountered two quite contradictory viewpoints on the issue of DIAND representation on boards of directors of sectoral programs. Some organizations commented very positively on the presence of a DIAND representative and observed that such representation was most useful in keeping relations with DIAND on a firm footing and in maintaining open communication. On the strength of these observations, in an earlier draft of this report we had suggested that a DIAND representative on the board should be appointed and should serve as the principal channel of communication with the institution for day-to-day purposes.

However, a former officer of DIAND who has served as a DIAND representative on two boards of Indian institutions has a different view on this issue.

"My final point relates to the role of Department officials on the Boards of non-Department organizations. Unless the Department member is there in an observer capacity only, I would see this as a real problem for the Departmental official as well as for the organization itself. For example, all members of the Board would share in responsibility for the achievement of objectives and accountability for use of funds. Consequently you would have the Departmental Board member evaluating his own performance in both cases. A Departmental official serving in the capacity would clearly have two masters, and could be viewed justifiably with some suspicion by his fellow Board members. I have personally served on the Boards of Directors of two companies funded by the Department in the past three years and both of these experiences have led me to conclude that it is not an appropriate way for the Department to exercise monitoring or control over client organizations".(1)

(1) Letter from Robin Dodson, Executive Secretary, Indian Equity Foundation, to the NIB dated April 11, 1978.

To these comments must be added the consideration that, if a developmental institution begins at any point to engage in profit-making activity, or if a departmental official becomes too closely involved in some aspects of administration, there is a possibility of conflict of interest being perceived.

On balance, therefore, we believe the guideline on this issue should be formulated as follows:

Guideline 3(b)

> There should be no requirement for a departmental representative on the board of a developmental institution. However, especially in the case of a new institution at an early stage of development, there will often be advantages to having an appropriate DIAND official attend board meetings. Such a representative should have no official status on the board and should participate as an observer only, at the invitation of the official board members.

Guideline 4

<u>Relationship with DIAND</u>

> Without a board member from DIAND, it becomes apparent that the formal channel of communication between the department and the institution lies through the office of Chairman of the Board. DIAND should designate a formal point of contact for the chairman. The offical thus designated should be at a level where the department has confidence in the incumbent's

capacity to interpret DIAND policy and generally manage the DIAND side of the relationship appropriately, recognizing the department's need for accountability on one hand and the independence required by the institutions on the other. (The Regional Director General or his/her direct representative seems the most likely candidate).

Recommendation

DIAND's Regional Offices should review their relationships with existing sectoral programs/EDCs in light of the above discussion and make any necessary adjustments.

Guideline 5(a)

Relationship of Board to Executive Director

The corporate structure for a program/EDC should clearly specify the responsibilities of the Board and the responsibilities of the senior program manager (Executive Director). The Board's role should be confined to matters of policy (several programs surveyed indicated a tendency for Boards to get involved in detailed decision-making of an administrative nature.)

Guideline 5(b)

In one entity surveyed, Board members functioned as program staff. Board members should not be permitted to function in this role. If Board members have to assume an operational role due to the shortage of qualified people, this should be treated as a strictly temporary arrangement. Program objectives should provide for specific training of staff members and should specify when the Board's operational role should terminate (within a year).

Guideline 6

Selection of Board Members

Sectoral programs should provide for some sort of democratic or quasi-democratic procedure for selection of Indian Board members, particularly if reserve lands stand to be affected by the program's activities. (SIAP has an interesting approach to this issue). Where a program becomes self sufficient in the long run, this will become an especially important issue. Some approach to share capitalization will probably have to be devised.

Guideline 7

Planning and Accountability: Annual Review

In addition to agreeing on overall long term objectives for an institution when a program is approved, the institution and DIAND should also meet formally at least once a year to review past performance, to establish operational goals and to reach agreement on measures to be taken by either DIAND or the institution in the coming year to benefit the program.

Agreed goals should be embodied in a written annual agreement within the context of the overall program plan. This agreement would provide the basis for the review of the institution's performance at the next annual planning and review meeting. The agreement should also include provision for the collection of simple performance indicators, where these are appropriate.(1)

(1) An agreement along these lines was recently negotiated between DIAND and NIACC. See Appendix A.

Guideline 8

Incorporation

Sectoral programs which desire to achieve a reasonable level of financial independence of DIAND and greater control over program resources will have to incorporate at some point. If a program does not wish to incorporate, this is of course an option, but the consequence of non-incorporation will be that the program will be unable to achieve a more complete measure of financial autonomy. [1]

Guideline 9

Operating Procedures

A number of the programs we surveyed were deficient in the areas of operating procedures, internal lines of responsibility and authority, and simple management information systems. An early requirement in the life of a new program should be to develop clear and simple internal procedures. (This problem was much less apparent in IOSEDC and IEF than in SIAP/MIAP/IFAP.)

[1] A letter from an Indian organization commenting on an earlier draft of this report took issue with this guideline, noting that Indians 'do not wish to subordinate themselves to the Companies Act'. It is our view that most the resistance among some Indians to incorporation arose from SIAP's early experience. It was (and is) based on a misunderstanding of the implications of incorporation. Significantly, SIAP itself is now incorporating. The only instance where incorporation could apparently pose a problem is where an institution owned reserve lands; and the nature of developmental institutions is such that they do not usually own reserve land assets themselves.

Guideline 10

Area Serviced

Program proposals should in future specify in general terms the geographic area in which the program plans to operate. (e.g. are IOSEDC/IEF restricted to Alberta? What about an applicant from the Territories? If a sectoral program were established for Ontario, would it serve part or all of the province?) There is no apparent reason why an institution should be confined to a particular province (NIACC isn't). But to prevent duplication of service, some specification of geographic mandate would be useful.

Guideline 11

Mandate and Changes to It

If there is any uncertainty as to the nature of the mandate under which a program is to operate (i.e. its "sector"), this should be cleared up as far as possible in the program document. If, following the creation of the program, interpretive decisions are taken with respect to this matter, these should be formally recorded in Board minutes. Major changes in mandate will have to be negotiated before adoption with DIAND.

Guideline 12

Appointment of Executive Director

In staffing a program, especially in its early years, it is critical that great care be taken in order to ensure that the program establishes a reputation for good service. The appointment of the Executive Director will have more influence on program performance than any other decision, and the Board should exercise particular care on this matter. This is probably the single most important decision the Board will take.

Staffing at subordinate levels of the organization should be the responsibility of the Executive Director.

Guideline 13

Security and Lending

Sectoral programs should be required where appropriate to articulate clear policies with respect to lending and the taking of security. It is the responsibility of the Board to review such policies and to negotiate them with DIAND.

Guideline 14

Consultation re Changes in DIAND Policy

In developing, amending or reviewing any general policies toward sectoral programs or EDCs, DIAND should consult Indian members of existing boards (e.g. the chairmen). The Executive Directors of programs/EDCs should also be consulted before any general changes affecting management practices are effected.

Guideline 15

Financial Guidelines

Developmental institutions should undertake to operate within some broadly formulated financial guidelines respecting such issues as overheads and compensation.

Comment. One issue in respect of financial administration that was drawn to our attention during this study was the variation in practices from one institution to another in the area of compensation and overheads. The evaluation of NIACC, for example, noted that overheads seemed excessive relative to program costs; it also commented on the need to standardize, presumably within a range of some sort, the per diem rates for board members.

It is desirable that some simple financial guidelines should exist on a few issues respecting the management of developmental institutions. Such guidelines should provide a loose framework for the operation of the organizations. We stress the word "loose". It is not our intention that there should be detailed regulations that would constrain management unreasonably and require constant policing. The advantage of having some general guidelines are that they would broadly define the "rules of the game" for operating these institutions; these would become procedures for internal operation and would help to prevent each new institution from asking itself the same questions and formulating answers independently. They would also provide standards for audit.

The issues that such financial guidelines might address include:

- per diems for Board members
- compensation for Executive Directors and other key staff members
- policies re travel expenses and entertainment
- ratio of overheads to total program costs.

We would encourage DIAND to rely upon the Chairmen or Executive Directors of some of the existing developmental institutions to develop proposals as to what sorts of guidelines would be appropriate, and in what areas. We would definitely not advocate simply extending Treasury Board regulations to these institutions as in our experience the cost and complexity of properly policing these regulations are excessive, and they are not suited to small organizations with minimal clerical staff.

Recommendation

Existing institutions should be encouraged to develop some broad financial guidelines for developmental institutions. These should be reviewed by DIAND, officially adopted, and then written into specific agreements with individual developmental institutions (e.g. at annual review meetings).

It will probably be possible to develop such guidelines easily if the financial procedures of those agencies which already have them are used as a point of departure.

3. THE ALLOCATION OF FUNDS TO DEVELOPMENTAL INSTITUTIONS

A problem to which we alluded earlier in this report is the absence of any rationale for allocating money to sectoral programs.

It is in fact doubtful that any quantitative "rational" formula can be devised for allocating resources from one sectoral-type program to another, or from one area of DIAND activity (such as local government) to another (such as education). However, it is desirable that an appropriate process of consultation on resource allocation decisions should exist, especially at the regional level.

Some native people are reluctant to take part in decisions about competing alternatives, preferring to adopt the approach that "resources should not be scarce" and simply asking for fresh resources for each new proposal that presents itself. Securing a greater portion of government money for Indian programs is a political issue beyond the scope of this report, which is concerned with questions of management and program delivery. However, it is our perception that, in the current financial climate in Ottawa, fresh money for any government program, whether for Indians, pensioners, the poor, or any other group is very unlikely to become available. This underlines the importance, from the Indian viewpoint, of participating in the difficult and frustrating job of trying to allocate insufficient money to too many needs. At least their participation should help ensure that the more pressing needs are met first.

It also underlines the importance of having, within each region, an orderly and well defined planning and budgeting process in which there is specific provision for the involvement of appropriate Indian leaders. Such a planning and budgeting process should certainly include provision for the injection of careful analysis and appropriate quantitative data wherever this is available. However, the process and who participates in it is in our view the central concern; analysis should be supplementary to the process, not vice versa. A well designed process will ensure better than any formula that all relevant considerations are brought to bear on allocative decisions.

It was not within our terms of reference to investigate the nature of the planning and budgeting process in each region. As noted above, it was also not our mandate (though some persons interviewed tried to press it upon us!) to recommend for or against increasing the amount of resources available to developmental institutions. To make that judgement, we would have had to examine all the other needs for funding such as education and local government and housing, and that was not within the scope of this review.

In any event, we believe that, in order for the "right" decisions to be taken, the first requirement is the budgeting and consultative process described above. A clearly defined process with adequate provision for analysis, review and participation of Indian leaders will go a long way toward ensuring that the "right" decisions are adopted.

VI A WORK PROGRAM FOR IMPLEMENTING THIS REPORT

(1) Copies of the final version of this report should be circulated to all existing and proposed sectoral programs and EDCs. DIAND should solicit comments other than those already secured through the NIB or earlier drafts of this document.

(2) The recommendations of the previous section should be reviewed and specific action defined for each one.

(3) After comments are received on the guidelines for developmental institutions proposed herein, a final version should be produced by DIAND. A booklet or information document should be prepared setting forth these guidelines along with instructions for the preparation of new program proposals.

(4) The ADM of the Indian Program should discuss the state of the planning and budgeting process in each region with the RDGs and determine whether:

(a) the process in each region is reasonably clearly defined in terms of timing, the allocation of responsibilities, and the injection of analytic work;

(b) there is provision for consultation with appropriate Indian leaders at appropriate points in the process.

APPENDIX A

COPY OF AN AGREEMENT

BETWEEN

DIAND AND NIACC

SCHEDULE A

To An Agreement Between
The Minister of Indian Affairs and Northern Development
and
The National Indian Arts and Crafts Corporation
dated the day of 1978

The Recipient agrees to undertake and perform the following tasks during the period of this Agreement:

I. Budget

1. The Recipient will limit its own spending to $900,000 under the present Agreement. Unless the NIACC Directors decide otherwise in their final budget approval, the Recipient will spend this money substantially as follows:

			$000	Spending
a.	Representation:			
	i.	board honoraria (admin)	57	6.4
	ii.	board travel (admin)	28	3.1
	iii.	board honoraria (programs)	44	4.9
	iv.	board travel (programs)	21	2.3
		sub-total:	$ 150	16.79%
b.	General administration:			
	i.	staff payments	90	10.0
	ii.	staff travel	10	1.1
	iii.	rent	13	1.4
	iv.	furniture and equipment	19	2.1
	v.	professional services	26	2.9
	vi.	other	43	4.8
		sub-total:	$ 201	22.3%

c. Program:

i.	marketing		169	18.8
ii.	operations		82	9.0
iii.	research and product development		35	3.9
iv.	marketing and production co-ordination committee		71	7.9
v.	North American Indian Films		71	7.9
vi.	North American Arts and Crafts Institute		63	7.0
vii.	National Indian Arts Council		15	1.7
viii.	Program Support to Provinces		43	4.8
	sub-total:	$	549	61.0%
	Total	$	900	100.0%

The program budget includes $173,000 for staff payments and $37,000 for staff travel. Payments to board members and board travel are included in the representation budget.

The Recipient will inform the Minister within two weeks of any changes made to this budget at the time of final approval by the Directors.

2. The Recipient will supply the Minister with quarterly unaudited financial statements reporting the variances of expenditures from budget, and including explanations of these variances where they exceed 10% of the budgeted amount. These statements will be due as follows:

a. first quarter - 14 August, 1978

b. second quarter - 13 November, 1978

c. third quarter - 12 February, 1979

d. fourth quarter - 7 May, 1979

3. The Recipient will pay the remainder of the contribution covered by this Agreement, that is $2,460,000, to its affiliated regional corporations as follows:

a.	Yukon Indian Arts & Crafts Society	$ 150,000
b.	Indian Arts & Crafts Society of B.C.	380,996
c.	Alberta Indian Arts & Crafts Society	260,000
d.	Saskatchewan Indian Arts & Crafts Corporation	335,000
e.	Manitoba Indian Arts & Crafts Incorporated	228,000
f.	Native Arts & Crafts Corporation (Ontario)	336,204
g.	The Indian Craftsmen of Quebec - Les Artisans Idiens du Québec	260,800
h.	New Brunswick Arts & Crafts Association	205,000
i	Micmac Arts & Crafts Society of Nova Scotia	235,750
j.	P.E.I. Indian Arts & Crafts Corporation	68,250
	Total	$ 2,460,000

4. No later than 30 June, 1978, the Recipient will supply the Minister with a copy of the approved expenditure budgets for 1978-1979 for each of the affiliated regional corporations. These budgets should follow a common format, and provide a level of detail similar to that of the recipient's own budget in clause 1-1 of this Schedule.

5. The Recipient will ensure that out of the total contribution of $3.36 million covered in this Agreement:

   a. no more than $400,000 in honoraria or other remuneration will be paid in total for all the directors or elected officers of the Recipient and its affiliated regional corporations; and

   b. no more than $250,000 in travel costs and expenses will be paid for all the directors or elected officers of the Recipient and its affiliated corporations.

6. The Recipient will ensure that no regional corporation will spend on administrative overhead costs during 1978-1979 a greater proportion of its allotment from the Recipient than it spent during 1977-1978. "Administrative overhead costs" are understood to include all administrative staff salaries, benefits and expenses, building rent, and costs for furniture and equipment, professional services, transportation and communication, printing and miscellaneous office expenses.

7. The Recipient will obtain and supply to the Minister quarterly unaudited financial statements for each of its affiliated regional corporations. These statements should be of the same format as the Recipient's own statements. The regional statements will be due as follows:

a. first quarter - 1 October, 1978

b. second quarter - 1 January, 1979

c. third quarter - 1 April, 1979

d. fourth quarter - 1 July, 1979

8. No later than 31 January, 1979, the Recipient will submit to the Minister:

a. the Recipient's expenditure plan for 1979-1980 in at least as much detail as that included in its budget submission for 1978-1979;

b. summaries of the expenditure plans for 1979-1980 of each of the affiliated regional corporations in a format acceptable to the Minister; and

c. a consolidated summary of the allocation of the Minister's entire contribution for 1979-1980 showing the amounts budgeted for

i. representation
ii. administration
iii. programs

and such subordinate expenditure categories as the Minister may request.

II. Representation

1. The Recipient will co-ordinate a campaign to ensure over the next four years that every Indian artist or craftsperson in Canada has an opportunity to obtain formal membership in their appropriate regional corporation. The Recipient will ensure that the regional corporations maintain up-to-date lists of members, at least from the time of this campaign. The campaign will adhere to the following schedule:

a. two provinces to be chosen and reported to the Minister by 30 April, 1978, will conduct a membership drive in 1978-1979;

b. three provinces will do so in 1979-1980;

c. three provinces will do so in 1980-1981; and

d. two provinces will do so in 1981-1982.

2. The Recipient will ensure that its own directors and officers, and those of each of the regional corporations, will be chosen through elections scrutinized by the appropriate corporations's legally appointed auditors. The method of election scrutiny will be determined jointly by the Recipient and the Department for implementation as follows:

   a. by the Recipient effective 1 April, 1978;

   b. by the regional corporations effective no later than 30 September, 1978.

III. Other Initiatives

1. The Recipient will research and formalize a strategy for developing among Indian artists, craftspeople and program managers the business management skills necessary to organize the production and marketing of their products. It is anticipated that the implementation of this strategy will require several years.

2. The Recipient will develop and implement training courses as follows:

   a. management training and development courses including:

      i. 2 courses for the executive committee,

      ii. 2 courses for the Recipient's staff, and

      iii. 2 courses for the officers and staff of the regional corporations, and

   b. production management training for the officers and staff of the regional corporations including:

      i. 2 courses of 5 days each on production management,

      ii. 2 courses of 3 days each on marketing, and

      iii. 2 courses of 2 days each on financial planning.

   Participants in the courses referred to above in clauses III-2-iii and III-2-b will number about 20 to 30 on average. Funding additional to the contribution covered in this Agreement will finance the holding of the courses themselves.

3. The Recipient will contribute up to $50,000 from its own budget to assist interprovincial groups to coordinate production and marketing of specific product categories such as moccasins, garments, baskets, wood and stone carvings and souvenir handicrafts. The Recipient will determine the allocation of this money in cooperation with the regional corporations.

4. If the working capital necessary to finance all production during 1978-1979 for which a market exists exceeds the resources of the regional corporations, the Recipient will co-ordinate a joint application to the Indian Economic Development Fund for support.

5. The Recipient will chair a marketing and production co-ordination committee which will undertake the co-ordination necessary to ensure Indian arts and crafts production of the quantity and quality which will permit the Central Indian Marketing Service to raise its sales to $1.25 million during 1978-1979.

6. The same marketing and production co-ordination committee will assist local producers and production centres, as requested, to meet the market needs of the regional corporations' sales outlets, private wholesalers and retailers and other local markets.

7. No later than 31 March, 1979, the Recipient will revise, edit, publish and distribute to the regional corporations the following items:

   a. NIACC Production and Training Handbook;

   b. Indian Arts and Crafts Management Handbook for Producers; and

   c. an updated edition of the Directory of Raw Material Suppliers.

   The Recipient will also endeavor to obtain funding additional to the contribution covered in this Agreement to permit the revision editing, publishing and distribution of the following further items:

   a. The Business of Indian Crafts: A Basic Business Handbook for Indian Craftsmen;

   b. The Preservation and Development of Traditional Indian Crafts Culture; and

   c. Who's Who Directory of Indian Producers.

8. The Recipient will re-evaluate the structure of the National Indian Arts Council and determine no later than 1 October, 1978, how it will function in future. The Recipient will select a three-member jury to judge whether to affix the NIAC's seal to Indian art prints submitted. The jury will meet at least three times during 1978-1979.

9. The Recipient will finalize a manual on financial and administrative procedures no later than 30 June, 1978. This manual will include a checklist summarizing the procedures. The Recipient will monitor, and assist as necessary, the regional corporations to adhere to these procedures.

10. The Recipient will adhere to its own financial and administrative procedures and checklist, beginning no later than 1 July, 1978.

11. The Recipient will supply to its directors at least two weeks before each board or committee meeting a copy of all those documents and proposals about which a decision will be requested at that meeting.

12. The Recipient will prepare and obtain the approval of its directors no later than 1 October, 1978, for a policy paper defining conflict of interest in the Indian arts and crafts context, and detailing procedures for declaring potential conflicts and avoiding participating in decisions which could affect those interests.

IV Performance Review

1. At the same times as the Recipient submits its quarterly financial statements to the Minister (clause I-2), the Recipient will also supply the Minister with progress reports on the extent to which the tasks in this schedule have been achieved, as well as any other accomplishments or problems.

2. The Recipient will obtain and supply to the Minister on the schedule set out in clause I-7, quarterly progress reports from each of the regional corporations. These progress reports will comment specifically, and as quantitatively as possible, on the amount of employment and disposable income for Indian artists and craftspeople resulting from each corporation's activities.

3. The Recipient will permit an assessor chosen by the Minister to conduct an annual review of the performance of the Indian arts and crafts program during 1978-1979. This review will include the performance of both the Recipient and the regional corporations. The purpose of the review will be limited to determining the extent to which:

   a. the Recipient has adhered to this Agreement; and

   b. the regional corporations have adhered to their agreements with the recipient (see clause V-1 below).

   It is understood that the assessor will have free access to all such documents and persons as he considers necessary to carry out his task.

V Agreements Between the Recipient and the Regional Corporations

1. No later than 30 June, 1978, the Recipient will conclude an Agreement similar to the present Agreement with each of the regional corporations and supply a copy of these Agreements to the Minister. These Agreements will state the tasks to be accomplished by the regional corporations during the year 1978-1979. In addition to listing each corporation's own priority tasks for the year, these agreements will include clauses requiring:

   a. submission to the Recipient of budgets, financial statements and progress reports in sufficient time to meet the Recipient's deadlines under this Agreement (refer to clauses I-4, I-7 and I-8 regarding the financial documents and clause IV-2 regarding the progress reports);

   b. adherence to the spending controls on overhead costs for representation and administration (refer to clauses I-5 and I-6);

   c. participation of at least two regional corporations in the membership campaign (clause II-1);

   d. adherence to the election scrutiny practices to be determined (refer to clause II-2);

   e. regional corporation assistance in easing the working capital burdens of individual producers and production centres and in co-ordinating marketing and production in cooperation with the Recipient (refer to clauses III-3, III-4, III-5 and III-6);

   f. adherence to the financial and administrative procedures to be finalized by the Recipient (refer to clause III-9);

   g. adherence to the conflict of interest guidelines to be developed by the Recipient (refer to clause III-12); and

   h. cooperation with an assessor chosen by the Minister who will review each corporation's performance during 1978-1979 (refer to clause IV-3).

VI Other Items

1. The Recipient agrees that all promotional expenses will:

   a. be monitored by a departmental representative;

   b. not exceed $60,000 for advertising and $93,000 for promotion as outlined in the Recipient's budget submission for 1978-1979, without the Minister's approval;

   c. be reported in all financial statements and budgets;

   d. have a direct relevance to the purposes of this contribution agreement.

2. The Recipient agrees that no agreement or contract entered into by the Recipient may create a contingent liability.

3. The Recipient will not use the departmental logo in any material produced by the Recipient without the express written consent of the Minister.

4. The Recipient agrees not to use any portion of this contribution for promotional activities such as North American Indian Films Ltd., without the express written consent of the Minister.

5. The Recipient agrees that promotional activity being carried on by other organizations for the Arts and Crafts program, shall not be construed as being departmental promotional activity.